



Condensed Consolidated Interim Financial Statements

For three and nine months ended April 30, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Financial Position

(Formerly "Patriot One Technologies Inc.")

(Expressed in Canadian Dollars)

(Unaudited)

	April 30, 2023	July 31, 2022
Assets		
Current assets		
Cash	\$ 8,550,913	\$ 6,277,321
Receivables (Note 4)	763,672	1,895,156
Prepaid expenses and deposits	691,507	668,650
Inventory (Note 5)	1,297,722	1,106,034
	11,303,814	9,947,161
Property and equipment (Note 6)	1,586,235	1,477,841
Intangible assets (Note 7)	5,045,175	5,649,600
Right of use assets (Note 8)	362,555	589,832
Investment in Gemina Labs (Note 13)	452,083	393,750
Total assets	\$ 18,749,862	\$ 18,058,184
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,219,569	\$ 2,639,082
Deferred revenue (Note 9)	447,320	196,651
Current portion of lease liability (Note 8)	277,942	320,435
	2,944,831	3,156,168
Non-current portion of lease liability (Note 8)	153,923	356,841
	\$ 3,098,754	\$ 3,513,009
Shareholders' equity		
Share capital (Note 10)	\$ 133,109,795	\$ 119,796,584
Contributed surplus	14,721,872	13,912,816
Accumulated deficit	(132,180,559)	(119,164,225)
	\$ 15,651,108	\$ 14,545,175
Total liabilities and shareholders' equity	\$ 18,749,862	\$ 18,058,184

Reporting entity (Note 1)

Basis of preparation (Note 2)

Subsequent events (Note 16)

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

Approved on behalf of the Board:

"Peter Evans"

Director, Chief Executive Officer

"Peter van der Gracht"

Director, Chairman of the Board



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Formerly "Patriot One Technologies Inc.")
(Expressed in Canadian Dollars)
(Unaudited)

	Three months ended April 30,		Nine months ended April 30,	
	2023	2022	2023	2022
Revenue (Note 9)	\$ 875,396	\$ 938,684	\$ 2,337,126	\$ 2,825,363
Expenses				
Sales and marketing	528,979	497,792	1,790,320	1,424,502
Research and development	1,297,590	1,944,283	4,749,415	2,377,958
General and administration	414,845	368,728	1,215,767	1,262,609
Personnel costs	1,351,164	1,393,957	4,163,390	3,535,599
Professional fees	172,678	94,101	596,419	637,989
Hardware (Note 5, 6)	244,159	5,245	657,494	206,748
Amortization (Note 7)	201,475	201,475	604,425	604,425
Depreciation (Notes 6, 8)	158,755	198,405	481,153	585,961
Share-based compensation (Note 10)	280,724	533,166	810,666	738,680
Loss on inventory (Note 5)	1,974	89,661	316,077	168,574
Loss on retirement of assets (Note 6)	22,967	36,352	104,241	36,352
	4,675,310	5,363,165	15,489,367	11,579,397
Loss from operations	3,799,914	4,424,481	13,152,241	8,754,034
Unrealized loss (gain) on investments	58,334	(14,583)	(58,333)	(160,417)
Interest and other income	(31,468)	(1,582)	(77,574)	(14,298)
Loss and comprehensive loss for the period	\$ 3,826,780	\$ 4,408,316	\$ 13,016,334	\$ 8,579,319
Weighted average number of shares (Note 10)	183,575,821	157,311,819	169,778,811	153,229,620
Basic and diluted loss per share	\$ 0.02	\$ 0.03	\$ 0.08	\$ 0.06

Grant Funding (Note 14)

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Formerly "Patriot One Technologies Inc.")
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
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 stock options	7,500	4,461	(1,610)	-	2,851
Shares issued on private placement financing	31,925,595	13,308,750	-	-	13,308,750
Share-based compensation (Note 10)	-	-	810,666	-	810,666
Loss for the period	-	-	-	(13,016,334)	(13,016,334)
Balance - April 30, 2023	195,112,317	\$ 133,109,795	\$ 14,721,872	\$ (132,180,559)	\$ 15,651,108
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	978,750	368,440	(103,353)	-	265,087
Shares issued on prospectus financing, net of share issue costs	11,471,850	4,850,041	1,264,176	-	6,114,217
Share-based compensation (Note 10)	-	-	738,680	-	738,680
Loss for the period	-	-	-	(8,579,319)	(8,579,319)
Balance - April 30, 2022	163,179,222	\$ 119,816,212	\$ 13,587,654	\$ (88,026,855)	\$ 45,377,011

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Formerly "Patriot One Technologies Inc.")
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(Unaudited)

	Nine months ended April 30,	
	2023	2022
Cash flow used in operating activities		
Loss and comprehensive loss for the period	\$ (13,016,334)	\$ (8,579,319)
Adjustment for:		
Share-based compensation (Note 10)	810,666	738,680
Depreciation (Notes 6, 8)	650,052	585,961
Amortization (Note 7)	604,425	604,425
Finance cost (Note 8)	34,165	52,368
Other income	(20,000)	-
Unrealized gain on investments	(58,333)	(160,417)
Gain on lease terminations	-	(707)
Loss on inventory (Note 5)	316,077	168,574
Loss on retirement of assets (Note 6)	104,241	36,352
	(10,575,041)	(6,554,083)
Changes in non-cash working capital		
Receivables	1,131,484	1,386,139
Prepaid expenses and deposits	(22,857)	(355,051)
Inventory	(1,110,636)	(540,590)
Accounts payable and accrued liabilities	(399,513)	1,118,793
Deferred revenue	250,669	(61,668)
Cash used in operating activities	(10,725,894)	(5,006,460)
Cash flow used in investing activities		
Purchase of property and equipment (Note 6)	(32,539)	(119,954)
Cash used in investing activities	(32,539)	(119,954)
Cash flow from financing activities		
Proceeds on issue of share capital, net of share issue costs	13,311,601	6,379,304
Lease payments (Note 8)	(279,576)	(294,652)
Cash received from financing activities	13,032,025	6,084,652
Net increase in cash for the period	\$ 2,273,592	\$ 958,238
Cash beginning of the period	6,277,321	9,652,493
Cash end of the period	\$ 8,550,913	\$ 10,610,731

Supplemental cash flow information (Note 12)

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



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Notes to the Condensed Consolidated Interim Financial Statements

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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 "OPL" 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.

The Company's head office is located at 400-257 Adelaide Street West, Toronto, Ontario, Canada, M5H 1X9, and its registered and records office is located at Bentall 5, 2501 - 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance with International Accounting Standard ("IAS 34"), Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed, and therefore, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements as at July 31, 2022. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on June 8, 2023.

(b) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, Xtract Detection, Patriot UK, Xtract US, EhEye, and Xtract. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity directly or indirectly so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account in the assessment of whether control exists. Subsidiaries are consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

All significant intercompany balances and transactions have been eliminated on consolidation.



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(c) Functional and presentation currency

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

(d) Basis of measurement

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

3. Significant accounting policies

The accounting policies, estimates, and judgments used in the preparation of these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended July 31, 2022, as these condensed consolidated interim financial statements follow the same accounting policies and methods of application.

(a) Significant accounting judgments, estimates, and assumptions

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

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

Share-based compensation

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

Deferred income tax assets and liabilities

The measurement of deferred income tax provision is subject to the uncertainty associated with the timing of future events and changes in legislation, tax rates, and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to the expiry of those deductions. Management assesses whether it is probable



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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 and depreciation and amortization of property and equipment and intangible assets

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Right-of-use lease assets and liabilities

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

Revenue recognition

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

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

Going concern

The preparation of the Company's condensed consolidated interim financial statements requires management to identify whether the Company and its subsidiaries will continue as a going concern,



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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 cashflows and is dependent on the Company's ability to obtain financing.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classification used.

(b) 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.



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Definition of Accounting Estimates (Amendments to IAS 8)

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

The amendments:

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

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

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

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

The amendments:

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



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4. Receivables

Receivables are comprised of the following:

	April 30, 2023	July 31, 2022
Trade receivables	\$ 475,203	\$ 724,605
ITB funding receivable	-	1,000,000
Taxes receivable	288,469	170,551
	\$ 763,672	\$ 1,895,156

As of April 30, 2023, the Company has not made a provision for uncollectible accounts (July 31, 2022 - \$nil).

5. Inventory

The Company's inventory consists primarily of hardware components that will be used in its safety and security product offerings:

	April 30, 2023	July 31, 2022
Components and work-in-progress	\$ 538,279	\$ 379,244
Finished goods	759,443	726,790
	\$ 1,297,722	\$ 1,106,034

During the nine months ended April 30, 2023, the Company recorded total inventory sold of \$488,595 (2022 - \$206,748) under hardware expense. The Company has reclassified inventory in the amount of \$585,921 (July 31, 2022 - \$327,345) to subscription and demo assets and \$16,950 (2022 - \$48,428) to office equipment under property and equipment. The Company recognized a loss on inventory for \$316,077 (2022 - \$168,574) related to obsolete inventory.



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6. Property and equipment

Details of the Company's property and equipment as at April 30, 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	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	16,950	-	-	-	585,921	-	602,871
Disposals	(28,762)	-	-	(111,898)	(80,458)	-	(221,118)
Balance at April 30, 2023	\$ 1,689,478	\$ 534,589	\$ 86,478	\$ 286,726	\$ 856,608	\$ 244,178	\$ 3,698,057
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	140,148	50,848	-	24,492	168,899	38,388	422,775
Disposals	(19,165)	-	-	(70,411)	(27,301)	-	(116,877)
Balance at April 30, 2023	\$ 1,073,018	\$ 457,241	\$ 86,478	\$ 188,732	\$ 181,380	\$ 124,973	\$ 2,111,822
Carrying amount as at July 31, 2022	\$ 749,255	\$ 128,196	\$ -	\$ 163,973	\$ 311,363	\$ 125,054	\$ 1,477,841
Carrying amount as at April 30, 2023	\$ 616,460	\$ 77,348	\$ -	\$ 97,994	\$ 675,228	\$ 119,205	\$ 1,586,235

During the nine months ended April 30, 2023, the Company disposed of \$104,241 (2022 - \$36,352) of property and equipment. There were no proceeds from the disposal, 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 \$168,899 (2022 - \$12,686) under hardware expense.



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7. Intangible assets

The carrying values of intangible assets as at April 30, 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 April 30, 2023	\$ 6,574,000	\$ 1,250,000	\$ 235,000	\$ 8,059,000
Accumulated amortization				
Balance at July 31, 2022	\$ 2,001,025	\$ 343,750	\$ 64,625	\$ 2,409,400
Amortization	493,050	93,750	17,625	604,425
Balance at April 30, 2023	\$ 2,494,075	\$ 437,500	\$ 82,250	\$ 3,013,825
Carrying amount as at July 31, 2022	\$ 4,572,975	\$ 906,250	\$ 170,375	\$ 5,649,600
Carrying amount as at April 30, 2023	\$ 4,079,925	\$ 812,500	\$ 152,750	\$ 5,045,175

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 seven years.

EhEye - Intellectual property

In connection with the acquisition of EhEye during the year ended July 30, 2019, the Company has 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 seven 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



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development costs over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately seven years.

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 nine months ended April 30, 2023, and the year ended July 31, 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	-	66,632
Lease payments	-	(367,652)
As at July 31, 2022	\$ 589,832	\$ 677,276
Depreciation	(227,277)	-
Finance costs (Note 12)	-	34,165
Lease payments	-	(279,576)
As at April 30, 2023	\$ 362,555	\$ 431,865

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

Fiscal year	Amount
2023	\$ 83,096
2024	250,140
2025	129,810
Effects of discounting	(31,181)
Right of use liabilities	\$ 431,865
Current portion of right of use liabilities	(277,942)
Non-current portion of right of use liabilities	\$ 153,923

During the nine months ended April 30, 2023, there were no short term or low value leases recorded (April 30, 2022 - \$nil).



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9. Revenue

Revenue recognized during the nine months ended April 30, 2023, relates to Platform and Xtract revenue.

The Company recognized \$1,950,431 (2022 - \$506,040) in revenue related to the sale of, subscription to use, the Platform during the nine months ended April 30, 2023. As at April 30, 2023, accounts receivable for Platform revenue was \$339,821 (July 31, 2022 - \$87,252) and deferred revenue was \$447,320 (July 31, 2022 - \$196,651).

The Company recognized \$386,695 (2022 - \$2,319,323) in revenue from Xtract during the nine months ended April 30, 2023. As at April 30, 2023, accounts receivable for work completed on contracts was \$135,382 (July 31, 2022 - \$637,353), and there was no deferred revenue recorded (July 31, 2022 - \$nil). The majority of the receivable balance is due from the federal government and is not subject to significant collection risk.

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 April 30,	
				2023	2022
	Less than one year	Greater than one year			
Platform revenue	\$ 1,394,539	\$ 1,733,626	\$ 3,128,165	\$ 1,203,973	
Xtract revenue	332,054	189,368	521,422	1,435,240	
Total backlog*	\$ 1,726,593	\$ 1,922,994	\$ 3,649,587	\$ 2,639,213	

* Backlog figures exclude contracted sales that are pending installation.

10. Share capital

Authorized Capital

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



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Share Capital

The issued and outstanding share capital is as follows:

	Nine months ended April 30, 2023		Year ended July 31, 2022	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	163,179,222	\$ 119,796,584	150,728,622	\$ 114,597,731
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	7,500	4,461	978,750	368,440
Balance end of period	195,112,317	\$ 133,109,795	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.

Warrants

Warrant activity for the nine months ended April 30, 2023, and the year ended July 31, 2022, is as follows:

	Nine months ended April 30, 2023		Year ended July 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	12,253,561	0.74	-	\$ -
Warrants issued on financing	31,925,595	0.60	12,253,561	0.74
Balance end of period	44,179,156	\$ 0.64	12,253,561	\$ 0.74



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As at April 30, 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	11
11,471,850	\$ 0.75	March 17, 2025	23
20,000,000	\$ 0.60	February 10, 2028	57
11,925,595	\$ 0.60	April 12, 2028	59
44,179,156	\$ 0.64		48

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 (RSUs), deferred share units (DSUs), performance share units (PSUs) 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 nine months ended April 30, 2023, and the year ended July 31, 2022, other than stock options as discussed herein, no other incentive awards were issued or outstanding pursuant to the Omnibus Plan.

The stock option activity for the nine months ended April 30, 2023, and the year ended July 31, 2022, is as follows:

	Nine months ended April 30, 2023		Year ended July 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	9,758,579	\$ 0.91	10,024,270	\$ 1.00
Granted	2,954,348	0.50	4,563,750	0.64
Exercised	(7,500)	0.38	(978,750)	0.27
Forfeited / Expired	(2,803,079)	1.07	(3,850,691)	1.00
Balance end of period	9,902,348	\$ 0.74	9,758,579	\$ 0.91

During the nine months ended April 30, 2023, the Company recognized share-based compensation related to stock options of \$810,666 (2022 - \$738,680).



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

	Nine months ended April 30,	
	2023	2022
Expected life	3.8 years	3.8 years
Expected market volatility of shares	76.0%	74.0%
Share price	\$ 0.50	\$ 0.65
Expected dividend rate	0%	0%
Exercise price	\$ 0.50	\$ 0.65
Risk-free interest rate	2.98%	2.07%
Weighted average fair value per option granted	\$ 0.268	\$ 0.347



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Details of the outstanding stock options as at April 30, 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	3.9	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	4.0	200,000	\$ 1.80
305,000	\$ 2.48	October 15, 2023	5.5	305,000	\$ 2.48
355,000	\$ 1.81	July 3, 2024	14.1	355,000	\$ 1.81
30,000	\$ 1.83	July 25, 2024	14.8	30,000	\$ 1.83
70,000	\$ 1.81	September 6, 2024	16.2	70,000	\$ 1.81
150,000	\$ 1.21	December 23, 2024	19.8	150,000	\$ 1.21
75,000	\$ 1.37	January 21, 2025	20.7	75,000	\$ 1.37
80,000	\$ 0.76	April 13, 2025	23.4	80,000	\$ 0.76
30,000	\$ 0.69	May 11, 2025	24.4	22,500	\$ 0.69
250,000	\$ 0.97	August 10, 2025	27.3	187,500	\$ 0.97
75,000	\$ 0.69	September 15, 2025	28.5	56,250	\$ 0.69
80,000	\$ 0.56	October 29, 2025	30.0	60,000	\$ 0.56
720,000	\$ 0.57	November 11, 2025	30.4	540,000	\$ 0.57
60,000	\$ 0.49	March 22, 2026	34.7	60,000	\$ 0.49
1,060,000	\$ 0.52	June 15, 2026	37.5	530,000	\$ 0.52
215,000	\$ 0.43	October 25, 2026	41.8	107,500	\$ 0.43
20,000	\$ 0.44	November 1, 2026	42.0	10,000	\$ 0.44
135,000	\$ 0.44	December 8, 2026	43.3	135,000	\$ 0.44
1,802,500	\$ 0.73	February 16, 2027	45.5	913,750	\$ 0.73
100,000	\$ 0.54	April 1, 2027	47.0	50,000	\$ 0.54
150,000	\$ 0.54	April 4, 2027	47.1	75,000	\$ 0.54
25,000	\$ 0.56	April 6, 2027	47.2	12,500	\$ 0.56
700,000	\$ 0.57	April 13, 2027	47.4	350,000	\$ 0.57
250,000	\$ 0.46	June 14, 2027	49.5	250,000	\$ 0.46
125,000	\$ 0.42	July 11, 2027	50.4	125,000	\$ 0.42
1,091,500	\$ 0.38	October 3, 2027	53.1	278,375	\$ 0.38
1,000,000	\$ 0.50	January 13, 2028	56.4	1,000,000	\$ 0.50
448,348	\$ 0.69	March 17, 2028	58.6	448,348	\$ 0.69
250,000	\$ 0.75	April 24, 2028	59.8	62,500	\$ 0.75
9,902,348	\$ 0.74		41.4	6,589,223	\$ 0.82

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the nine months ended April 30, 2023, and 2022, as these instruments are anti-dilutive.



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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 nine months ended April 30, 2023, was \$939,561 (2022 - \$883,547). In addition, share-based compensation expense relating to key management for the nine months ended April 30, 2023, was \$578,068 (2022 - \$183,027).

As at April 30, 2023, there are no outstanding amounts (July 31, 2022 - \$nil) 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 nine months ended April 30, 2023.

12. Supplemental cash flow information

Non-cash financing and investing activities during the nine months ended April 30, 2023 conducted by the Company are as follows:

Transfer of inventory to property and equipment (Note 6)	\$	602,871
Transfer of contributed surplus on the exercise of stock options	\$	1,610

Non-cash financing and investing activities during the nine months ended April 30, 2022 conducted by the Company are as follows:

Fair value of 781,711 warrants issued for broker fees	\$	144,460
Fair value of 11,471,850 warrants issued to investors	\$	1,119,716
Transfer of inventory to property and equipment (Note 6)	\$	96,487
Transfer of contributed surplus on exercise of stock options	\$	103,353

No cash was paid toward income taxes during the nine months ended April 30, 2023, and 2022. The Company paid interest expense embedded in its lease payments of \$34,165 during the nine months ended April 30, 2023 (2022 - \$52,368).

13. Financial instruments and risk management

As at April 30, 2023, the Company's financial instruments comprise of cash, receivables, investment in Gemina Laboratories Ltd. ("Gemina Labs"), 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 other financial instruments, cash, and investment in Gemina Labs 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:



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Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data (unobservable inputs).

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

	As at April 30, 2023				Total
	Level 1	Level 2	Level 3		
Cash	\$ 8,550,913	\$ -	\$ -	\$	8,550,913
Investment in Gemina Labs	452,084	-	-		452,084
Balance end of period	\$ 9,002,997	\$ -	\$ -	\$	9,002,997

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

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 April 30, 2023, the Company had current assets of \$11,303,814 (July 31, 2022 - \$9,947,161) to settle current liabilities of \$2,944,831 (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 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 receivables.



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Market risk

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

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, and 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 April 30, 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 April 30, 2023, so its exposure to price risk is insignificant.

14. Grant funding

Non-dilutive funding received by the Company for the nine months ended April 30, 2023, and April 30, 2022, are as follows:

	Nine months ended April 30,	
	2023	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 nine months ended April 30, 2023, is unaffected at \$13,016,333 compared to a revised amount of \$11,860,089 for the same period ended April 30, 2022.



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15. Segmented information

Operating segments

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

The accounting policies of the operating segments are the same as those described in the summary of 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 nine months ended April 30, 2023 and April 30, 2022:



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	For the nine months ended April 30, 2023		
	Platform	Xtract	Total
Revenue	\$ 1,950,431	\$ 386,695	\$ 2,337,126
Expenses			
Sales and marketing	1,790,172	148	1,790,320
Research and development	4,293,656	455,759	4,749,415
General and administration	1,214,295	1,472	1,215,767
Personnel costs	3,836,056	327,334	4,163,390
Professional fees	541,649	54,770	596,419
Hardware	657,494	-	657,494
Amortization	604,425	-	604,425
Depreciation	386,756	94,397	481,153
Share-based compensation	828,596	(17,930)	810,666
Loss on inventory	316,077	-	316,077
Loss on retirement of assets	104,241	-	104,241
	14,573,417	915,950	15,489,367
Loss from operations	12,622,986	529,255	13,152,241
Unrealized gain on investment	(58,333)	-	(58,333)
Interest and other income	(53,544)	(24,030)	(77,574)
Loss and comprehensive loss for the period	\$ 12,511,109	\$ 505,225	\$ 13,016,334
Non-current asset additions	\$ -	\$ 32,539	\$ 32,539
Finance cost ⁽¹⁾	\$ 16,438	\$ 17,727	\$ 34,165
As at April 30, 2023			
Current assets	\$ 11,048,139	\$ 255,675	\$ 11,303,814
Current liabilities	\$ 1,764,346	\$ 1,180,485	\$ 2,944,831

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



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	For the nine months ended April 30, 2022		
	Platform	Xtract	Total
Revenue	\$ 506,040	\$ 2,319,323	\$ 2,825,363
Expenses			
Sales and marketing	1,364,502	60,000	1,424,502
Research and development	1,170,409	1,207,549	2,377,958
General and administration	1,057,357	205,252	1,262,609
Personnel costs	3,152,466	383,133	3,535,599
Professional fees	604,061	33,928	637,989
Hardware	206,748	-	206,748
Amortization	604,425	-	604,425
Depreciation	491,469	94,492	585,961
Share-based compensation	690,787	47,893	738,680
Loss on inventory	168,574	-	168,574
Loss on retirement of assets	36,352	-	36,352
	9,547,150	2,032,247	11,579,397
Loss (profit) from operations	9,041,110	(287,076)	8,754,034
Unrealized gain on investment	(160,417)	-	(160,417)
Interest and other income	(14,298)	-	(14,298)
Loss (profit) and comprehensive loss (profit) for the period	\$ 8,866,395	\$ (287,076)	\$ 8,579,319
Non-current asset additions	\$ 119,954	\$ -	\$ 119,954
Finance cost ⁽¹⁾	\$ 30,189	\$ 22,179	\$ 52,368
As at April 30, 2023			
Current assets	\$ 12,400,595	\$ 2,525,685	\$ 14,926,280
Current liabilities	\$ 1,428,450	\$ 1,506,981	\$ 2,935,431

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



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Geographic Breakdown

The Platform segment currently operates in Canada and the United States. Xtract currently only operates within Canada.

	For nine months ended April 30, 2023			As at April 30, 2023		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ -	\$ 386,695	\$ 386,695	\$ 2,371,477	\$ 289,167	\$ 2,660,644
United States	1,950,431	-	1,950,431	4,785,404	-	4,785,404
Total	\$ 1,950,431	\$ 386,695	\$ 2,337,126	\$ 7,156,881	\$ 289,167	\$ 7,446,048

	For nine months ended April 30, 2022			As at July 31, 2022		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ 88,182	\$ 2,319,323	\$ 2,407,505	\$ 2,857,177	\$ 351,025	\$ 3,208,202
United States	417,858	-	417,858	4,902,821	-	4,902,821
Total	\$ 506,040	\$ 2,319,323	\$ 2,825,363	\$ 7,759,998	\$ 351,025	\$ 8,111,023

16. Subsequent events

Subsequent to the period ended April 30, 2023, 2,630,700 warrants and 36,500 stock options were exercised and converted to Common Shares for gross proceeds of \$1,973,025 and \$22,650 respectively.