xtract one

formerly Patriot One Technologies Inc.

Consolidated Financial Statements

For the years ended July 31, 2023, and 2022

(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Xtract One Technologies Inc.:

The accompanying consolidated financial statements of Xtract One Technologies Inc. ("Xtract One" or the "Company") and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include certain amounts that are based on best estimates and judgements of management and in the opinion of management present fairly, in all material respects, Xtract One's financial position, results of operations and cash flows, in accordance with IFRS.

Management has developed and maintains a system of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). Management believes the ICFR and DC&P provide reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a basis for the preparation of the consolidated financial statements and that Xtract One's assets are properly accounted for and safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the "Audit Committee"). The Audit Committee, comprised entirely of independent directors, meets periodically with management and the independent external auditor to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board of Directors.

Davidson & Company LLP serves as the Company's external auditors. Davidson & Company LLP's report on the accompanying consolidated financial statements follows. It outlines the extent of its examination as well as an opinion on the consolidated financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

"Karen Hersh"
____
Chief Financial Officer

"Peter Evans"
____
Director, Chief Executive Officer

October 19, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Xtract One Technologies Inc. (formerly Patriot One Technologies Inc.)

Opinion

We have audited the accompanying consolidated financial statements of Xtract One Technologies Inc. (formerly Patriot One Technologies Inc.) (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3(m) of the consolidated financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year ended. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined that the matter described below to be a key audit matter to be communicated in our auditor's report.

<u>Revenue Recognition</u>

As described in Note 9 to the consolidated financial statements, the Company recognized revenue from operations of $4,111,244 for the year ended July 31, 2023.

The significant value of revenue transactions and complex terms under which title and control pass to the customer increases the risk of cut-off errors. Further, the recognition of revenue involves certain estimation uncertainties regarding estimating the percentage of completion of contracts. Due to the significance of revenue for the Company’s financial statements, and since the calculations are based on estimations and are susceptible to potential manipulation, we consider this a key audit matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included among others:

- We obtained a detailed understanding of each of the revenue streams and the processes to capture and record revenue;
- Reviewed accounting policies for revenue recognition to ensure compliance with IFRS;
- For significant consulting contracts, we assessed the reasonability of management’s estimate around percentage of completion of the contract by reviewing the terms of the contract and work performed up to the end of the reporting period;
- On a test basis, we tested sales transactions against sales contracts and invoices to assess that revenues have been recognized at appropriate prices and in the correct accounting period; and
- On a sample basis, we vouched proceeds received against the terms of contract and invoices issued.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management’s Discussion and Analysis and the Annual Information Form.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis and Annual Information Form prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alyson Neil.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

October 19, 2023

Xtract One Technologies Inc.

Consolidated Statements of Financial Position as at July 31,
(Formerly "Patriot One Technologies Inc.")
(Expressed in Canadian Dollars)

	July 31, 2023	July 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 8,327,449	$ 6,277,321
Receivables (Note 4)	847,429	1,895,156
Prepaid expenses and deposits	1,026,668	668,650
Inventory (Note 5)	1,602,971	1,106,034
	11,804,517	9,947,161
Property and equipment (Note 6)	2,063,817	1,477,841
Intangible assets (Note 7)	4,843,700	5,649,600
Right of use assets (Note 8)	286,796	589,832
Investment in Gemina Labs (Note 13)	-	393,750
Total assets	$ 18,998,830	$ 18,058,184
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,519,350	$ 2,639,082
Deferred revenue (Note 9)	1,379,741	196,651
Current portion of lease liability (Note 8)	232,483	320,435
	4,131,574	3,156,168
Non-current portion of lease liability (Note 8)	124,358	356,841
	4,255,932	3,513,009
Shareholders' equity		
Share capital (Note 10)	135,823,337	119,796,584
Contributed surplus	14,420,259	13,912,816
Accumulated deficit	(135,500,698)	(119,164,225)
	14,742,898	14,545,175
Total liabilities and shareholders' equity	$ 18,998,830	$ 18,058,184

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

The accompanying notes form an integral part of the consolidated 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.

Consolidated Statements of Loss and Comprehensive Loss
(Formerly "Patriot One Technologies Inc.")
For the years ended July 31,
(Expressed in Canadian Dollars)

	2023	2022
Revenue (Note 9)	$ 4,111,244	$ 3,619,214
Expenses		
Sales and marketing	2,789,338	1,968,641
Research and development	6,206,176	4,463,527
General and administration	1,362,378	2,044,536
Personnel costs	5,723,359	5,284,255
Professional fees	677,469	772,091
Hardware (Note 5, 6)	926,058	277,286
Amortization (Note 7)	805,900	805,900
Depreciation (Notes 6, 8)	643,390	765,126
Share-based compensation (Note 10)	950,536	1,063,840
Loss on inventory (Note 5)	346,374	502,397
Impairment of goodwill	-	25,582,433
Loss on retirement of assets (Note 6)	181,107	12,155
	20,612,085	43,542,187
Loss from operations	16,500,841	39,922,973
Unrealized gain on investment	(58,333)	(175,000)
Realized loss on investment (Note 13)	55,082	-
Interest and other income	(161,117)	(31,284)
Loss and comprehensive loss for the year	$ 16,336,473	$ 39,716,689
Weighted average number of shares	176,664,492	155,744,354
Basic and diluted loss per share	$ 0.09	$ 0.25

Grant Funding (Note 16)

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

Xtract One Technologies Inc.

Consolidated Statements of Changes in Shareholders' Equity
(Formerly "Patriot One Technologies Inc.")
For the years ended July 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Share Capital								
	Number of shares		Amount		Contributed surplus		Accumulated deficit		Total
Balance - July 31, 2022	163,179,222	$	119,796,584	$	13,912,816	$	(119,164,225)	$	14,545,175
Shares issued on the exercise of warrants (Note 12)	2,630,700		2,236,095		(263,070)		-		1,973,025
Shares issued on the exercise of stock options (Note 12)	513,058		481,908		(180,023)		-		301,885
Shares issued on financing, net of share issue costs	31,925,595		13,308,750		-		-		13,308,750
Share-based compensation (Note 10)	-		-		950,536		-		950,536
Loss for the year	-		-		-		(16,336,473)		(16,336,473)
Balance - July 31, 2023	198,248,575	$	135,823,337	$	14,420,259	$	(135,500,698)	$	14,742,898
Balance - July 31, 2021	150,728,622	$	114,597,731	$	11,688,151	$	(79,447,536)	$	46,838,346
Shares issued on the exercise of stock options (Note 12)	978,750		368,440		(103,353)		-		265,087
Shares issued on prospectus financing, net of share issue costs (Note 12)	11,471,850		4,830,413		1,264,178		-		6,094,591
Share-based compensation (Note 10)	-		-		1,063,840		-		1,063,840
Loss for the year	-		-		-		(39,716,689)		(39,716,689)
Balance - July 31, 2022	163,179,222	$	119,796,584	$	13,912,816	$	(119,164,225)	$	14,545,175

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

Xtract One Technologies Inc.

Consolidated Statements of Cash Flows
(Formerly "Patriot One Technologies Inc.")
For the years ended July 31,
(Expressed in Canadian Dollars)

	2023	2022
Cash flow used in operating activities		
Loss and comprehensive loss for the year	$ (16,336,473)	$ (39,716,689)
Adjustment for:		
Share-based compensation (Note 10)	950,536	1,063,840
Depreciation (Notes 6, 8)	923,764	802,925
Amortization (Note 7)	805,900	805,900
Finance cost (Note 8)	42,237	66,632
Other income	(20,000)	-
Unrealized gain on investment	(58,333)	(175,000)
Realized loss on investment (Note 13)	55,082	-
Gain on lease terminations	-	(707)
Impairment of goodwill	-	25,582,433
Loss on inventory (Note 5)	346,374	502,397
Loss on retirement of assets (Note 6)	181,107	12,155
	(13,109,806)	(11,056,114)
Changes in non-cash working capital		
Receivables	1,047,727	1,362,255
Prepaid expenses and deposits	(358,018)	(313,075)
Inventory	(2,198,583)	(526,082)
Accounts payable and accrued liabilities	(99,732)	1,373,471
Deferred revenue	1,183,090	(111,896)
Cash used in operating activities	(13,535,322)	(9,271,441)
Cash flow used in investing activities		
Purchase of property and equipment (Note 6)	(32,539)	(95,757)
Disposal of investment - Gemina Labs (Note 13)	397,001	-
Cash received from (used in) investing activities	364,462	(95,757)
Cash flow from financing activities		
Proceeds on issue of share capital, net of share issue costs (Note 10)	15,583,660	6,359,678
Lease payments (Note 8)	(362,672)	(367,652)
Cash received from financing activities	15,220,988	5,992,026
Net increase (decrease) in cash for the year	$ 2,050,128	$ (3,375,172)
Cash and cash equivalents beginning of the year	6,277,321	9,652,493
Cash and cash equivalents end of the year	$ 8,327,449	$ 6,277,321

Supplemental cash flow information (Note 12)

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

1. Reporting entity

Xtract One Technologies Inc. (the "Company") (formerly "Patriot One Technologies Inc.") 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. On December 1, 2022, the Company changed its name from "Patriot One Technologies Inc." to "Xtract One Technologies Inc.". As indicated herein, certain subsidiaries concurrently changed their names. The Company's wholly owned subsidiaries include Xtract One Detection Ltd. ("Xtract Detection") (formerly "Patriot One Detection Ltd."), Patriot One (UK) Limited ("Patriot UK"), Xtract One (US) Technologies Inc. ("Xtract US") (formerly "Patriot One Detection Technologies Inc."), 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.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

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 consolidated financial statements, including the comparative period, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") prepared on a going concern basis. These consolidated financial statements were approved for issuance by the Board of Directors on October 19, 2023.

(b) Principles of consolidation

These consolidated 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. They are 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 consolidated financial statements are presented in Canadian dollars.

(d) Basis of measurement

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

3. Significant accounting policies

(a) Revenue recognition

Revenue arising from the sale of the Platform is recognized as the Company fulfills its performance obligations. The main revenue streams for the Platform include upfront commercial sales and subscription sales. Upfront commercial sales of the Platform are made to either resellers or direct customers and revenue is recognized upon acceptance. Consideration for service and maintenance obligations is recognized as revenue over the term of the contract or when the service is provided as the obligation is met. Revenue from subscription sales is recognized over the duration of the subscription period on a straight-line basis.

Revenue arising from providing customized research and software development is measured at the fair value of the consideration received or receivable. Contract revenue includes the initial contractual amount plus any variations in contract work, claims and incentive payments, to the extent that they are probable and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue is recognized in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

(b) Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (loss).

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and cash equivalents are measured at FVTPL, and receivables are measured at amortized cost with subsequent impairments recognized in the statement of profit or loss. The Company's investment in Sotech Secure LLC ("Sotech") is measured at FVTPL with subsequent valuation adjustments recognized in the statements of loss and comprehensive loss.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to the estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the statement of profit or loss for the year.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated and subsequently measured as either: (i) fair value through profit or loss; or (ii) amortized cost. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified and carried on the statement of financial position at amortized cost.

As of July 31, 2023, and 2022, the Company does not have any derivative financial liabilities.

(c) Intangible assets

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company has the intention and sufficient resources to complete development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditures are recognized in the statement of profit or loss as incurred. In subsequent periods, capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

The useful life of intangible assets is considered either finite or indefinite.

When the Company assesses the intangible asset life as finite, it applies a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its estimated residual value. Amortization is recognized in profit or loss on a sales-based rate over the estimated useful lives of the intangible assets from the date they are available for use. Where a sales-based rate could not be determined, the straight-line approach is used. Intangible assets arising from a service concession arrangement are amortized according to the unit of production method. These methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Intangible assets assessed with indefinite useful lives are not periodically amortized but are tested for impairment at least annually, either at the individual level or cash-generating unit level. An assessment is made at least annually to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Internally generated intangible assets are not systematically amortized while they are not available for use (i.e., they are not yet on site or in working condition for their intended use). Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

(d) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are periodically reviewed for impairment due to slow-moving and obsolete inventory. The provisions for obsolete, slow-moving, or defective inventories are recognized in the statements of loss and comprehensive loss. Previous write-downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of the inventories.

(e) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and the exercise of options and warrants that would be anti-dilutive.

(f) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of profit or loss in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized.

(g) Cash and cash equivalents

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

As at July 31, 2023, the Company held a number of fixed guaranteed investment certificates ("GIC") valued at $98,100 (July 31, 2022 - $98,100), which are presented as cash equivalents. These GICs are considered highly liquid and readily convertible into cash, and as such, they are included in the calculation of cash and cash equivalents.

(h) Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of financial liability or financial asset. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Proceeds from unit placements are allocated between shares and warrants using the residual value method which first allocates value to the more easily measurable component, common shares, as determined by the closing market price on the date of the announcement. The balance is then allocated to the attached warrants.

(i) Share-based compensation

The Company may grant stock options of the Company to allow directors, officers, employees, and consultants to acquire common shares of the Company. Stock options granted to directors, officers, and employees are measured at their fair values determined on the date of grant using the Black-Scholes option pricing model and recognized as an expense over the vesting periods of the options.

Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from these parties, or at their Black-Scholes fair value if the fair value of the goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

(j) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated as the cost of property and equipment less the estimated residual value over the estimated useful lives of the assets on a declining balance basis and is recognized in profit or loss. The depreciation rates are as follows:

Furniture and fixtures	22%
Office equipment	25%
Computer hardware	55%
Office software	100%
Leasehold improvements	Straight line over the term of the lease
Subscription and demo assets	Straight line over its useful life (three years)

Depreciation methods and useful lives are reviewed at each financial year end and adjusted if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in the statements of loss and comprehensive loss. When property and equipment are disposed of through asset retirement in which no proceeds are obtained, the loss is recorded through loss on retirement of assets on the consolidated statements of loss and comprehensive loss.

(k) Leases

Leases are accounted for in accordance with IFRS 16 – *Leases* ("IFRS 16"). At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right of use asset and a right of use liability at the lease commencement date. The right of use asset is initially measured based on the initial amount of the right of use liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The assets are depreciated over the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right of use asset can be periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the right of use liability.

The right of use liability is initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The right of use liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the right of use liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use asset. The Company has elected to apply the following practical recognition exemptions and practical expedients, as described under IFRS 16:

- recognition exemption of short-term leases;
- recognition exemption of low-value leases;
- application of a single discount rate to a portfolio of leases with similar characteristics on transition;
- exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
- application of hindsight in determining the applicable lease term at the date of transition; and
- election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(l) Impairment of non-financial assets

All intangible assets are periodically reviewed for impairment. The estimated present value of future cash flows associated with the intangible asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, and the resulting loss is directly recognized in the statements of loss and comprehensive loss for the year.

All property and equipment and definite life intangibles are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable value is the higher of an asset's fair value less costs of disposal and value in use. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

(m) Significant accounting judgments, estimates, and assumptions

The preparation of these consolidated 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 consolidated 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.

Significant areas requiring the use of management estimates and judgments include the following:

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 to generate 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 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 these consolidated 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.

(n) 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 judgments to accounting policies 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.

(Expressed in Canadian Dollars)

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 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:

	July 31, 2023	July 31, 2022
Trade receivables	$ 512,926	$ 724,605
ITB funding receivable	-	1,000,000
Taxes receivable	334,503	170,551
	$ 847,429	**$ 1,895,156**

As of July 31, 2023, the Company had not made a provision for uncollectible accounts (July 31, 2022 - $nil).

5. Inventory

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

	July 31, 2023	July 31, 2022
Components and work-in-progress	$ 720,430	$ 379,244
Finished goods	882,541	726,790
	$ 1,602,971	**$ 1,106,034**

During the year ended July 31, 2023, the Company recorded total inventory sold of $645,684 (2022 - $239,487) under "Hardware" on the statements of loss and comprehensive loss. The Company has reclassified inventory in the amount of $1,293,629 (July 31, 2022 - $327,345) to subscription and demo assets and $61,643 (2022 - $48,428) to office equipment under property and equipment. The Company recognized a loss on inventory of $346,374 (2022 - $502,397) related to obsolete inventory, under "Loss on inventory" on the statements of loss and comprehensive loss. As at July 31, 2023, the Company had outstanding purchase obligations of $921,351 (July 31, 2022 - $nil) related to future finished goods for the Platform product offerings within the next year.

(Expressed in Canadian Dollars)

6. Property and equipment

Details of the Company's property and equipment as at July 31, 2023, and July 31, 2022, are as follows:

	Office equipment	Computer hardware	Office software	Furniture & fixtures	Subscription & demo assets	Leasehold improvements	Total
Cost							
Balance at July 31, 2021	$ 1,652,862	$ 438,832	$ 86,478	$ 398,624	$ 23,800	$ 229,427	$ 2,830,023
Additions	-	95,757	-	-	-	-	95,757
Reclassification (Note 5)	48,428	-	-	-	327,345	-	375,773
Retirement of assets	-	-	-	-	-	(17,788)	(17,788)
Balance at July 31, 2022	**$ 1,701,290**	**$ 534,589**	**$ 86,478**	**$ 398,624**	**$ 351,145**	**$ 211,639**	**$ 3,283,765**
Additions	-	-	-	-	-	32,539	32,539
Reclassification (Note 5)	61,643	-	-	-	1,293,629	-	1,355,272
Disposals	(150,445)	(43,797)	-	(243,858)	(80,458)	-	(518,558)
Balance at July 31, 2023	**$ 1,612,488**	**$ 490,792**	**$ 86,478**	**$ 154,766**	**$ 1,564,316**	**$ 244,178**	**$ 4,153,018**
Accumulated depreciation							
Balance at July 31, 2021	$ 711,886	$ 287,765	$ 80,017	$ 187,857	$ 1,983	$ 55,644	$ 1,325,152
Depreciation	240,149	118,628	6,461	46,794	37,799	36,574	486,405
Disposals	-	-	-	-	-	(5,633)	(5,633)
Balance at July 31, 2022	**$ 952,035**	**$ 406,393**	**$ 86,478**	**$ 234,651**	**$ 39,782**	**$ 86,585**	**$ 1,805,924**
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**	**$ 86,478**	**$ 100,512**	**$ 292,855**	**$ 138,071**	**$ 2,089,201**
Carrying amount as at July 31, 2022	$ 749,255	$ 128,196	$ -	$ 163,973	$ 311,363	$ 125,054	$ 1,477,841
Carrying amount as at July 31, 2023	**$ 572,792**	**$ 59,203**	**$ -**	**$ 54,254**	**$ 1,271,461**	**$ 106,107**	**$ 2,063,817**

During the year ended July 31, 2023, the Company disposed of $181,107 (2022 - $12,155) of property and equipment. There were no proceeds from the disposals, and the net book value has been written off and recorded in the statements of loss and comprehensive loss under "Loss on retirement of assets". The Company recorded depreciation of subscription and demo assets in the amount of $280,374, (2022 - $37,799) "Hardware" in the statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

7. Intangible assets

The carrying values of the intangible assets as at July 31, 2023 and July 31, 2022 are as follows:

	Quasar licensed distribution rights	EhEye intellectual property	Internally developed intellectual property	Total
Cost				
Balance at July 31, 2022 and July 31, 2023	**$ 6,574,000**	**$ 1,250,000**	**$ 235,000**	**$ 8,059,000**
Accumulated amortization				
Balance as per July 31, 2021	1,343,625	218,750	41,125	$ 1,603,500
Amortization	657,400	125,000	23,500	805,900
Balance at July 31, 2022	$ 2,001,025	$ 343,750	$ 64,625	$ 2,409,400
Amortization	657,400	125,000	23,500	805,900
Balance at July 31, 2023	**$ 2,658,425**	**$ 468,750**	**$ 88,125**	**$ 3,215,300**
Carrying amount as at July 31, 2022	$ 4,572,975	$ 906,250	$ 170,375	$ 5,649,600
Carrying amount as at July 31, 2023	**$ 3,915,575**	**$ 781,250**	**$ 146,875**	**$ 4,843,700**

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)

Goodwill

For the year ended July 31, 2022, while performing the annual impairment test for goodwill, the Company adopted a higher discount rate to reflect the changing market conditions, cost of borrowing, and risk profile for the technology sector. As a result, an impairment loss of $25,582,433 against the carrying value of goodwill was recorded in the statements of loss and comprehensive loss for the year ended July 31, 2022. The Company determined the recoverable amount of the CGU based on the fair value less cost of disposal valuation method using estimated after-tax discounted cash flow projections covering a period of five years. Future cash flows beyond the five-year projections were extrapolated using a terminal growth rate of 3% which has been determined through industry standards, historical growth, and pending contracts.

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.

The carrying amounts of the Company's right of use assets, liabilities, and the movements for the years ended July 31, 2023, and 2022, are as follows:

	Right of use assets	Right of use liabilities
As at July 31, 2021	$ 913,269	$ 985,920
Lease terminations	(6,917)	(7,624)
Depreciation	(316,520)	-
Finance costs (Note 12)	-	66,632
Lease payments	-	(367,652)
As at July 31, 2022	$ 589,832	$ 677,276
Depreciation	(303,036)	-
Finance costs (Note 12)	-	42,237
Lease payments	-	(362,672)
As at July 31, 2023	**$ 286,796**	**$ 356,841**

(Expressed in Canadian Dollars)

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

Fiscal year		Amount
2024	$	250,140
2025		129,810
Effects of discounting		(23,109)
Right of use liabilities	$	356,841
Current portion of right of use liabilities		(232,483)
Non-current portion of right of use liabilities	$	124,358

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

9. Revenue

Revenue recognized during the year ended July 31, 2023, relates to Platform and Xtract revenue.

The Company recognized $3,596,999 (2022 - $773,274) in revenue related to the sale of and subscription to use, the Platform during the year ended July 31, 2023. As at July 31, 2023, accounts receivable for Platform revenue was $360,059 (July 31, 2022 - $87,252) and deferred revenue was $1,379,741 (July 31, 2022 – $196,651).

The Company recognized $514,245 (2022 - $2,845,940) in revenue from Xtract during the year ended July 31, 2023. As at July 31, 2023, accounts receivable for work completed on contracts was $152,867 (July 31, 2022 - $637,353), and there was no deferred revenue recorded (July 31, 2022 – $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:

					Total backlog July 31,			
		Less than one year		Greater than one year		2023		2022
Platform revenue	$	2,277,346	$	1,849,140	$	4,126,486	$	1,317,238
Xtract revenue		393,872		-		393,872		908,118
Total backlog*	$	2,671,218	$	1,849,140	$	4,520,358	$	2,225,356

* Backlog figures exclude contracted sales that are pending installation.

(Expressed in Canadian Dollars)

10. Share capital

Authorized capital

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

Share capital

The issued and outstanding share capital is as follows:

	Year ended July 31, 2023		Year ended July 31, 2022	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	163,179,222	$ 119,796,584	150,728,622	$ 114,597,731
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	11,471,850	4,830,413
Shares issued on the exercise of stock options	513,058	481,908	978,750	368,440
Balance end of year	198,248,575	$ 135,823,337	163,179,222	$ 119,796,584

On February 10, 2023, the Company entered into a private placement agreement with Madison Square Garden Sports Corp. that would allow an investment of up to 31,925,595 units (each a "Unit") at a price of $0.42 per Unit. Each Unit is comprised of one common share of the Company (a "Common Share") and one Common Share purchase warrant (each a "Warrant") exercisable at a price of $0.60 for a period of five years following the date of its issuance.

On February 10, 2023, the Company issued 20,000,000 Units under the private placement agreement for gross proceeds of $8,400,000. On April 12, 2023, the Company issued the remaining 11,925,595 Units under the private placement agreement for gross proceeds of $5,008,750. The Company paid total share issue costs of $100,000. The Company measures the fair value of Units using the residual approach, in which proceeds are first allocated to the Common Shares determined by the closing market price on the date of the issuance with any residual balance allocated to the Warrants. Accordingly, the proceeds of the issuance of the Units issued on February 10, 2023, and on April 12, 2023, through the private placement, were fully allocated to the Common Shares.

During March 2022, the Company issued 11,471,850 Prospectus Units under a prospectus for gross proceeds of $6,883,110. Each Prospectus Unit consisted of one common share and one common share purchase warrant ("Prospectus Warrants"). These 11,471,850 Prospectus Warrants allow the holders to acquire an additional common share at $0.75 per share until March 17, 2025. The fair value of these Prospectus Warrants issued to investors was $1,119,718 calculated using the residual value approach. The Company paid cash commissions of $468,148 and $320,371 for other share issue costs. The Company issued 781,711 broker warrants exercisable at $0.60 per share until March 17, 2024. The fair value of these broker warrants was $144,460, which along with the other costs of this financing was deducted from the value of the common shares.

(Expressed in Canadian Dollars)

The fair value of the broker warrants was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected volatility in market price of shares		78%
Share price	$	0.50
Expected dividend rate		0%
Risk-free interest rate		2.19%
Weighted average fair value per Broker Warrant granted	$	0.1848

Warrants

Warrant activity for the years ended July 31, 2023, and 2022, is as follows:

	Year ended July 31, 2023			Year ended July 31, 2022		
	Number of warrants		Weighted average exercise price	Number of warrants		Weighted average exercise price
Balance beginning of year	12,253,561		0.74	-	$	-
Warrants issued on financing	31,925,595		0.60	12,253,561		0.74
Warrants excercised	(2,630,700)		0.60	-		-
Balance end of year	41,548,456	$	0.63	12,253,561	$	0.74

As of July 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	8
8,841,150	$	0.75	March 17, 2025	20
20,000,000	$	0.60	February 10, 2028	54
11,925,595	$	0.60	April 12, 2028	56
41,548,456	$	0.63		47

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 years ended July 31, 2023, and 2022, other than stock options as discussed herein, no other incentive awards were issued or outstanding pursuant to the Omnibus Plan.

(Expressed in Canadian Dollars)

The stock option activity for the years ended July 31, 2023, and 2022, is as follows:

	Year ended July 31, 2023		Year ended July 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of year	9,758,579	$ 0.91	10,024,270	$ 1.00
Granted	3,542,636	0.57	4,563,750	0.64
Exercised	(513,058)	0.59	(978,750)	0.27
Forfeited / Expired	(3,107,771)	1.05	(3,850,691)	1.00
Balance end of year	9,680,386	$ 0.75	9,758,579	$ 0.91

During the year ended July 31, 2023, the Company recognized share-based compensation related to stock options of $950,536 (2022 - $1,063,840).

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

	Year ended July 31, 2023	Year ended July 31, 2022
Expected life	3.7 years	3.8 years
Expected market volatility of shares	74.0%	70.0%
Share price	$ 0.56	$ 0.64
Expected dividend rate	0%	0%
Exercise price	$ 0.57	$ 0.64
Risk-free interest rate	3.04%	2.18%
Weighted average fair value per option granted	$ 0.291	$ 0.338

(Expressed in Canadian Dollars)

Details of the outstanding stock options as at July 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
50,000	$	1.62	August 27, 2023*	0.9	50,000	$	1.62
200,000	$	1.80	September 01, 2023 *	1.0	200,000	$	1.80
255,000	$	2.48	October 15, 2023*	2.5	255,000	$	2.48
355,000	$	1.81	July 3, 2024	11.1	355,000	$	1.81
30,000	$	1.83	July 25, 2024	11.8	30,000	$	1.83
70,000	$	1.81	September 6, 2024	13.2	70,000	$	1.81
150,000	$	1.21	December 23, 2024	16.8	150,000	$	1.21
75,000	$	1.37	January 21, 2025	17.7	75,000	$	1.37
30,000	$	0.69	May 11, 2025	21.4	30,000	$	0.69
250,000	$	0.97	August 10, 2025	24.3	187,500	$	0.97
18,750	$	0.69	September 15, 2025	25.5	-	$	0.69
80,000	$	0.56	October 29, 2025	27.0	60,000	$	0.56
720,000	$	0.57	November 11, 2025	27.4	540,000	$	0.57
60,000	$	0.49	March 22, 2026	31.7	60,000	$	0.49
968,750	$	0.52	June 15, 2026	34.5	735,000	$	0.52
155,000	$	0.43	October 25, 2026	38.8	77,500	$	0.43
10,000	$	0.44	November 1, 2026	39.0	10,000	$	0.44
135,000	$	0.44	December 8, 2026	40.3	135,000	$	0.44
1,607,500	$	0.73	February 16, 2027	42.5	810,000	$	0.73
100,000	$	0.54	April 1, 2027	44.0	50,000	$	0.54
150,000	$	0.54	April 4, 2027	44.1	75,000	$	0.54
25,000	$	0.56	April 6, 2027	44.2	12,500	$	0.56
700,000	$	0.57	April 13, 2027	44.4	350,000	$	0.57
125,000	$	0.46	June 14, 2027	46.5	125,000	$	0.46
125,000	$	0.42	July 11, 2027	47.4	125,000	$	0.42
948,750	$	0.38	October 3, 2027	50.1	229,375	$	0.38
1,000,000	$	0.50	January 13, 2028	53.4	1,000,000	$	0.50
448,348	$	0.69	March 17, 2028	55.6	448,348	$	0.69
250,000	$	0.75	April 24, 2028	56.8	62,500	$	0.75
86,644	$	0.95	June 16, 2028	58.5	21,661	$	0.95
400,000	$	0.90	July 1, 2028	59.0	100,000	$	0.90
101,644	$	0.91	July 10, 2028	59.3	25,411	$	0.91
9,680,386	**$**	**0.75**		**39.7**	**6,454,795**	**$**	**0.82**

* Options were unexercised and expired subsequent to year end.

Loss per share

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

11. 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 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).

(Expressed in Canadian Dollars)

As at July 31, 2023, $202,718 (July 31, 2022 - $102,068) 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.

12. Supplemental cash flow information

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

Transfer of inventory to property and equipment (Note 6)	$	1,355,272
Transfer of contributed surplus on the exercise of stock options	$	180,023
Transfer of contributed surplus on the exercise of warrants	$	263,070

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

The fair value of 781,711 warrants issued for broker fees	$	144,460
The fair value of 11,471,850 warrants issued to investors	$	1,119,718
Transfer of inventory to property and equipment (Note 6)	$	375,773
Transfer of contributed surplus on the exercise of stock options	$	103,353

No cash was paid toward income taxes during the years ended July 31, 2023, and 2022. The Company paid interest expense embedded in its lease payments of $42,237 during the year ended July 31, 2023 (2022 - $66,632).

13. Financial instruments and risk management

As at July 31, 2023, the Company's financial instruments comprise of cash and cash equivalents, receivables, and 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:

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.

(Expressed in Canadian Dollars)

	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

	As at July 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,277,321	$ -	$ -	$ 6,277,321
Investment in Gemina Labs	393,750	-	-	393,750
Balance end of year	$ 6,671,071	$ -	$ -	$ 6,671,071

During fiscal 2023, the Company had an investment in Gemina Laboratories Ltd. ("Gemina Labs") which was measured through fair value through quoted market share prices. On July 18, 2023, the Company sold its investment in Gemina Labs for $397,001 net of commissions of $4,010, resulting in a loss on disposal of $55,082.

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 July 31, 2023, the Company had current assets of $11,804,517 (July 31, 2022 - $9,947,161) to settle current liabilities of $4,131,574 (July 31, 2022 - $3,156,168). 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. Most of the Company's assets and liabilities are denominated in Canadian dollars; however, the Company holds certain cash balances in US dollars. As at 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
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 investment as at July 31, 2023, so its exposure to price risk is insignificant.

14. Capital management

The Company defines its capital as its shareholders' equity. The Company manages its capital structure and makes adjustments based on the funds available to the Company, in order to support the research, development and commercialization of its integrated, layered, AI-powered threat detection gateway solution to enhance public health and safety. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is dependent upon external financing to fund activities. In order to carry out planned research and development and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's capital management objectives, policies, and processes have not been changed over the year presented. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian Dollars)

15. Income taxes

The reconciliation of the combined federal and provincial income tax rate to the income tax expenses presented in the consolidated statements of loss and comprehensive loss is as follows:

	Year ended July 31, 2023	Year ended July 31, 2022
Loss for the year before income taxes	$ (16,336,473)	$ (39,716,689)
Combined Canadian federal and provincial statutory rate	27%	27%
Income tax recovery at statutory rate	(4,411,000)	(10,724,000)
Reconciliation of effective rate:		
Change in statutory, foreign tax, foreign exchange rates and other	136,000	(745,000)
Permanent differences	256,000	264,000
Impact of goodwill impairment	-	6,941,000
Share issue costs	(27,000)	(213,000)
Adjustment to prior year provision versus statutory tax return	27,000	(1,956,000)
Changes in unrecognized deductible temporary timing differences and other items	4,019,000	6,433,000
Current tax recovery	$ -	$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	Year ended July 31			
	2023		2022	
	Amount	Expiry	Amount	Expiry
Research and development assets	$ 198,000	indefinite	$ 198,000	indefinite
ROU assets and lease liability	70,000	indefinite	79,000	indefinite
Investment tax credit	613,000	2021 - 2041	613,000	2021 - 2041
Property and equipment	3,123,000	indefinite	2,576,000	indefinite
Share issue costs	1,148,000	2044 to 2047	2,383,000	2042 to 2046
Non-capital losses - Canada	71,880,000	2036 to 2043	58,224,000	2036 to 2042
Non-capital losses - United States	16,806,000	indefinite	14,404,000	indefinite
Non-capital losses - United Kingdom	2,365,000	indefinite	2,336,000	indefinite
	$ 96,203,000		$ 80,813,000	

(Expressed in Canadian Dollars)

16. Grant funding

Non-dilutive funding received by the Company for the years ended July 31, 2023, and 2022, are as follows:

	Year ended July 31, 2023	Year ended July 31, 2022
Raytheon ITB program	$ -	$ 2,553,000
Supercluster	-	410,530
COVID-19 relief programs	-	317,240
Total non-dilutive grants	$ -	$ 3,280,770

Grant funding is netted against related expenses in the statements of loss and comprehensive loss. When expenses are normalized by removing the non-dilutive funding, the loss and comprehensive loss for the year ended July 31, 2023, is unaffected at $16,336,473 compared to a revised amount of $42,997,459 for the year ended July 31, 2022.

17. Segmented information

Operating segments

The Company currently has two distinct operating segments, 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 significant 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 years ended July 31, 2023 and July 31, 2022:

(Expressed in Canadian Dollars)

	For the year ended July 31, 2023		
	Platform	Xtract	Total
Revenue	$ 3,596,999	$ 514,245	$ 4,111,244
Expenses			
Sales and marketing	2,789,190	148	2,789,338
Research and development	5,689,308	516,868	6,206,176
General and administration	1,292,382	69,996	1,362,378
Personnel costs	5,394,920	328,439	5,723,359
Professional fees	617,502	59,967	677,469
Hardware	926,058	-	926,058
Amortization	805,900	-	805,900
Depreciation	517,226	126,164	643,390
Share-based compensation	961,336	(10,800)	950,536
Loss on inventory	346,374	-	346,374
Loss on retirement of assets	181,107	-	181,107
	19,521,303	1,090,782	20,612,085
Loss from operations	15,924,304	576,537	16,500,841
Unrealized gain on investment	(58,333)	-	(58,333)
Realized loss on investment	55,082	-	55,082
Interest and other income	(137,087)	(24,030)	(161,117)
Loss and comprehensive loss for the year	$ 15,783,966	$ 552,507	$ 16,336,473
Non-current asset additions	$ -	$ 32,539	$ 32,539
Finance cost(1)	$ 19,590	$ 22,647	$ 42,237
As at July 31, 2023			
Current assets	$ 11,523,425	$ 281,092	$ 11,804,517
Current liabilities	$ 2,886,139	$ 1,245,435	$ 4,131,574

(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 year ended July 31, 2022		
	Platform	Xtract	Total
Revenue	$ 773,274	$ 2,845,940	$ 3,619,214
Expenses			
Sales and marketing	1,872,807	95,834	1,968,641
Research and development	2,945,080	1,518,447	4,463,527
General and administration	1,485,232	559,304	2,044,536
Personnel costs	4,771,579	512,676	5,284,255
Professional fees	686,732	85,359	772,091
Hardware	277,286	-	277,286
Amortization	805,900	-	805,900
Depreciation	642,201	122,925	765,126
Share-based compensation	990,040	73,800	1,063,840
Loss on inventory	502,397	-	502,397
Impairment of goodwill	25,582,433		25,582,433
Loss on retirement of assets	12,155	-	12,155
	40,573,842	2,968,345	43,542,187
Loss from operations	39,800,568	122,405	39,922,973
Unrealized gain on investment	(175,000)	-	(175,000)
Interest and other income	(31,284)	-	(31,284)
Loss and comprehensive loss for the year	$ 39,594,284	$ 122,405	$ 39,716,689
Non-current asset additions	$ 95,757	$ -	$ 95,757
Finance cost(1)	$ 37,920	$ 28,712	$ 66,632
As at July 31, 2022			
Current assets	$ 7,755,575	$ 2,191,586	$ 9,947,161
Current liabilities	$ 1,701,151	$ 1,455,017	$ 3,156,168

(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 the year ended July 31, 2023			As at July 31, 2023		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
United States	$ 2,548,518	$ -	$ 2,548,518	$ 4,788,639	$ -	$ 4,788,639
Japan	1,048,481	-	1,048,481	467,897	-	467,897
Canada	-	514,245	514,245	1,680,377	257,400	1,937,777
Total	$ 3,596,999	$ 514,245	$ 4,111,244	$ 6,936,913	$ 257,400	$ 7,194,313

	For the year ended July 31, 2022			As at July 31, 2022		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	$ 88,182	$ 2,845,940	$ 2,934,122	$ 2,857,177	$ 351,025	$ 3,208,202
United States	685,092	-	685,092	4,902,821	-	4,902,821
Total	$ 773,274	$ 2,845,940	$ 3,619,214	$ 7,759,998	$ 351,025	$ 8,111,023

Revenue from the Xtract operating segment was earned from Canadian government organizations and represented approximately 13% of the Company's total revenue for the year ended July 31, 2023 (2022 – 79%). Revenue from two customers represented 47% of the Company's total revenue under the Platform operating segment for the year ended July 31, 2023.

18. 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.