Management's Discussion and Analysis

For the six months ended January 31, 2024

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") is prepared as of March 7, 2024, and is intended to assist in understanding the results of operations and the financial condition of Xtract One Technologies Inc. (the "Company"). Throughout the MD&A, reference to the Company is on a consolidated basis. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended January 31, 2024, which are prepared under International Financial Reporting Standards ("IFRS"). The policies applied in the unaudited condensed consolidated interim financial statements are based on IFRS policies effective as of March 7, 2024, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. All amounts in this MD&A are expressed in Canadian Dollars unless otherwise indicated. The business of the Company is subject to several risks and uncertainties. Please refer to the Company's annual information form (the "AIF") for the fiscal year ended July 31, 2023, available under the Company's profile at www.sedarplus.ca, for more information about these risks and uncertainties.

Forward-Looking Information

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

Corporate Structure and Profile

The Company's common shares are listed for trading on the TSX under the trading symbol "XTRA", under the trading symbol "XTRAF" on the OTCQX in the United States, and under the trading symbol "0PL" on the Frankfurt Stock Exchange in Germany. The Company is a reporting issuer in all provinces and territories of Canada, except Québec. The principal regulator of the Company is the Ontario Securities Commission.

As at January 31, 2024, the Company had five wholly-owned subsidiaries, Xtract One Detection Ltd. ("Xtract Detection"), a limited company incorporated under the laws of the province of British Columbia, Canada, Patriot One (UK) Limited ("Patriot UK"), a limited company incorporated under the laws of England and Wales, United Kingdom, Xtract One (US) Technologies Inc. ("Xtract US"), a limited company incorporated under the laws of the state of Colorado, United States of America, EhEye Inc. ("EhEye"), a limited company incorporated under the laws of the province of New Brunswick, Canada, and Xtract Technologies Inc. ("Xtract"), a limited company incorporated under the laws of the province of British Columbia, Canada.

The Company, through Xtract US, has a 49% interest in Sotech Secure, LLC, an incorporated entity formed under the laws of the State of Delaware.

Highlights for the three months ended January 31, 2024

The following is a summary of the key financial highlights for the Company for the three months ended January 31, 2024:

- Total contract value of new bookings[1] was $5.1 million as of January 31, 2024, as compared to $1.1 million for the three month period ended January 31, 2023, representing an increase of 363%;

- Platform contractual backlog was $12.2 million as of January 31, 2024, as compared to $3.4 million as of January 31, 2023, representing an increase of 264%. The Platform backlog as of January 31, 2024 excludes an additional $10.0 million in signed agreements pending installation[1] representing an increase of 235% over the last year, when the signed agreements pending installation balance was $3.0 million;

- Accelerated topline growth for our Platform operating segment with $2.8 million of revenue for the three month period ended January 31, 2024 as compared to $0.7 million for the same three month period ended January 31, 2023, representing a 281% increase in Platform revenue; and $5.7 million of revenue recognized during the six month period ended January 31, 2024, representing a 401% increase in Platform revenue over the same six month period ended January 31, 2023; and

- Gross margin of 61% for our Platform operating segment for the three month period ended January 31, 2024 as compared to 47% for the same three month period ended January 31, 2023.

The following is a summary of the key business highlights for the Company for the three months ended January 31, 2024:

- Partnered with Kansas City Current of the National Women's Soccer League to secure entrances at the new CPCK Stadium, which will make history as the world's first and only purpose-built stadium for a women's professional sports team;

- Announced that the Company had been selected by Community Health Network to protect key hospital locations, with the strategic partnership further underscoring the Company's commitment to enhance hospital safety and improve healthcare facility security;

- Continued expansion within the sports and entertainment venue industry, announcing the selection to protect all entrances of the H-E-B Centre at Cedar Park, home of the Texas Stars and Austin Spurs, affiliate teams of the NHL and NBA respectively; and

- Announced a partnership with the Wisconsin Center District (WCD) to secure all entrances of the Baird Center, Wisconsin's largest convention center, serving as the Company's first contract with a convention center, further validating the continued innovation to deliver advanced threat detections.

Business of the Company

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

Outlook and Overall Performance

Platform Operating Segment

During the quarter, continued progress was made in the commercialization of the Company's Platform solutions. In recent months, the Company has secured multiple contracts and is currently in negotiation for several additional contracts. Some of these contracts are for single locations with the potential to grow to dozens of locations. Revenue related to Platform subscription arrangements or upfront sales amounted to $5.7 million for the first half of fiscal 2024. As at January 31, 2024, the backlog of sales commitments related to the Platform was approximately $12.2 million and continues to grow. This excludes an additional $10.0 million in signed agreements that are pending installation. As the Company continues to sell its Platform solution using a subscription model, management expects monthly recurring revenue and sales backlog to increase, providing predictable long-term cash flow.

During the first half of fiscal 2024, the Company focused on accelerating customer sales and sales related activities. The continued customer wins and strategic partnerships with Madison Square Garden Sports Corp. ("MSG Sports") and Oak View Group ("OVG") have further strengthened the Company's market position, resulting in increased backlog and signed contracts.

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

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

Xtract Operating Segment

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

Xtract recognized revenue of $289,787 during the first half of fiscal 2024, which is related to professional service contracts, and maintained a backlog of signed or awarded contracts of approximately $95,965. This innovative AI team continues to work collaboratively with the Company's internal Platform efforts, building an ever-expanding set of capabilities, which continue to inform and advance the strategic aims of the Company. Critical strategic decisions for Xtract are made in close consultation and coordination with the Company's leadership to ensure maximum synergies are achieved.

Investing in Research and Development

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

AI-Powered Threat Detection Gateway

The first AI-powered threat detection gateway was initially released to the market in August 2020, followed by enhanced versions of the Gateway in September 2021, March 2022, September 2022, and most recently in December 2023 which incorporated technology and functionality enhancements that made the patron screening product increasingly accurate, flexible, and practical.

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

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

Technology Update

During the quarter, the Company continued to focus its efforts to actively improve on its technological solutions. The Company's commitment to innovation and meeting the ever changing needs of customers remains unwavering. In direct response to feedback from field engineers and customers in the live entertainment and sports venue markets, changes to the Gateway were focused on improved durability and system diagnostics. The Company has also invested significant development effort in the release of Xtract One View, a SaaS platform that seamlessly integrates with a customer's fleet of SmartGateways. Xtract One View provides a combination of fleet management functionality, real time analytics, and post event reporting capabilities. The cloud platform gives facilities a single, simplified dashboard view to oversee an entire fleet of Gateway settings and critical information from a single logon. The Company continues to look for ways to further improve the technology with planned software updates and new value-added functionality to deliver exceptional customer service and improved patron experience as additional insights in the field and features are identified by customers following successful deployments.

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

Market Opportunity

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

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

The Company has been using marketing campaigns targeted at these industry groups which have led to promising opportunities and helped secure a growing backlog and pipeline of commitments. In addition, the Company has secured key strategic partnerships with two prominent industry leaders, OVG and MSG Sports, to further solidify its position as a market leader in the sports and entertainment market. During the first half of the 2024 fiscal year, the Company continued to make meaningful progress with many customers and has been able to build up its backlog of Platform subscription contracts. Some of the Company's initial sales began as smaller purchases from large enterprise customers, after which these existing customers have expanded their commitments by increasing the number of deployments of the Platform to additional sites during the year. Many customers prefer a phased approach with a rollout of the Platform to a few entrances to ensure they are comfortable with their related security protocols before using it throughout their venues. The Company is focused on the success of these initial deployments which have started to lead to much larger customer commitments.

Although these target markets are our priority in the short term, the intention is to expand into additional markets with future releases of the product. The Company has selectively engaged with customers in other market verticals such as schools and healthcare where there is a strong product fit and solid demand for our solutions. To further this expansion, the Company has placed an emphasis on third party testing and validation of our products as well as obtaining various regulatory certifications. These certifications increase credibility in the marketplace and assist in the pursuit of new market opportunities. The Company continues to make significant enhancements to its products to improve its capabilities and address customer needs. As products continue to develop, we will expand our target market to new market verticals and new geographies.

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

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

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

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

Quarterly Financial Performance

Selected Financial Data - Summary of Financial Results

	Three months ended January 31,			Six months ended January 31,		
	2024	2023	% Change	2024	2023	% Change
Revenue						
Platform revenue	$ 2,750,418	$ 721,334	281%	$ 5,746,624	$ 1,147,872	401%
Xtract revenue	169,640	93,590	81%	289,787	313,858	(8%)
Total revenue	$ 2,920,058	$ 814,924	258%	$ 6,036,411	$ 1,461,730	313%
Cost of revenue						
Platform cost of revenue	1,081,337	385,866	180%	2,059,899	579,050	256%
Xtract cost of revenue	55,049	53,711	2%	108,429	168,202	(36%)
Total cost of revenue	$ 1,136,386	$ 439,577	159%	$ 2,168,328	$ 747,252	190%
Gross profit	$ 1,783,672	$ 375,347	375%	$ 3,868,083	$ 714,478	441%
Operating expenses						
Selling and marketing	1,299,727	961,095	35%	2,807,384	2,451,454	15%
General and administration	1,693,019	1,810,887	(7%)	3,340,835	3,388,105	(1%)
Research and development	2,058,606	1,696,094	21%	3,784,797	3,831,869	(1%)
Loss on inventory write-down	107,013	314,103	(66%)	107,013	314,103	(66%)
Loss on retirement of assets	-	81,274	(100%)	-	81,274	(100%)
Total operating expenses	5,158,365	4,863,453	6%	10,040,029	10,066,805	(0%)
Loss from operations	(3,374,693)	(4,488,106)	(25%)	(6,171,946)	(9,352,327)	(34%)
Other income						
Unrealized gain on investments	-	182,292	-		116,667	-
Interest and other income	56,543	34,444	64%	152,583	46,106	231%
Loss and comprehensive loss for the period	$ (3,318,150)	$ (4,271,370)	(22%)	$ (6,019,363)	$ (9,189,554)	(34%)
Weighted average number of shares	198,495,594	163,181,255		198,463,158	163,180,233	
Basic and diluted loss per share	$ (0.02)	$ (0.03)	(33%)	$ (0.03)	$ (0.06)	(50%)

Financial Statement Presentation

On 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 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 the cost of revenue, general and administrative, selling and marketing, and research and development expenses as required to appropriately reflect the function of these expenses.

Comparative amounts for the six months ended January 31, 2023, 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.

A summary of the reclassification of the prior year comparative figures is as follows:

	Three months ended January 31, 2023			Six months ended January 31, 2023		
	Balance by nature	Reclassification	Balance by function	Balance by nature	Reclassification	Balance by function
Cost of revenue	$ -	$ 439,577	$ 439,577	$ -	$ 747,252	$ 747,252
Sales and marketing	472,194	488,901	961,095	1,261,341	1,190,113	2,451,454
General and administration	407,013	1,403,874	1,810,887	800,922	2,587,183	3,388,105
Research and development	1,451,128	244,966	1,696,094	3,451,825	380,044	3,831,869
Personnel costs	1,240,362	(1,240,362)	-	2,812,226	(2,812,226)	-
Professional fees	331,301	(331,301)	-	423,741	(423,741)	-
Hardware	263,057	(263,057)	-	413,335	(413,335)	-
Amortization	201,475	(201,475)	-	402,950	(402,950)	-
Depreciation	161,652	(161,652)	-	322,398	(322,398)	-
Share-based compensation	379,471	(379,471)	-	529,942	(529,942)	-
	$ 4,907,653	-	**$ 4,907,653**	**$ 10,418,680**	-	**$ 10,418,680**

Overall Quarterly Results

Overall loss and comprehensive loss for the three months ended January 31, 2024, was $3.3 million compared with $4.3 million for the same period ended January 31, 2023, representing a decrease of $1.0 million or 22%. Overall loss and comprehensive loss for the six months ended January 31, 2024, was $6.0 million compared with $9.2 million for the same period ended January 31, 2023, representing a decrease of $3.2 million or 34%. The decrease in loss for the six month period that ended January 31, 2024, was mainly attributable to the increase in Platform revenue and subsequent increase in gross profit.

Revenue

The Company reported overall revenue of $2.9 million during the three months ended January 31, 2024, compared with $0.8 million, for the same period ended January 31, 2023, representing an increase of $2.1 million or 258%. The Company earned revenue of $6.0 million during the six months ended January 31, 2024, compared with $1.5 million for the same period ended January 31, 2023, representing an increase of $4.5 million or 313%.

The Company recognized Platform revenue of $2.8 million during the three months ended January 31, 2024, as compared to $0.7 million during the same period ended January 31, 2023, representing an increase of $2.1 million or 281%. The Company recognized $5.7 million in revenue related to Platform sales during the six months ended January 31, 2024, as compared to $1.1 million during the same period ended January

31, 2023 representing an increase of 401%. The Company believes that revenue from this operating segment will continue to grow in the upcoming periods due to the extensive backlog it has built up from subscription contracts, adding to the growth in monthly recurring revenue, as well as the increase in customer site surveys, trials, and deployment activities currently underway.

The Company recognized $289,787 in revenue related to work completed on contracts from the Xtract operating segment for the six months ended January 31, 2024, as compared to $313,858 for the same period ended January 31, 2023 representing a decrease of 8%. The decrease was mainly attributable to the timing of the completion of some larger projects, as well as the continued focus on the Platform segment.

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

	Less than one year	Greater than one year	As of January 31, 2024	As of January 31, 2023	% Change
Platform revenue	$ 4,979,370	$ 7,218,511	$ 12,197,881	$ 3,350,151	264%
Xtract revenue	95,965	-	95,965	594,259	(84%)
Total backlog	$ 5,075,335	$ 7,218,511	$ 12,293,846	$ 3,944,410	212%

The Company recorded a Platform backlog of $12.2 million as of January 31, 2024, as compared with $3.4 million as of January 31, 2023, representing an increase of $8.8 million or 264%. The increase is mainly attributable to several new contracts that the Company secured and deployed in recent quarters. The Platform backlog as of January 31, 2024, excludes an additional $10.0 million in signed agreements that are pending installation, which slightly decreased from the $10.4 million of signed contracts that existed as of July 31, 2023, due to the ongoing deployment of customer installations. As the Company continues to sell its Platform using a subscription model, management expects a continued increase in sales backlog, providing predictable long term cash flow.

The Company recorded an Xtract backlog of $0.09 million as of January 31, 2024, as compared with $0.6 million as of January 31, 2023, representing a decrease of 84% or $0.51 million. The decrease was mainly attributable to the completion of some larger projects and the Company's strategic focus on the Platform. The remaining backlog of Xtract contracted commitments will be completed within one year.

Cost of revenue

Cost of revenue was $2.2 million for the six months ended January 31, 2024, as compared with $0.7 million for the same period ended January 31, 2023, representing an increase of 190% or $1.4 million. The increase in these costs during the period was primarily attributable to a concurrent increase in related revenues.

Gross profit

The following table provides a breakdown of gross profit and gross margin for the reported periods:

	Three months ended January 31, Gross Profit ($000s)		Three months ended January 31, Gross Margin		Six months ended January 31, Gross Profit ($000s)		Six months ended January 31, Gross Margin	
	2024	2023	2024	2023	2024	2023	2024	2023
Platform	$ 1,669	$ 335	61%	46%	$ 3,687	$ 569	64%	50%
Xtract	115	40	68%	43%	181	146	62%	46%
Total	$ 1,784	$ 375	61%	46%	$ 3,868	$ 714	64%	49%

Total gross profit as a percentage of total revenue for the three and six months ended January 31, 2024, was 61% and 64% respectively, as compared with 46% and 49% for the same periods ended January 31, 2023, due to the higher revenue and associated gross profit from our Platform operating segment which generally achieves higher margins than our Xtract operating segment.

Gross margin from our Platform operating segment was 61% and 64% for the three and six months ended January 31, 2024 as compared to 47% and 50% for the same periods in 2023. The improvement in the gross margin over the prior period was largely due to the timing of a large customer contract in addition to refinement of the Company's pricing model in fiscal 2024.

Sales and marketing

Sales and marketing costs were $1.3 million for the three months ended January 31, 2024, as compared with $0.9 million for the same period ended January 31, 2023, representing an increase of 35% or $0.4 million. Sales and marketing costs were $2.8 million for the six months ended January 31, 2024, as compared with $2.5 million for the same period ended January 31, 2023, representing an increase of 15% or $0.3 million. The increase in these costs during the period was primarily attributable to the Company's growing investment in sales and marketing activities, including marketing campaigns and trade shows. We expect sales and marketing expenses will remain steady as sales activity continues in the upcoming periods.

General and administration

General and administrative costs were $1.7 million for the three months ended January 31, 2024, as compared with $1.8 million for the same period ended January 31, 2023, representing a decrease of 7% or $0.1 million. General and administrative costs were $3.3 million for the six months ended January 31, 2024 as compared with $3.4 million the same period ended January 31, 2023, representing a decrease of $0.1 million or 1%. The slight reduction in these costs during the period was primarily attributable to management's ongoing effort to reduce non-strategic discretionary expenditures. We expect general and administrative expenses will remain steady or decrease slightly in the upcoming periods.

Research and development

Research and development ("R&D") costs were $2.1 million for the three months ended January 31, 2024, as compared with $1.7 million for the same period ended January 31, 2023, representing an increase of 21% or $0.4 million. R&D costs were $3.8 million for the six months ended January 31, 2024, as compared with $3.8 million for the same period ended January 31, 2023, remaining relatively flat with a slight decrease of 1%. We expect research and development expenses will increase slightly in the upcoming periods as the management continues to invest in R&D activities.

Loss on retirement of assets

During the three and six month periods ended January 31, 2024, the Company wrote down $nil of obsolete fixed assets compared with $81,274 that were disposed of during the second quarter of fiscal 2023.

Loss on inventory

During the three and six month periods ended January 31, 2024, the Company wrote down $0.1 million of inventory compared to $0.3 million during the three and six month periods ended January 31, 2023, representing a decrease of $0.2 million or 66%. Management continuously reviews the inventory it holds for signs of impairment or obsolescence.

Unrealized gain on investments

During the three and six months period ended January 31, 2024, unrealized gain on investments was $nil, compared to $0.2 million and $0.1 million recorded for the three and six months ended January 31, 2023. The unrealized gain in the prior periods is attributable to the Company's investment in Gemina Laboratories Ltd, which was disposed of during the fiscal year ended July 31, 2023.

Interest and other income

Interest and other income was $56,543 for the three months ended January 31, 2024, as compared with $34,444 for the same period ended January 31, 2023, representing an increase of 64% or $22,099. Interest and other income was $152,583 for the six months ended January 31, 2024, compared to $46,106 for the same period ended January 31, 2023, representing an increase of 231% or $106,477. The rise of market interest rates compared to the previous period, along with higher cash balances, contributed to the overall increase in interest income.

Net loss per share

On a per weighted average share basis, net loss per share was $0.02 and $0.03 for the three and six month periods ended January 31, 2024, respectively, as compared with $0.03 and $0.06 for the comparative periods in 2023. The decrease of $0.03 or 50% in net loss per share for the six month ended January 31, 2024 was primarily attributable to the increase in Platform revenue and corresponding increase in gross profit resulting in a decrease in loss and comprehensive loss.

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

	Quarter Ended							
	Jan 31, 2024	Oct 31, 2023	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022
Revenue								
Platform	$ 2,750	$ 2,996	$ 1,646	$ 802	$ 721	$ 427	$ 267	$ 85
Xtract	170	120	128	73	94	220	527	853
Total revenue	$ 2,920	$ 3,116	$ 1,774	$ 875	$ 815	$ 647	$ 794	$ 938
Total expenses	6,295	5,913	5,123	4,675	5,303	5,511	6,405	5,339
Adjusted loss from operations[1]	$ 3,375	$ 2,797	$ 3,349	$ 3,800	$ 4,488	$ 4,864	$ 5,611	$ 4,401
Impairment of goodwill	-	-	-	-	-	-	25,582	-
Loss from operations	$ 3,375	$ 2,797	$ 3,349	$ 3,800	$ 4,488	$ 4,864	$ 31,193	$ 4,401
Unrealized loss (gain) on investment	-	-	-	58	(182)	66	(15)	(15)
Realized loss on investment	-	-	55	-	-	-	-	-
Interest and other income	(57)	(96)	(84)	(31)	(34)	(12)	(17)	(1)
Loss and comprehensive loss	$ 3,318	$ 2,701	$ 3,320	$ 3,827	$ 4,271	$ 4,918	$ 31,162	$ 4,385
Adjusted loss and comprehensive loss[1]	$ 3,318	$ 2,701	$ 3,320	$ 3,827	$ 4,271	$ 4,918	$ 5,579	$ 4,385
Basic and diluted loss per share	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.19)	$ (0.03)
Adjusted basic and diluted loss per share[1]	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)
Working capital	$ 1,865	$ 5,113	$ 7,672	$ 8,358	$ (1,870)	$ 2,261	$ 6,791	$ 11,991
Total assets	$ 16,498	$ 16,468	$ 18,998	$ 18,750	$ 11,121	$ 13,694	$ 18,058	$ 48,744
Non-current liabilities	$ 63	$ 94	$ 124	$ 154	$ 183	$ 268	$ 357	$ 432

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

Quarterly Results Trend Analysis

The quarterly expenditure trend across the eight fiscal quarters ending January 31, 2024 above reflects the evolution of the Company's revamped strategy to accelerate revenue growth for our Platform operating segment. The Company's primary objective has been the further development and commercialization of an integrated, layered, AI-powered threat detection solution. In fiscal 2022, the Company began to see the results of its enhanced marketing and sales efforts through increased revenue, sales commitments, and a qualified sales pipeline. In fiscal 2023 and onwards, the Company began to make strategic partnerships and customer relationships that have grown the sales pipeline and contributed towards scaling the operations, with the anticipation of long-term recurring revenue.

The Company has no discontinued operations.

Liquidity and Capital Resources

As at January 31, 2024, the Company had a working capital of $1.9 million which includes current assets of $9.0 million to meet current liabilities of $7.2 million. The majority of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has non-current liabilities of $0.06 million, related to the long-term portion of the capitalized lease liabilities in accordance with IFRS 16.

Selected Financial Data – Summary of results for the six month period ended January 31

	2024	2023	% Change
Cash and cash equivalents beginning of period	$ 8,327,449	$ 6,277,321	33%
Cash used in operating activities	(4,029,340)	(5,082,659)	(21%)
Cash used in investing activities	-	(32,539)	(100%)
Cash used in financing activities	(105,649)	(185,434)	(43%)
Change in cash for the period	(4,134,989)	(5,300,632)	(22%)
Cash and cash equivalents end of period	$ 4,192,460	$ 976,689	329%

During the six months ended January 31, 2024, the Company had a net decrease in cash flow from operations, investing, and financing activities of $4.1 million, compared with $5.3 million for the same period ended January 31, 2023.

The cash flow used in operating activities was $4.0 million for the six months ended January 31, 2024, as compared with $5.1 million for the same period ended January 31, 2023, representing a decrease of $1.1 million or 21%. The decrease in negative cash flow from operating activities can be attributable to the decrease in net loss of $3.2 million.

Cash flow used in investing activities was $nil for the six months ended January 31, 2024, as compared with $0.03 million for the same period in 2023 representing a decrease of $0.03 million. The decrease in cash flow from investing activities can be attributed to a reduction of fixed assets purchased during the six months ended January 31, 2024. The Company does not anticipate making any significant capital expenditures in the upcoming quarters.

Cash used in financing activities was $0.1 million for the six months ended January 31, 2024, as compared to $0.2 million for the same period ended January 31, 2023, representing a decrease of $0.1 million or 43%. This decrease is primarily attributed to the proceeds on issuance of share capital during the six month period ended January 31, 2024.

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

Commitments

The Company continues to invest in its supply chain and had outstanding purchase obligations of $4.4 million (July 31, 2023 - $0.9 million) related to the assembly of future finished goods for the Platform product offerings that will be drawn down within the next year.

Non-IFRS and Supplementary Financial Measures

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

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

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

Financial Instruments and Other Instruments

The Company's only material financial instruments are cash and cash equivalents, receivables, and accounts payable, and accrued liabilities. The carrying values of receivables, accounts payable, and accrued liabilities are of approximate fair value due to the short-term nature of the instruments. The Company's cash and cash equivalents are carried at fair value.

The Company's risk exposures and the impact on financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk in order to meet its contractual obligations by ensuring there is appropriate capital to meet short-term business requirements and obtaining other opportunities for financing. The Company identifies when funds are required through the planning and budgeting process to support the Company's normal operations. The Company's ability to continue as a going concern involves significant judgments and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing.

Credit risk

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

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates 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 consequently, its exposure to interest rate risk is insignificant.

Foreign currency risk
Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. The Company's financial assets and liabilities that are denominated in foreign currencies will be affected 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, trade, and other payables. During the six month period ended January 31, 2024, 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
Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company did not hold material equity investments during the quarter, and therefore, exposure to price risk is insignificant.

Material accounting policies implemented during the six month period ended January 31, 2024

Deferred cost of revenue

During the six months ended January 31, 2024, 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 costs 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.

Material Accounting Policies and Estimates

For a complete description of the Company's material accounting policies, please see the accompanying notes to the condensed consolidated interim financial statements for the six month period ended January 31, 2024, and the audited consolidated financial statements for the year ended July 31, 2023.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the 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 results may differ from these estimates. Material 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 consider factors such as economic and market conditions and the useful lives of the assets.

Right of use lease assets and liabilities

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

Revenue recognition

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

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

Going concern

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

The ability of the Company to continue as a going concern is dependent on either a single or a combination of events occurring - obtaining additional financing through the issuance of debt or equity, and/or generating profit through its operations. There is a risk that additional financing will not be available on a timely basis or terms acceptable to the Company or that profitable operations are not achieved. These matters result in material uncertainties which may cast significant doubt on whether the Company will continue as a going concern.

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

The 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 the 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 classifications used.

Recent Accounting Pronouncements

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

New accounting standards issued but not yet in effect:

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

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

The amendments:

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

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

Related Party Balances and Transactions

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Key management compensation earned by officers and directors of the Company during the six months ended January 31, 2024, was $614,822 (2023 - $ 624,555). In addition, share-based compensation expense relating to key management for the six months ended January 31, 2024, was $185,276 (2023 - $ 108,246).

As at January 31, 2024, there was $9,975 (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 six month period ended January 31, 2024.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. As at January 31, 2024, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized, and reported within the periods specified under applicable securities legislation.

Internal controls over financial reporting:

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

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

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

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether there were changes to its ICFR during the three months ended January 31, 2024, that have materially affected or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Risk and Uncertainties

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

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

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Subsequent Events

The following transactions occurred subsequent to the reporting period:

i) On February 7, 2024, the Company granted 555,068 stock options to its directors, with a vesting period spanning three years.

ii) On February 8, 2024, 219,654 broker warrants were exercised and converted into common shares, for gross proceeds of $131,792.

iii) On February 21, 2024, an additional 153,758 broker warrants were exercised and converted into common shares, for gross proceeds of $92,255.

iv) On February 26, 2024, 17,500 stock options were exercised and converted into common shares for gross proceeds of $8,900.

Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of the date of this MD&A, the Company has 198,821,987 common shares issued and outstanding. In addition, there are 41,175,044 warrants which may be converted to one common share each at prices ranging from $0.60 to $0.75. The Company also has stock options outstanding to purchase an additional 11,287,954 common shares with exercise prices ranging from $0.38 to $1.83 per share.