Blackline Safety Corp.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE-MONTH PERIODS ENDED JULY 31, 2023

blacklinesafety

Blackline Safety Corp.
Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of CAD)	July 31, 2023	October 31, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	13,126	22,640
Short-term investments	4,500	8,500
Trade and other receivables (Note 4)	35,028	22,881
Inventory	16,619	18,712
Prepaid expenses and advances	3,383	2,215
Contract assets	1,029	1,021
Total current assets	73,685	75,969
NON-CURRENT ASSETS		
Property and equipment (Note 5)	13,297	12,807
Intangible assets	1,906	2,195
Right-of-use assets	1,965	2,513
Goodwill (Note 14)	4,883	4,883
Contract assets	1,711	1,620
Other receivables (Note 4)	7,256	8,062
Total non-current assets	31,018	32,080
TOTAL ASSETS	104,703	108,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities (Note 3(b)(iii))	17,485	19,155
Warranty provision	1,811	1,480
Deferred revenue	13,250	12,825
Contract liabilities (Note 3(b)(iii))	1,834	1,323
Lease liabilities (Note 3(b)(iii))	823	879
Securitization facility payable (Note 3(b)(iii) & 7)	4,860	—
Total current liabilities	40,063	35,662
NON-CURRENT LIABILITIES		
Bank indebtedness (Note 3(b)(iii) & 6)	7,019	8,575
Warranty provision	757	477
Deferred revenue	12,165	7,374
Contract liabilities (Note 3(b)(iii))	1,813	1,806
Lease liabilities (Note 3(b)(iii))	1,309	1,793
Securitization facility payable (Note 3(b)(iii) & 7)	5,655	—
Total non-current liabilities	28,718	20,025
TOTAL LIABILITIES	68,781	55,687
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	195,403	194,431
Contributed surplus	11,401	11,224
Accumulated other comprehensive loss	7,368	3,865
Deficit	(178,250)	(157,158)
TOTAL SHAREHOLDERS' EQUITY	35,922	52,362
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	104,703	108,049

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, 2023	Three-months ended July 31, 2022	Nine-months ended July 31, 2023	Nine-months ended July 31, 2022
Revenues (Notes 9 and 10)				
Product revenue	11,255	8,910	31,881	24,092
Service revenue	13,575	9,657	38,090	26,809
Total revenues	24,830	18,567	69,971	50,901
Cost of sales (Note 10)	11,408	10,293	33,643	29,179
Gross margin (Note 10)	13,422	8,274	36,328	21,722
Expenses (Note 10)				
General and administrative expenses	5,696	6,164	17,954	17,325
Sales and marketing expenses	9,343	9,660	25,754	27,498
Product research and development costs	4,251	7,517	14,898	19,115
Foreign exchange loss (gain) (Note 3(b)(i))	802	1,264	(1,150)	1,504
Total expenses	20,092	24,605	57,456	65,442
Results from operating activities	(6,670)	(16,331)	(21,128)	(43,720)
Finance income, net	16	38	517	160
Net loss before income tax	(6,654)	(16,293)	(20,611)	(43,560)
Income tax recovery (expense)	(188)	2	(481)	(147)
Net loss	(6,842)	(16,291)	(21,092)	(43,707)
Other comprehensive loss:				
Foreign exchange translation gain on foreign operations	1,374	1,753	3,503	1,422
Comprehensive loss for the period	(5,468)	(14,538)	(17,589)	(42,285)
Loss per common share (Note 12):				
Basic and diluted	(0.09)	(0.27)	(0.29)	(0.72)

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, 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 (Note 14)	1,554	—	—	—	1,554
Balance as at July 31, 2022	170,458	10,991	(614)	(147,219)	33,616
Balance as at October 31, 2022	194,431	11,224	3,865	(157,158)	52,362
Net Loss	—	—	—	(21,092)	(21,092)
Foreign exchange translation on foreign operations	—	—	3,503	—	3,503
Stock options exercised (Note 8)	267	(75)	—	—	192
Stock-based compensation expense (Notes 8 and 11)	705	252	—	—	957
Balance as at July 31, 2023	195,403	11,401	7,368	(178,250)	35,922

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, 2023	Three-months ended July 31, 2022	Nine-months ended July 31, 2023	Nine-months ended July 31, 2022
Operating activities				
Net loss	(6,842)	(16,291)	(21,092)	(43,707)
Depreciation and amortization	1,821	1,755	5,616	4,889
Stock-based compensation expense	287	178	1,029	359
Finance income (expense), net	281	30	(92)	14
Unrealized foreign exchange loss (gain)	7	(4)	(6)	(75)
Loss (gain) on disposals of property and equipment	(24)	160	361	248
Net changes in non-cash working capital (Note 13)	(985)	(5,369)	(5,905)	1,246
Net cash used in operating activities	(5,455)	(19,541)	(20,089)	(37,026)
Financing activities				
Proceeds from share issuances and option exercises	485	241	897	653
Proceeds (repayments) on bank indebtedness (Note 6)	16	—	(1,556)	—
Advances from securitization facility (Note 7)	2,600	—	10,865	—
Repayment on securitization facility (Note 7)	(809)	—	(809)	—
Repayment of lease liabilities	(218)	(248)	(710)	(692)
Net cash provided by (used in) financing activities	2,074	(7)	8,687	(39)
Investing activities				
Purchase of short-term investments	—	—	(12,500)	—
Redemption of short-term investments	—	8,046	16,500	20,083
Finance income (expense), net	(345)	23	127	60
Purchase of property, equipment, and intangible assets	(1,449)	(1,034)	(5,456)	(5,478)
Business acquisition (Note 14)	—	—	—	(2,987)
Net changes in non-cash working capital (Note 13)	(294)	(23)	(206)	(147)
Net cash (used in) provided by investing activities	(2,088)	7,012	(1,535)	11,531
Effect of foreign exchange changes on cash and cash equivalents	1,170	1,031	3,423	1,588
Net decrease in cash and cash equivalents	(4,299)	(11,505)	(9,514)	(23,946)
Cash and cash equivalents, beginning of period	17,425	21,992	22,640	34,433
Cash and cash equivalents, end of period	13,126	10,487	13,126	10,487

Supplementary cash flow information (Note 13)

See accompanying notes to the condensed consolidated interim financial statements.

(Unaudited, in thousands of Canadian dollars, 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, 2023.

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, 2022, other than as described in Note 2(c).

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, 2022.

As at July 31, 2023, the Company has interest in the following subsidiaries:

Name of entity	Place of business / Country of incorporation	Ownership interest held by the Company		Ownership interest held by non-controlling interests	
		July 31, 2023	October 31, 2022	**July 31, 2023**	October 31, 2022
		%	%	**%**	%
Blackline Safety Europe Ltd.	United Kingdom	**100**	100	—	—
Blackline Safety Europe SAS	France	**100**	100	—	—
Wearable Technologies Limited	United Kingdom	**100**	100	—	—
Blackline Safety USA Corp.	USA	**100**	100	—	—
Blackline Safety Australia Pty. Ltd.	Australia	**100**	100	—	—
Swift Labs Inc.	Canada	**100**	100	—	—
Blackline Safety SPV Seller Corp.	Canada	**100**	—	—	—

b) Changes in significant accounting judgments and estimates

Tax regulations and legislation of which interpretations are made are subject to change. Changes to tax regulations and legislation and other assumptions are subject to measurement uncertainty. The Company is subject to taxes in various jurisdictions and evaluates its positions with respect to applicable tax regulations and legislation which are subject to interpretation. The Company recognizes provisions related to tax uncertainties when appropriate, based on an estimate of the amount that ultimately will be paid to the tax authorities as of the reporting date. To the extent that interpretations change, there may be a significant impact on the consolidated financial statements.

c) 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, 2023 reporting period and have not been early adopted by the Company.

In May 2023, the International Accounting Standards Board ("IASB") issued the International Tax Reform - Pillar Two Model Rules - Amendments to IAS 12 *Income Taxes.* The amendments provide a temporary exception to entities from the recognition and disclosure of information about deferred tax asserts and liabilities related to Pillar Two model rules. The relief is effective immediately upon release of the amendments and should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, while the disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments on the consolidated financial statements and on foreseeable future transactions.

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, accounts payable and other accrued liabilities and securitization facility payables.

For the three and nine-month periods ended July 31, 2023 and 2022, if the Canadian dollar had strengthened by 1% against the USD, GBP, EUR and AUD with all other variables held constant, the impact on net loss for the three and nine-month periods ended July 31, 2023 would be a corresponding decrease (increase) of $374 and $643, respectively. There would be an equal and opposite impact if there was a 1% weakening of the foreign currency against the Canadian dollar.

Interest rate risk

The Company's interest rate risk arises from its cash and cash equivalents, bank indebtedness and securitization facility payables 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 and bank indebtedness are subject to variable interest rate changes and the fixed interest rate short-term investments have contractual repricing dates of six months or less.

The Company's securitization facility payable is subject to a rate based on the current bond yield with a term to maturity that most closely matches the term of the relevant lease contracts forming part of the tranche. Once the contract is entered into and the lease is sold, the interest rate is fixed for the tranche.

Sensitivity

The net loss of the Company is sensitive to higher/lower interest income from cash and cash equivalents and to higher/lower interest expenses from bank indebtedness as a result of changes in interest rates. For the three and nine-month periods ended July 31, 2023 and 2022, if the interest rate had increased/decreased by 100 basis points (“bps”), with all other variables held constant, the impact on net loss for the periods would not have been significant.

ii. Credit risk

Credit risk arises from cash and cash equivalents and short-term investments held with banks as well as credit exposure to customers, including outstanding trade accounts receivables and lease 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 two Canadian chartered banks, a Canadian financial institution, a United States chartered bank, a UK plc bank and a French bank. Bank indebtedness is comprised of the amount drawn, if any, on the Company’s secured operating facility with a Canadian financial institution. 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 $13,126 (October 31, 2022: $22,640) 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 an operating facility and securitization facility.

Management maintains a forward-looking cash requirement forecast, comprising cash and cash equivalents, short-term investments, a senior secured operating facility with a Canadian financial institution, and a securitization facility 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 strategic business objectives.

The Company has financed its activities primarily through cash flows from operations, short-term investments, funds from brokered and non-brokered private placements, bought deal short-form prospectuses, a secured operating facility, and a securitization facility. The ability to sustain operations is dependent on successfully commercializing its products, continuing to increase sales and continue to increase the gross margin of the Company’s products and services and, if required, the ability to raise additional equity or debt. The Company believes it has sufficient funds and access to capital for at least the next 12 months.

(Unaudited, in thousands of Canadian dollars, 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 exceptions of lease liabilities and securitization facility payable.

(CAD thousands)	**Less than 6 months**	**6 – 12 months**	**Over 1 year**	**Total contractual cash flows**	**Carrying amount**
As at July 31, 2023	**$**	**$**	**$**	**$**	**$**
Accounts payable and other accrued liabilities	16,197	1,288	—	17,485	17,485
Contract liabilities	1,245	589	1,813	3,647	3,647
Bank indebtedness	—	—	7,019	7,019	7,019
Securitization facility payable	2,854	2,611	6,074	11,539	10,515
	20,296	4,488	14,906	39,690	38,666
Lease liabilities	503	433	1,408	2,344	2,132
Total	20,799	4,921	16,314	42,034	40,798
As at October 31, 2022					
Accounts payable and other accrued liabilities	18,065	1,090	—	19,155	19,155
Contract liabilities	748	575	1,806	3,129	3,129
Bank indebtedness	—	—	8,575	8,575	8,575
	18,813	1,665	10,381	30,859	30,859
Lease liabilities	615	612	1,989	3,216	2,672
Total	19,428	2,277	12,370	34,075	33,531

4. Trade and other receivables

(CAD thousands)	**July 31, 2023** $	**October 31, 2022** $
Trade accounts receivable	28,141	17,714
Other receivables – current	7,301	5,251
Other receivables – non-current	7,256	8,062
Loss allowance	(414)	(84)
Total	42,284	30,943

Non-current other receivables consist primarily of the net investment in finance leases from the Company's 'G7 Lease' program. Current other receivables consist of accrued interest from short-term investments, the current portion of the net investment in finance leases, and taxes receivables.

The Company leases certain of its safety monitoring equipment to customers through the Company's 'G7 Lease' program with monthly and quarterly 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 $915 as at July 31, 2023 (October 31, 2022: $1,273).

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

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, 2023**	**October 31, 2022**
Within one year	16,658	13,301
Later than one year but not later than five years	21,518	22,677
Later than five years	—	—
Total	38,176	35,978

The Company has sold certain of its finance lease receivables under a securitization program with a Canadian chartered bank as described in Note 7.

5. Property and equipment

						Net book value
(CAD thousands)	**November 1, 2022** **$**	**Foreign exchange differences** **$**	**Additions** **$**	**Disposals, Transfers and Other** **$**	**Depreciation** **$**	**July 31, 2023** **$**
SMT equipment	1,922	—	22	—	194	1,750
Manufacturing equipment	1,172	2	103	—	304	973
Furniture and equipment	389	6	8	—	114	289
Equipment leased under 'G7 Lease' program	1,245	—	—	(301)	248	696
Rental equipment	2,338	10	1,709	4	636	3,425
Cartridges	3,886	92	2,925	(355)	1,882	4,666
Computer hardware	970	7	65	—	396	646
Evaluation kits	337	(8)	569	(33)	428	437
Leasehold improvements	548	2	74	—	209	415
Total	12,807	111	5,475	(685)	4,411	13,297

			July 31, 2023
(CAD thousands)	**Cost** **$**	**Accumulated depreciation** **$**	**Net book value** **$**
SMT equipment	2,598	848	1,750
Manufacturing equipment	2,661	1,688	973
Furniture and equipment	940	651	289
Equipment leased under 'G7 Lease' program	3,010	2,314	696
Rental equipment	4,632	1,207	3,425
Cartridges	13,373	8,707	4,666
Computer hardware	2,178	1,532	646
Evaluation kits	918	481	437
Leasehold improvements	1,516	1,101	415
Total	31,826	18,529	13,297

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

			October 31, 2022
(CAD thousands)	Cost $	Accumulated depreciation $	Net book value $
SMT equipment	2,576	654	1,922
Manufacturing equipment	2,555	1,383	1,172
Furniture and equipment	918	529	389
Equipment leased under 'G7 Lease' program	3,301	2,056	1,245
Rental equipment	2,904	566	2,338
Cartridges	10,927	7,041	3,886
Computer hardware	2,095	1,125	970
Evaluation kits	473	136	337
Leasehold improvements	1,439	891	548
Total	27,188	14,381	12,807

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

6. Bank indebtedness

The Company has a two-year $15,000 senior secured operating facility ("operating facility") with a Canadian financial institution. The facility includes a $5,000 accordion feature to increase the size of the facility. The loan facility borrowing base is based on certain of the Company's monthly recurring revenue and bears interest at the Canada prime rate plus 200 bps for CAD advances or U.S. base rate plus 200 bps for USD advances. The Company had available capacity on its operating facility of $7,981 as at July 31, 2023 (October 31, 2022: $6,425).

The operating facility includes financial covenants for the quarter, including a quarterly liquidity to cash burn ratio, as defined in the agreement with the Canadian financial institution, of not less than 9.0 to 1.0. The Company was in compliance with all covenants as at July 31, 2023.

The operating facility is measured at amortised cost and is secured, including a general security agreement over the property of Blackline Safety Corp. and its significant subsidiaries, including a second charge on the assets of SPV.

(CAD thousands)	Maturity Date	July 31, 2023	October 31, 2022
Bank indebtedness	October 24, 2024	7,019	8,575

7. Securitization of lease finance receivables

Blackline Safety SPV Seller Corp. ("SPV") is a wholly owned subsidiary of the Company and was incorporated to act as a securitization vehicle and is controlled and consolidated by the Company. The SPV's activities include the purchase and sale of lease contracts on behalf of the Company to the chartered bank which provides funding for the Company's operational needs.

On April 12, 2023, SPV entered into a renewable one-year $15 million and USD $35 million securitization facility with a Canadian chartered bank ("the Purchaser") to sell tranches of lease receivables from safety wearables and area gas monitoring contracts. Under the securitization facility, leases are sold to the bank on a fully serviced and non-recourse basis, at a discount equal to the yield on a Government of Canada Bond or US Treasury Bond with a term to maturity that most closely matches the term of the relevant lease contracts forming part of the tranche plus 375 basis points ("purchase rate"). The tranches of lease receivables are calculated as the present value of combined scheduled payments from the eligible contracts using the purchase rate. The Company incurred set-up fees and is charged monthly standby fees that are expensed as incurred.

The securitization facility includes both financial and performance covenants, including maintaining a tangible net worth, as defined in the agreement with the Canadian chartered bank, greater than $25 million tested monthly and an unrestricted cash balance of $250 tested quarterly. The Company was in compliance with all covenants as at July 31, 2023.

As of July 31, 2023, SPV had sold certain of its preexisting lease receivables, under the facility, and received cash consideration of $2,823 and USD $5,954. The Company may, from time to time, also record a receivable or payable related to the securitization facility. The Company repaid $216 and USD $444 on the securitization facility for the three and nine-months ended July 31, 2023. The Company had available capacity on its securitization facility of $12,133 and USD $28,949 as at July 31, 2023.

As a result of this sale, the Company is obliged to continue providing services to its customers in accordance with the terms of the underlying lease contracts and to collect and remit payments due under such contracts to the Purchaser on a monthly basis. The amounts due to be remitted to the Purchaser in the next 12 months are $5,465 with $6,074 due thereafter.

The Company is required to hold back an amount from the proceeds as a reserve against a portion of potential future customer defaults. As of July 31, 2023, the cash held as a reserve for the securitization facility was $118 and USD $248.

Management has determined that the sale and continued servicing of these contracts does not meet the specific criteria under IFRS 9 *Financial Instruments* to conclude that substantially all economic risks and rewards associated with the receivables have been transferred, therefore, these lease receivables do not qualify for derecognition in the Company's condensed consolidated statement of financial position.

(Unaudited, in thousands of Canadian dollars, 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, except for number of shares)	Number of Shares	Amount $
As at October 31, 2021	60,221,726	168,139
Options exercised	82,518	335
Issued through stock-based compensation plan	98,577	430
Shares issued in connection with business combination	270,776	1,554
As at July 31, 2022	60,673,597	170,458
As at October 31, 2022	72,063,093	194,431
Options exercised	110,000	267
Issued through stock-based compensation plan	292,327	705
As at July 31, 2023	72,465,420	195,403

During the three and nine-month periods ended July 31, 2023, 110,000 common share options were exercised for proceeds net of income tax withholdings of $192. On exercise of these common share options, $75 was credited to share capital from contributed surplus.

During the nine-month period ended July 31, 2022, 82,518 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.

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	**2023**	**2022**	**2023**	**2022**
Product revenue	11,255	8,910	31,881	24,092
Software services revenue	12,429	8,810	34,403	25,271
Rental revenue	1,146	847	3,687	1,538
Total revenues	24,830	18,567	69,971	50,901
Timing of revenue recognition				
At a point in time	11,144	8,840	31,564	23,918
Over time	13,686	9,727	38,407	26,983
Total revenues	24,830	18,567	69,971	50,901

(Unaudited, in thousands of Canadian dollars, 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 as well as rental 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.

	Three-months ended July 31,		**Nine-months ended July 31,**	
(CAD thousands)	**2023**	**2022**	**2023**	**2022**
Revenue				
Product	11,255	8,910	31,881	24,092
Service	13,575	9,657	38,090	26,809
Total Revenues	24,830	18,567	69,971	50,901
Cost of sales				
Product	7,973	7,409	23,772	20,898
Service	3,435	2,884	9,871	8,281
Total Cost of sales	11,408	10,293	33,643	29,179
Gross margin				
Product	3,282	1,501	8,109	3,194
Service	10,140	6,773	28,219	18,528
Gross margin	13,422	8,274	36,328	21,722
General and administrative expenses	5,696	6,164	17,954	17,325
Sales and marketing expenses	9,343	9,660	25,754	27,498
Product research and development costs	4,251	7,517	14,898	19,115
Foreign exchange loss (gain)	802	1,264	(1,150)	1,504
Finance income, net	(16)	(38)	(517)	(160)
Net loss before income tax	(6,654)	(16,293)	(20,611)	(43,560)
Income tax expense (recovery)	(188)	2	(481)	(147)
Net loss	(6,842)	(16,291)	(21,092)	(43,707)

In the three and nine-month periods ended July 31, 2023 and 2022, there were no customers representing greater than 10% of the Company's revenue.

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

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

	Three-months ended July 31,		Nine-months ended July 31,	
(CAD thousands)	2023	2022	2023	2022
Canada	5,735	4,837	17,699	13,282
United States	11,798	8,654	32,708	22,535
Europe	6,125	3,955	15,147	11,943
Rest of World(1)	1,172	1,121	4,417	3,141
Total revenues	24,830	18,567	69,971	50,901

(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.

11. Stock-based compensation

The Company has a stock-based compensation plan ("stock option plan" or the "plan") which was approved by shareholders. 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.

(CAD thousands, except number of options and per stock option amounts)	Number of options	Weighted average price per stock option $
As at October 31, 2021	4,238,393	5.97
Vested and exercisable at October 31, 2021	3,377,934	5.54
Granted during the period	763,500	5.46
Exercised during the period	(104,166)	3.54
Forfeited during the period	(308,666)	6.93
Expired during the period	(1,000)	2.85
As at July 31, 2022	4,588,061	5.88
Vested and exercisable at July 31, 2022	3,419,562	5.70
As at October 31, 2022	5,672,644	4.68
Vested and exercisable at October 31, 2022	3,878,769	4.98
Granted during the period	714,000	2.83
Exercised during the period	(110,000)	1.75
Forfeited during the period	(507,917)	5.60
Expired during the period	(587,642)	5.50
As at July 31, 2023	5,181,085	4.30
Vested and exercisable at July 31, 2023	3,750,419	4.62

The weighted average share price at the date of exercise of options exercised during the three and nine-months ended July 31, 2023 was $3.54 and $3.54, respectively (July 31, 2022: $nil and $6.67, respectively).

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

The weighted average remaining contractual life of the options outstanding as at July 31, 2023 is 3.12 years (July 31, 2022: 2.58 years).

The Company uses the Black-Scholes model and a forfeiture rate of 38% (July 31, 2022: 24%), 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 July 31, 2023 was $2.83 per option (July 31, 2022: $5.46). 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.

The model inputs for the option tranches granted during the periods ended July 31, 2023 and 2022 included:

	Period ended July 31,	
	2023	**2022**
Risk-free interest rate	3.52% - 4.27%	1.43% - 2.67%
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% - 45%	39% - 40%

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.

(CAD thousands, except number of shares and per share amounts)	Three-months ended July 31,		Nine-months ended July 31,	
	2023	**2022**	**2023**	**2022**
Weighted average shares outstanding – basic and diluted	72,313,732	60,635,190	72,203,922	60,439,145
Net Loss for the period	(6,842)	(16,291)	(21,092)	(43,707)
Basic and diluted loss per share	(0.09)	(0.27)	(0.29)	(0.72)

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

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)	**2023**	**2022**	**2023**	**2022**
Operating activities				
Changes in non-cash working capital:				
Trade and other receivables	(4,266)	1,129	(11,718)	3,125
Inventory	1,371	(1,261)	2,299	(6,297)
Prepaid expenses and advances	(914)	(1,032)	(1,143)	(1,259)
Contract assets	127	(245)	(8)	(358)
Contract assets – non-current	177	(279)	(91)	(608)
Other receivables – non-current	1,122	(1,778)	810	(3,241)
Accounts payable and other accrued liabilities	(229)	(2,479)	(1,812)	1,614
Warranty provision	138	105	331	213
Deferred revenue	(82)	20	13	4,799
Contract liabilities	179	278	512	194
Warranty provision – non-current	42	17	280	3
Deferred revenue – non-current	1,678	(211)	4,615	2,222
Contract liabilities – non-current	(328)	367	7	839
	(985)	(5,369)	(5,905)	1,246
Investing activities[1]				
Changes in non-cash working capital:				
Accounts payable and other accrued liabilities	(294)	(23)	(206)	(147)

(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.

	Three-months ended July 31,		Nine-months ended July 31,	
(CAD thousands)	**2023**	**2022**	**2023**	**2022**
Cash taxes paid (received)	23	(2)	367	141
Cash interest paid (received)	151	16	12	4

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

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 270,776 common shares, at a fair value of $5.74 per share, which was based on the quoted price of the common shares on the TSX on the closing date.

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 finalized allocation of the consideration paid and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date. There were no changes to the value of assets acquired and liabilities assumed as a result of the final purchase price allocation.

CURRENT ASSETS	(CAD thousands)
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
Paid in common shares of the Company	1,554
Paid in cash	3,200
Purchase price adjustments	(213)
Fair value of consideration transferred	4,541

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 included in the Company's condensed consolidated statements of loss and comprehensive loss for the three and nine-months ended July 31, 2023 is not significant.

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