
**Blackline Safety Corp.
Unaudited Condensed Consolidated
Interim Financial Statements**

For the three and nine-month periods ended July 31, 2022



Blackline Safety Corp.
Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of CAD)	July 31, 2022	October 31, 2021 (revised, note 2a)	November 1, 2020 (revised, note 2a)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10,487	34,433	28,523
Short-term investments	-	20,083	23,000
Trade and other receivables	16,808	20,256	11,602
Inventory	18,624	12,710	10,771
Prepaid expenses and advances	3,887	2,639	1,400
Contract assets	890	531	499
Total current assets	50,696	90,652	75,795
NON-CURRENT ASSETS			
Property and equipment (Note 4)	11,288	9,866	8,562
Intangible assets	2,190	2,417	802
Right-of-use assets	1,869	2,234	1,486
Goodwill (Note 14)	4,883	-	-
Contract assets	1,389	781	224
Other receivables	6,587	3,353	1,740
Total non-current assets	28,206	18,651	12,814
TOTAL ASSETS	78,902	109,303	88,609
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and other accrued liabilities (Note 3 (b)(iii))	16,632	14,566	6,166
Warranty provision	1,231	1,018	838
Deferred revenue	15,213	10,859	9,288
Contract liabilities (Note 3 (b)(iii))	1,115	920	632
Lease liabilities (Note 3 (b)(iii))	911	784	497
Total current liabilities	35,102	28,147	17,421
NON-CURRENT LIABILITIES			
Warranty provision	559	555	306
Deferred revenue	7,006	5,008	3,289
Contract liabilities (Note 3 (b)(iii))	1,504	665	202
Lease liabilities (Note 3 (b)(iii))	1,115	1,590	1,064
Total non-current liabilities	10,184	7,818	4,861
TOTAL LIABILITIES	45,286	35,965	22,282
SHAREHOLDERS' EQUITY			
Share capital (Note 8)	170,458	168,139	128,159
Contributed surplus	10,991	10,747	9,271
Accumulated other comprehensive loss	(614)	(2,036)	(896)
Deficit	(147,219)	(103,512)	(70,207)
TOTAL SHAREHOLDERS' EQUITY	33,616	73,338	66,327
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	78,902	109,303	88,609

Subsequent events (Note 15)

See accompanying notes to the condensed consolidated interim financial statements

Blackline Safety Corp.
Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited, in thousands of CAD, except per share amounts)	Three-months ended July 31,		Nine-months ended July 31,	
	2022	2021	2022	2021
Revenues (Notes 9 and 10)				
Product revenue	8,910	5,282	24,092	13,682
Service revenue	9,657	7,411	26,809	21,364
Total revenues	18,567	12,693	50,901	35,046
Cost of sales (Note 10)	10,293	6,834	29,179	17,670
Gross margin (Note 10)	8,274	5,859	21,722	17,376
Expenses (Notes 5 and 10)				
General and administrative expenses	6,164	4,091	17,325	11,092
Sales and marketing expenses	9,660	7,372	27,498	17,181
Product research and development costs	7,517	4,361	19,115	11,725
Foreign exchange loss (gain) (Note 3 (b)(i))	1,264	313	1,504	1,083
Total expenses	24,605	16,137	65,442	41,081
Results from operating activities	(16,331)	(10,278)	(43,720)	(23,705)
Finance income, net	38	38	160	142
Net loss before income tax	(16,293)	(10,240)	(43,560)	(23,563)
Income tax recovery (expense)	2	(17)	(147)	(136)
Net loss	(16,291)	(10,257)	(43,707)	(23,699)
Other comprehensive loss:				
Foreign exchange translation gain (loss) on foreign operations	1,753	3	1,422	284
Comprehensive loss for the period	(14,538)	(10,254)	(42,285)	(23,415)
Loss per common share (Note 12):				
Basic and diluted	(0.27)	(0.19)	(0.72)	(0.44)

See accompanying notes to the condensed consolidated interim financial statements

Blackline Safety Corp.
Condensed Consolidated Statements of Changes in Equity

(Unaudited, in thousands of CAD)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance as at October 31, 2020	128,159	9,271	(896)	(70,207)	66,327
Net Loss	-	-	-	(23,699)	(23,699)
Foreign exchange translation on foreign operations	-	-	284	-	284
Stock options exercised (Note 8)	1,478	(381)	-	-	1,097
Stock-based compensation expense (Notes 8 and 11)	412	1,761	-	-	2,173
Balance as at July 31, 2021	130,049	10,651	(612)	(93,906)	46,182
Balance as at October 31, 2021	168,139	10,747	(2,036)	(103,512)	73,338
Net Loss	-	-	-	(43,707)	(43,707)
Foreign exchange translation on foreign operations	-	-	1,422	-	1,422
Stock options exercised (Note 8)	335	(114)	-	-	221
Stock-based compensation expense (Notes 8 and 11)	430	358	-	-	788
Shares issued in connection with business combination (Notes 8 and 14 (a))	1,554	-	-	-	1,554
Balance as at July 31, 2022	170,458	10,991	(614)	(147,219)	33,616

See accompanying notes to the condensed consolidated interim financial statements

Blackline Safety Corp.
Condensed Consolidated Statements of Cash Flows

(Unaudited, in thousands of CAD)	Three-months ended July 31,		Nine-months ended July 31,	
	2022	2021	2022	2021
Operating activities				
Net loss	(16,291)	(10,257)	(43,707)	(23,699)
Depreciation and amortization	1,755	1,324	4,889	3,627
Stock-based compensation expense	178	263	359	1,761
Finance income, net	30	(146)	14	(279)
Unrealized foreign exchange (gain) loss	(4)	(128)	(75)	(128)
Loss (gain) on disposals of property and equipment	160	(145)	248	(78)
Net changes in non-cash working capital (Note 13)	(5,369)	2,913	1,246	3,206
Net cash provided by (used in) operating activities	(19,541)	(6,176)	(37,026)	(15,590)
Financing activities				
Proceeds from share issuances and option exercises	241	627	653	1,509
Repayment of bank indebtedness	-	(138)	-	(138)
Repayment of lease liabilities	(248)	(158)	(692)	(407)
Net cash provided by (used in) financing activities	(7)	331	(39)	964
Investing activities				
Purchase of short-term investments	-	-	-	(22,050)
Redemption of short-term investments	8,046	7,021	20,083	29,031
Finance income, net	23	58	60	128
Purchase of property, equipment, and intangible assets	(1,034)	(1,183)	(5,478)	(3,305)
Business acquisition (Note 14)	-	-	(2,987)	(878)
Net changes in non-cash working capital (Note 13)	(23)	(38)	(147)	(212)
Net cash provided by (used in) investing activities	7,012	5,858	11,531	2,714
Effect of foreign exchange changes on cash and cash equivalents	1,031	572	1,588	493
Net increase (decrease) in cash and cash equivalents	(11,505)	585	(23,946)	(11,419)
Cash and cash equivalents, beginning of period	21,992	16,519	34,433	28,523
Cash and cash equivalents, end of period	10,487	17,104	10,487	17,104

Supplementary cash flow information (Note 13)

See accompanying notes to the condensed consolidated interim financial statements

Blackline Safety Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

1. Nature of operations

Blackline Safety Corp. (the "Company") is a global connected safety technology company that develops, manufactures and markets products and services that empower businesses with real-time safety insights to manage emergency responses, evacuations and gas detection compliance programs. The Company is a public company listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "BLN" and is incorporated and domiciled in Canada.

The Company's principal business office is Unit 100, 803 24 Avenue S.E., Calgary, Alberta, T2G 1P5 and the Company's registered office is Suite 2400, 525 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on September 13, 2022.

2. Summary of significant accounting policies

a) Basis of preparation

The condensed consolidated interim financial statements and accompanying notes have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended October 31, 2021, other than as described in Note 2 (b).

These condensed consolidated interim financial statements do not contain all the disclosures required for full annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended October 31, 2021.

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. This includes warranty provision which has been reclassified on the condensed consolidated statements of financial position and non-cash working capital changes on the condensed consolidated statements of cash flows.

b) Changes in accounting policy and disclosures

i) New and amended standards adopted by the Company

There were no new or amended standards that became applicable and were adopted by the Company for the current reporting period.

ii) New standards and interpretations not yet adopted

Certain new and amended accounting standards and interpretations have been published that are not mandatory for the July 31, 2022 reporting period and have not been early adopted by the Company.

There are no standards that are not yet effective that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Blackline Safety Corp.

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For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

3. Financial instruments and risk management

a) Financial instruments

The carrying value of the Company's cash and cash equivalents, short-term investments, trade and other receivables and accounts payable and other accrued liabilities, bank indebtedness, contract liabilities and lease liabilities approximate their fair values.

The Company's risk exposure to various risks associated with the financial instruments is discussed in note 3 b). The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

b) Financial risk management

The Company's risk management includes foreign exchange risk, interest rate risk, credit risk and liquidity risk.

i. Market risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, including U.S. dollar ("USD"), British pound ("GBP"), Euro ("EUR") and Australian dollar ("AUD"). Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Company's policy with respect to foreign currency risk management is to obtain natural hedges of revenue and expenses to the extent possible. The Company does not speculate in foreign currency and remains at risk to the market where natural hedges are not in place.

Sensitivity

The Company is primarily exposed to changes in USD/CAD, GBP/CAD, EUR/CAD and AUD/CAD exchange rates. The sensitivity of profit or loss to changes in exchange rates arises mainly from USD, GBP, EUR and AUD denominated cash and cash equivalents, short-term investments, trade and other receivables and accounts payable and other accrued liabilities.

For the three and nine-month periods ended July 31, 2022 and 2021, if the Canadian dollar had weakened/strengthened by 1% against the USD, GBP, EUR and AUD with all other variables held constant, the impact on net loss for the periods would not have been significant.

Interest rate risk

The Company's interest rate risk arises from its cash and cash equivalents with variable rates which exposes the Company to cash flow interest rate risk. The Company's short-term investments have fixed interest rates.

Exposure

The Company's cash and cash equivalents are subject to variable interest rate changes and the fixed interest rate short-term investments have contractual repricing dates of six months or less.

Sensitivity

The net loss of the Company is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. For the three and nine-month periods ended July 31, 2022 and 2021, if the interest rate had increased/decreased by 1%, with all other variables held constant, the impact on net loss for the periods would not have been significant.

Blackline Safety Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

ii. Credit risk

Credit risk arises from cash and cash equivalents, short-term investments held with banks as well as credit exposure to customers, including outstanding trade accounts receivables.

Risk management

Credit risk is managed consistently across the Company. The cash and cash equivalents are comprised of cash and highly liquid short-term deposits with three Canadian chartered banks, a United States chartered bank, two UK plc banks and a French bank. Bank indebtedness is comprised of the amount drawn, if any, on the Company's demand operating line of credit facility with a Canadian chartered bank. The Company only deals with highly rated financial institutions.

The Company assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings with compliance with credit limits regularly monitored. There is no concentration of credit risk as the Company sells to diverse verticals and geographic markets.

Sales to certain customers, or customers without credit terms, are required to be settled in cash or using major credit cards, mitigating credit risk.

iii. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period, the Company held cash and cash equivalents of \$10,487 (October 31, 2021: \$34,433) that are readily available for managing liquidity risk. Due to the dynamic nature of the underlying business, the Company maintains flexibility in funding by maintaining availability under a demand operating line of credit facility.

Management maintains a forward-looking cash requirement forecast, comprising cash and cash equivalents, short-term investments and a demand operating line of credit with a Canadian chartered bank. This ensures that funds are readily available to meet financial obligations as they become due, as well as ensuring that adequate funds exist to support business strategies.

The Company has financed its activities primarily through short-term investments, cash flows from operations, funds from brokered and non-brokered private placements, bought deal short-form prospectuses, a bank demand operating line of credit facility and government assistance in the form of repayable debt. The ability to sustain operations is dependent on successfully commercializing its products, continuing to increase sales of the Company's products and services and, if required, the ability to raise additional equity through financing. Subsequent to July 31 the Company raised additional proceeds via a prospectus offering and concurrent private placement (Note 15 (b)). The Company believes it has sufficient funds and access to capital for at least the next 12 months.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

Maturity of financial liabilities

The tables below analyze the Company's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows. The undiscounted cash flows equal the carrying value, with the exception of lease liabilities.

	Less than 6 months	6 – 12 months	Over 1 year	Total contractual cash flows	Carrying amount
(CAD thousands)					
As at July 31, 2022					
Accounts payable and other accrued liabilities	15,625	1,007	-	16,632	16,632
Contract liabilities	703	412	1,504	2,619	2,619
	16,328	1,419	1,504	19,251	19,251
Lease liabilities	474	475	1,206	2,155	2,026
Total	16,802	1,894	2,710	21,406	21,277
As at October 31, 2021					
Accounts payable and other accrued liabilities	13,368	1,198	-	14,566	14,566
Contract liabilities	657	263	665	1,585	1,585
	14,025	1,461	665	16,151	16,151
Lease liabilities	428	462	1,692	2,582	2,374
Total	14,453	1,923	2,357	18,733	18,525

4. Property and equipment

	November 1, 2021	Foreign exchange differences	Additions	Other Disposals & Transfers	Depreciation	Net book value July 31, 2022
(CAD thousands)						
SMT equipment	1,180	-	410	-	144	1,446
Manufacturing equipment	999	(7)	610	(59)	361	1,182
Furniture and equipment	378	(9)	180	(1)	129	419
Equipment leased under 'G7 Lease program	797	-	52	-	263	586
Rental equipment	643	(6)	1,596	-	264	1,969
Cartridges	4,127	-	1,574	(139)	1,935	3,627
Computer hardware	737	(16)	875	(73)	463	1,060
Evaluation kits	262	-	176	(8)	38	392
Leasehold improvements	743	(4)	129	1	262	607
Total	9,866	(42)	5,602	(279)	3,859	11,288

Blackline Safety Corp.**Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

	July 31, 2022		
	Cost	Accumulated depreciation	Net book value
(CAD thousands)			
SMT equipment	2,045	599	1,446
Manufacturing equipment	2,464	1,282	1,182
Furniture and equipment	909	490	419
Equipment leased under 'G7 Lease' program	2,555	1,969	586
Rental equipment	2,381	412	1,969
Cartridges	10,342	6,715	3,627
Computer hardware	2,045	985	1,060
Evaluation kits	511	119	392
Leasehold improvements	1,397	790	607
Total	24,649	13,361	11,288

	October 31, 2021		
	Cost	Accumulated depreciation	Net book value
(CAD thousands)			
SMT equipment	1,635	455	1,180
Manufacturing equipment	1,938	939	999
Furniture and equipment	748	370	378
Equipment leased under 'G7 Lease' program	2,513	1,716	797
Rental equipment	792	149	643
Cartridges	9,011	4,884	4,127
Computer hardware	1,304	567	737
Evaluation kits	375	113	262
Leasehold improvements	1,271	528	743
Total	19,587	9,721	9,866

Additions to the cartridge asset category represents the modular cartridge options, including gas sensors, used in the Company's principal safety product devices which generate service revenue for the Company.

5. Government assistance

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy ("CEWS") that was available to any employer, subject to eligibility criteria, whose business had been adversely affected by COVID-19. The Company received wage subsidy funding of \$74 and \$1,440 for the three and nine-months ended July 31, 2021, respectively which has been recorded as a reduction in related payroll expenses in the condensed consolidated statements of loss and comprehensive loss.

The CEWS program ended on October 23, 2021 and no additional funding was received during the three and nine-months ended July 31, 2022.

Blackline Safety Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

6. Bank indebtedness

At July 31, 2022, the Company had a demand operating line of credit ("loan facility") of up to \$15,000 with a Canadian chartered bank. The loan facility bore interest at the Canada prime rate plus 1.97% for CAD advances or U.S. base rate plus 1.97% for USD advances. The borrowing base for the operating line of credit was determined using a formula driven by the Company's monthly recurring revenue. The loan facility also included a credit card facility and a facility for the sale or purchase of foreign currencies and other treasury products.

The loan facility included general covenants that the Company tested quarterly, including a financial covenant to maintain a minimum cash to cash burn ratio of 12.0 to 1.0. The Company did not fulfill the cash to cash burn ratio as at July 31, 2022. The Company did not have an outstanding loan payable as at July 31, 2022 and as such, the Company did not incur any negative financial implications.

The Company entered into a non-binding term sheet with a different Canadian financial institution subsequent to the period. The loan facility was cancelled with mutual agreement in August 2022. Refer to Note 15 (a).

7. Leasing arrangements

The Company leases certain of its safety monitoring equipment to customers through the Company's 'G7 Lease' program with monthly payments. The terms of the lease determine whether the G7 Lease is accounted for as an operating or finance lease within the meaning of IFRS 16 *Leases*. Total payments due to the Company under non-cancellable operating lease contracts were \$1,379 as at July 31, 2022 (October 31, 2021: \$2,607).

The total undiscounted payments under non-cancellable finance lease contracts for the right to use the equipment and safety monitoring services of the Company are as follows:

(CAD thousands)	July 31, 2022	October 31, 2021
Within one year	10,718	5,233
Later than one year but not later than five years	20,434	11,029
Later than five years	-	-
Total	31,152	16,262

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

8. Share capital

a) Authorized

The Company is authorized to issue an unlimited number of common voting shares without nominal or par value and an unlimited number of preferred shares without nominal or par value.

b) Issued

(CAD thousands)	Number of Shares	Amount \$
As at October 31, 2020	54,296	128,159
Options exercised	289	1,478
Issued through stock-based compensation plan	50	412
As at July 31, 2021	54,635	130,049
As at October 31, 2021	60,222	168,139
Options exercised	83	335
Issued through stock-based compensation plan	98	430
Shares issued in connection with business combination	271	1,554
As at July 31, 2022	60,674	170,458

During the nine-month period ended July 31, 2022, 83 common share options were exercised for proceeds net of income tax withholdings of \$221. On exercise of these common share options, \$114 was credited to share capital from contributed surplus.

During the nine-month period ended July 31, 2021, 289 common share options were exercised for cash proceeds net of income tax withholdings of \$1,097. On exercise of these common share options, \$381 was credited to share capital from contributed surplus.

9. Revenue from contracts with customers

The disaggregation of the Company's revenue from contracts with customers was as follows:

(CAD thousands)	Three-months ended July 31,		Nine-months ended July 31,	
Revenue	2022	2021	2022	2021
Product revenue	8,910	5,282	24,092	13,682
Software services revenue	8,250	6,542	23,464	18,707
Operating lease revenue	560	767	1,807	2,378
Rental revenue	847	102	1,538	279
Total revenues	18,567	12,693	50,901	35,046
Timing of revenue recognition				
At a point in time	8,840	5,262	23,918	13,645
Over time	9,727	7,431	26,983	21,401
Total revenues	18,567	12,693	50,901	35,046

Blackline Safety Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

10. Segment information

The Chief Executive Officer is the Company's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Chief Executive Officer for the purposes of allocating resources and assessing performance.

The Chief Executive Officer considers the business performance from a product and service perspective. The product revenues are driven by sales of the Company's suite of safety products with the service revenue generated by the monitoring and the support of those products. There are no sales between segments and revenue from external parties is measured in a manner consistent with that in the condensed consolidated statement of loss and comprehensive loss. The Company's expenses, finance income and costs, assets and liabilities are not allocated to reportable segments.

(CAD thousands)	Three-months ended July 31,		Nine-months ended July 31,	
	2022	2021	2022	2021
Revenue				
Product	8,910	5,282	24,092	13,682
Service	9,657	7,411	26,809	21,364
Total Revenues	18,567	12,693	50,901	35,046
Cost of sales				
Product	7,409	4,620	20,898	11,090
Service	2,884	2,214	8,281	6,580
Cost of sales	10,293	6,834	29,179	17,670
Gross margin				
Product	1,501	662	3,194	2,592
Service	6,773	5,197	18,528	14,784
Gross margin	8,274	5,859	21,722	17,376
General and administrative expenses	6,164	4,091	17,325	11,092
Sales and marketing expenses	9,660	7,372	27,498	17,181
Product research and development costs	7,517	4,361	19,115	11,725
Foreign exchange loss (gain)	1,264	313	1,504	1,083
Finance (income), net	(38)	(38)	(160)	(142)
Net loss before income tax	(16,293)	(10,240)	(43,560)	(23,563)
Income tax recovery (expense)	2	(17)	(147)	(136)
Net loss	(16,291)	(10,257)	(43,707)	(23,699)

In the three and nine-month periods ended July 31, 2022 and 2021, there were no customers representing greater than 10% of the Company's revenue.

Revenues from external customers and distributors by country/geographic area are as follows:

(CAD thousands)	Three-months ended July 31,		Nine-months ended July 31,	
	2022	2021	2022	2021
Canada	4,837	2,873	13,282	9,654
United States	8,654	4,936	22,535	13,360
Europe	3,955	4,201	11,943	10,220
Rest of World ⁽¹⁾	1,121	683	3,141	1,812
Total revenues	18,567	12,693	50,901	35,046

(1) The Company's rest of world market is primarily in Asia, the Middle East, Australia and New Zealand and is not directly impacted by ongoing military conflict between Russia and Ukraine.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

11. Stock-based compensation

The Company has established a stock-based compensation plan ("stock option plan" or the "plan") which was approved by shareholders at the prior year annual general meeting. The purpose of the stock option plan is to provide long-term incentives for directors, officers, employees and consultants of the Company to deliver long-term shareholder returns.

Participation in the plan is at the Board of Directors' discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Options granted under the plan are for no consideration and carry no dividend or voting rights. The plan allows for the purchase of one common share for each option granted, at the volume weighted average trading price for five days prior to the date of grant, subject to certain conditions being met.

The number of options that are expected to be exercised depends on the Company's share price as listed on the TSX. Options granted under the plan vest over an immediate to three-year period. For those options which vest immediately, they remain exercisable for a period of five years and for those options which are fully vested after three years, the options remain exercisable for a period of two years after vesting.

	Number of options	Weighted average price per stock option \$
(CAD thousands, except per stock option amounts)		
As at October 31, 2020	3,214	4.67
Vested and exercisable at October 31, 2020	2,784	4.68
Granted during the period	1,581	8.22
Exercised during the period	(289)	3.80
Forfeited during the period	(53)	4.67
As at July 31, 2021	4,453	5.99
Vested and exercisable at July 31, 2021	3,298	5.41
As at October 31, 2021	4,238	5.97
Vested and exercisable at October 31, 2021	3,378	5.54
Granted during the period	764	5.46
Exercised during the period	(104)	3.54
Forfeited during the period	(309)	6.93
Expired during the period	(1)	2.85
As at July 31, 2022	4,588	5.88
Vested and exercisable at July 31, 2022	3,419	5.70

There were no stock options exercised during the three-months ended July 31, 2022. The weighted average share price at the date of exercise of options exercised during the nine-months ended July 31, 2022 is \$6.67 (the weighted average share price for the three and nine months ended July 31, 2021 is \$8.62 and \$8.41, respectively).

The weighted average remaining contractual life of the options outstanding as at July 31, 2022 is 2.58 years (July 31, 2021: 3.19 years).

The Company uses the Black-Scholes model and a forfeiture rate of 24% (July 31, 2021: 12%), based on historical data, to calculate the stock-based compensation expense during the period. The weighted average assessed fair value of options granted for the period ended July 31, 2022 was \$5.46 per option (July 31, 2021: \$8.22). The valuation at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share and the expected dividend yield.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

The model inputs for the option tranches granted during the periods ended July 31, 2022 and 2021 included:

	2022	2021
Risk-free interest rate	1.43% - 2.67%	0.30% - 0.69%
Expected life of the option – employees	3 years	3 years
Expected life of the option – directors and officers	4 years	4 years
Expected dividend per share	\$nil per share	\$nil per share
Expected volatility of the Company's shares	39% - 40%	28% - 33%

The expected price volatility is based on the historical volatility.

12. Loss per common share

The effects of potentially dilutive instruments such as stock options on loss per common share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per common share.

	Three-months ended July 31,		Nine-months ended July 31,	
(CAD thousands, except per share amounts)	2022	2021	2022	2021
Weighted average shares outstanding – basic and diluted	60,635	54,529	60,439	54,411
Net Loss for the period	(16,291)	(10,257)	(43,707)	(23,699)
Basic and diluted loss per share	(0.27)	(0.19)	(0.72)	(0.44)

13. Supplementary cash flow information

The net change in non-cash working capital items increases (decreases) cash flows as follows:

	Three-months ended July 31,		Nine-months ended July 31,	
(CAD thousands)	2022	2021	2022	2021
Operating activities				
Changes in non-cash working capital:				
Trade and other receivables	1,129	(1,117)	3,125	(2,618)
Inventory	(1,261)	(596)	(6,297)	(2,510)
Prepaid expenses and advances	(1,032)	(413)	(1,259)	(185)
Contract assets	(245)	(8)	(358)	70
Contract assets – non-current	(279)	(37)	(608)	(23)
Other receivables – non-current	(1,778)	(471)	(3,241)	(651)
Accounts payable and other accrued liabilities	(2,479)	3,836	1,614	5,560
Warranty provision	105	289	213	379
Deferred revenue	20	790	4,799	2,903
Contract liabilities	278	40	194	(114)
Warranty provision – non-current	17	(335)	3	(360)
Deferred revenue – non-current	(211)	944	2,222	725
Contract liabilities – non-current	367	(9)	839	30
	(5,369)	2,913	1,246	3,206
Investing activities⁽¹⁾				
Changes in non-cash working capital:				
Accounts payable and other accrued liabilities	(23)	(38)	(147)	(212)

(1) Relates to changes in accounts payable and other accrued liabilities for purchases of property, equipment, and intangible assets on the condensed consolidated statements of cash flows.

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For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

	Three-months ended July 31,		Nine-months ended July 31,	
(CAD thousands)	2022	2021	2022	2021
Cash taxes paid (received)	(2)	17	141	136
Cash interest paid (received)	16	(1)	4	(31)

14. Business combinations

On March 31, 2022, the Company acquired 100% of the shares of Swift Labs Inc. ("Swift Labs"), a Canadian based Internet of Things design and engineering consulting firm. The fair value of consideration of \$4,541 consisted of \$3,200 cash paid on the closing date, net of note payable acquired, and 271 common shares, at a fair value of \$5.74 per share, which is based on the quoted price of the common shares on the TSX on the closing date.

Transaction costs related to due diligence fees, legal costs, advisory fees and other professional fees for the three and nine-months ended July 31, 2022 amounting to \$nil and \$194, respectively, were incurred in relation to the acquisition. The amounts have been included in general and administrative expenses in the Company's condensed consolidated statements of loss and comprehensive loss.

The results of operations of Swift Labs have been consolidated with those of the Company from March 31, 2022. The acquisition has been accounted for as a business combination in accordance with IFRS 3 *Business Combination*, using the acquisition method whereby the assets acquired and liabilities assumed are recorded at fair value.

The following table summarizes the preliminary allocation of the consideration paid and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date. The purchase price allocation is subject to change based on information that may not yet be available. The Company expects the purchase price allocation to be finalized within one year following the acquisition date, during which time the value of the assets acquired and liabilities assumed may be revised as appropriate.

	(CAD thousands)
CURRENT ASSETS	
Cash and cash equivalents	67
Trade and other receivables	31
Prepaid expenses and advances	15
Total current assets	113
NON-CURRENT ASSETS	
Property and equipment	82
Goodwill	4,883
Total non-current assets	4,965
TOTAL ASSETS	5,078
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	537
Notes payable	1,269
Total current liabilities	1,806
TOTAL LIABILITIES	1,806
Fair value of net assets acquired	3,272
Exclude: Notes payable	1,269
Fair value of net assets acquired, excluding notes payable assumed	4,541

Blackline Safety Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended July 31, 2022 and 2021

(Unaudited, in thousands of Canadian dollars and units, unless otherwise indicated)

Paid in common shares of the Company	1,554
Paid in cash	3,200
Purchase price adjustments	(213)
Fair value of consideration transferred	<u>4,541</u>

The goodwill related to the acquisition of Swift Labs is composed of expected synergies in utilizing Swift Labs expertise in the Company's product offerings and integrating an assembled workforce that does not qualify for separate recognition. The goodwill is not deductible for tax purposes.

The amount of revenues and operating losses contributed by Swift Labs from the date of acquisition and included in the Company's condensed consolidated statements of loss and comprehensive loss for the three and nine-months ended July 31, 2022. The strategic acquisition of Swift Labs would have contributed \$966 in estimated revenues and \$1,672 in estimated operating losses to the Company if acquired on November 1, 2021.

15. Subsequent events

- (a) On August 18, 2022, the Company entered into a non-binding term sheet with a different Canadian financial institution for a two-year \$15,000 senior secured operating facility ("operating facility") with a \$5,000 accordion feature to increase the size of the facility. The loan facility bears interest at the Canada prime rate plus 2.00% for CAD advances or U.S. base rate plus 2.00% for USD advances. The new credit facility will replace the Company's existing senior secured credit facility with its previous lender. The new facility is expected to provide improved financial flexibility to help the Company manage its operations. The Company incurred set up fees and will be charged an annual commitment and monthly standby fees.

The borrowing base under the operating facility will be derived from the Company's monthly recurring revenue with pricing that is largely consistent with the current facility.

The operating facility includes financial covenants, including a quarterly liquidity to cash burn ratio of not less than 6.0 to 1.0 until fiscal Q1 2023 with an increase to 9.0 to 1.0 for the subsequent quarters.

The operating facility will be secured, including a general security agreement over the property of both Blackline Safety Corp. and its significant subsidiaries.

- (b) On August 31, 2022, the Company closed a bought deal short-form prospectus offering and issued 5,406 common shares at an issue price of \$2.20 per common share for aggregate gross proceeds of \$11,893.

The Company concurrently completed a non-brokered private placement of 5,909 common shares at an issue price of \$2.20 per common share for gross proceeds of \$13,000.

The net proceeds will be used primarily to further strength the Company's financial position and provide sufficient liquidity to finance ongoing operations, including general and administrative, sales and marketing expenses and research and development expenses incurred, or expected to be incurred, in connection with the ongoing operations including the development and launch of various new products and services.

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