blacklinesafety

Blackline Safety Corp.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX-MONTH PERIODS ENDED APRIL 30, 2024

Blackline Safety Corp.
Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of CAD)	April 30, 2024	October 31, 2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	13,232	11,488
Short-term investments	—	4,500
Trade and other receivables (Note 4)	41,294	39,528
Inventory	16,555	17,073
Prepaid expenses and advances	3,208	2,730
Contract assets	1,642	1,185
Total current assets	75,931	76,504
NON-CURRENT ASSETS		
Property and equipment (Note 5)	13,709	13,541
Intangible assets	1,557	1,730
Right-of-use assets	2,805	2,331
Goodwill	4,883	4,883
Contract assets	1,405	1,506
Other receivables (Note 4)	10,364	8,625
Total non-current assets	34,723	32,616
TOTAL ASSETS	110,654	109,120
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities (Note 3(b)(iii))	22,023	21,350
Warranty provision	2,249	2,079
Deferred revenue	18,333	13,154
Contract liabilities (Note 3(b)(iii))	3,585	2,072
Lease liabilities (Note 3(b)(iii))	780	864
Securitization facility payable (Note 3(b)(iii) & 7)	4,174	4,843
Total current liabilities	51,144	44,362
NON-CURRENT LIABILITIES		
Bank indebtedness (Note 3(b)(iii) & 6)	12,899	8,610
Warranty provision	1,042	769
Deferred revenue	13,172	13,583
Contract liabilities (Note 3(b)(iii))	1,306	1,614
Lease liabilities (Note 3(b)(iii))	2,198	1,630
Securitization facility payable (Note 3(b)(iii) & 7)	3,863	5,354
Total non-current liabilities	34,480	31,560
TOTAL LIABILITIES	85,624	75,922
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	196,480	195,652
Contributed surplus	11,679	11,545
Accumulated other comprehensive income	9,634	8,706
Deficit	(192,763)	(182,705)
TOTAL SHAREHOLDERS' EQUITY	25,030	33,198
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	110,654	109,120

Subsequent events (Note 14)

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 April 30, 2024	Three-Months Ended April 30, 2023	Six-Months Ended April 30, 2024	Six-Months Ended April 30, 2023
Revenues (Notes 9 and 10)				
Product revenue	14,824	11,202	26,260	20,626
Service revenue	16,756	12,893	31,645	24,515
Total revenues	31,580	24,095	57,905	45,141
Cost of sales (Note 10)	13,550	11,571	25,296	22,235
Gross profit (Note 10)	18,030	12,524	32,609	22,906
Expenses (Note 10)				
General and administrative expenses	6,739	6,790	12,949	12,258
Sales and marketing expenses	10,515	8,586	19,671	16,411
Product research and development costs	5,071	5,050	9,816	10,647
Foreign exchange gain (Note 3(b)(i))	(548)	(1,226)	(743)	(1,952)
Total expenses	21,777	19,200	41,693	37,364
Results from operating activities	(3,747)	(6,676)	(9,084)	(14,458)
Finance (expense) income, net	(279)	222	(465)	501
Net loss before income tax	(4,026)	(6,454)	(9,549)	(13,957)
Income tax expense	(241)	(103)	(509)	(292)
Net loss	(4,267)	(6,557)	(10,058)	(14,249)
Other comprehensive loss:				
Foreign exchange translation gain on foreign operations	793	679	928	2,128
Comprehensive loss for the period	(3,474)	(5,878)	(9,130)	(12,121)
Loss per common share (Note 12):				
Basic and diluted	(0.06)	(0.09)	(0.14)	(0.20)

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	Deficit	Total Equity
Balance as at October 31, 2022	194,431	11,224	3,865	(157,158)	52,362
Net Loss	—	—	—	(14,249)	(14,249)
Foreign exchange translation on foreign operations	—	—	2,128	—	2,128
Stock-based compensation expense (Notes 8 and 11)	413	151	—	—	564
Balance as at April 30, 2023	194,844	11,375	5,993	(171,407)	40,805
Balance as at October 31, 2023	195,652	11,545	8,706	(182,705)	33,198
Net Loss	—	—	—	(10,058)	(10,058)
Foreign exchange translation on foreign operations	—	—	928	—	928
Stock options exercised (Note 8)	276	(110)	—	—	166
Stock-based compensation expense (Notes 8 and 11)	552	244	—	—	796
Balance as at April 30, 2024	196,480	11,679	9,634	(192,763)	25,030

See accompanying notes to the condensed consolidated interim financial statements.

Blackline Safety Corp.
Condensed Consolidated Statements of Cash Flows

	Three-Months Ended April 30,		Six-Months Ended April 30,	
(Unaudited, in thousands of CAD)	**2024**	**2023**	**2024**	**2023**
Operating activities				
Net loss	(4,267)	(6,557)	(10,058)	(14,249)
Depreciation and amortization	1,875	2,058	3,820	3,795
Stock-based compensation expense	377	202	729	742
Finance expense (income), net	176	(226)	174	(374)
Unrealized foreign exchange loss (gain)	30	(6)	11	(12)
Loss on disposals of property and equipment	219	223	311	384
Net changes in non-cash working capital (Note 13)	53	(2,756)	3,058	(4,920)
Net cash used in operating activities	(1,537)	(7,062)	(1,955)	(14,634)
Financing activities				
Proceeds from share issuances and option exercises	243	273	718	413
Net proceeds (repayments) on bank indebtedness (Note 6)	2,045	(988)	4,289	(1,572)
Advances from securitization facility (Note 7)	—	8,265	566	8,265
Repayment on securitization facility (Note 7)	(1,468)	—	(2,960)	—
Repayment of lease liabilities	(219)	(305)	(429)	(493)
Net cash provided by financing activities	601	7,245	2,184	6,613
Investing activities				
Purchase of short-term investments	—	(12,500)	—	(12,500)
Redemption of short-term investments	4,500	8,000	4,500	16,500
Finance income, net	182	287	182	473
Purchase of property, equipment, and intangible assets	(2,503)	(3,260)	(3,757)	(4,008)
Net changes in non-cash working capital (Note 13)	(68)	216	197	88
Net cash provided (used in) by investing activities	2,111	(7,257)	1,122	553
Effect of foreign exchange changes on cash and cash equivalents	626	976	393	2,253
Net increase (decrease) in cash and cash equivalents	1,801	(6,098)	1,744	(5,215)
Cash and cash equivalents, beginning of period	11,431	23,523	11,488	22,640
Cash and cash equivalents, end of period	13,232	17,425	13,232	17,425

Supplementary cash flow information (Note 13)

See accompanying notes to the condensed consolidated interim financial statements.

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 the province of Alberta 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 June 12, 2024.

2. Summary of material accounting policies

a) Basis of preparation

These condensed consolidated financial statements have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"), as set out in IAS 34 *Interim Financial Reporting*.

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, 2023, 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, 2023.

b) Changes in accounting policy and disclosures

i) *New and amended standards adopted by the Company*

There were new or amended standards that became applicable and were adopted by the Company for the current reporting period.

International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)

The amendment to IAS 12 *Income Taxes* ("IAS 12"), provides a temporary exception to entities from the recognition and disclosure of information about deferred tax assets 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* ("IAS 8"), while the disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2023.

The amendment did not have any significant impact on the condensed financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendment requires entities to recognize deferred tax assets and liabilities on transactions that on initial recognition give rise to equal amounts of taxable and deductible differences (e.g., leases and decommissioning liabilities). The deferred tax impact will need to be recognized at the beginning of the earliest comparative period presented. The cumulative effective effect of recognizing the deferred tax adjustment is recognized in retained earnings or other components of equity at that date. This amendment is for application for annual periods beginning on or after January 1, 2023.

The amendment did not have any significant impact on the condensed financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The IASB amended IAS 1 *Presentation of Financial Statements* to require companies to disclose material accounting policies rather than significant policies. The amendment clarifies what qualifies under material accounting policies and states that immaterial accounting policy information does not need to be disclosed. The amendment is effective for annual reporting periods beginning on or after January 1, 2023, with earlier adoption permitted.

There was no significant impact upon adoption of this amendment to IAS 1.

Definition of Accounting Estimates (Amendments to IAS 8)

The amendment to IAS 8 clarifies changes in accounting policies from changes in accounting estimates. The amendment is effective for annual reporting periods beginning on or after January 1, 2023, with earlier adoption permitted.

There was no significant impact upon adoption of this amendment to IAS 8.

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 April 30, 2024 reporting period and have not been early adopted by the Company.

3. Financial instruments and risk management

a) Financial instruments

The carrying amounts of the Company's cash and cash equivalents, short-term investments, trade and other receivables, accounts payable and other accrued liabilities, contract liabilities and bank indebtedness 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 six-month periods ended April 30, 2024 and 2023, if the Canadian dollar had strengthened or weakened by 1% against the USD, GBP, EUR and AUD with all other variables held constant, the impact on net loss for the three and six-month periods ended April 30, 2024 would be a corresponding decrease (increase) of $1,353 and $2,110, respectively (the impact for the three and six-month periods ended April 30, 2023 was not significant).

Interest rate risk

The Company's interest rate risk arises from its cash and cash equivalents, bank indebtedness, securitization facility payables and short-term investments.

Exposure

The Company's cash and cash equivalents and bank indebtedness are subject to variable interest rate changes which exposes the Company to cash flow interest rate risk. The Company's short-term investments have fixed interest rates.

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 and the securitization facility as a result of changes in interest rates. For the three and six-month periods ended April 30, 2024 and 2023, 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 three 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.

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

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 $13,232 (October 31, 2023: $11,488) 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 continuing to increase the gross profit of the Company’s products and services and, if required, the ability to raise additional equity or debt. Subsequent to quarter-end, the Company completed a prospectus offering and concurrent private placement (Note 14(b)). The Company believes it has sufficient funds and access to capital for at least the next 12 months.

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 and securitization facility payables.

	Less than 6 months	**6 – 12 months**	**Over 1 year**	**Total contractual cash flows**	**Carrying amount**
As at April 30, 2024	**$**	**$**	**$**	**$**	**$**
Accounts payable and other accrued liabilities	17,802	4,221	—	22,023	22,023
Contract liabilities	2,696	889	1,306	4,891	4,891
Bank indebtedness	—	—	12,899	12,899	12,899
	20,498	5,110	14,205	39,813	39,813
Securitization facility payable	2,522	2,056	4,053	8,631	8,037
Lease liabilities	519	488	2,459	3,466	2,978
Total	23,539	7,654	20,717	51,910	50,828
As at October 31, 2023					
Accounts payable and other accrued liabilities	18,187	2,803	360	21,350	21,350
Contract liabilities	1,168	904	1,614	3,686	3,686
Bank indebtedness	—	—	8,610	8,610	8,610
	19,355	3,707	10,584	33,646	33,646
Securitization facility payable	2,924	2,402	5,625	10,951	10,197
Lease liabilities	516	511	1,826	2,853	2,494
Total	22,795	6,620	18,035	47,450	46,337

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

4. Trade and other receivables

	April 30, 2024	October 31, 2023
	$	$
Trade accounts receivable	32,584	32,123
Other receivables – current	9,115	7,816
Other receivables – non-current	10,364	8,625
Loss allowance	(405)	(411)
Total	51,658	48,153

Current other receivables consist of the current portion of the net investment in the Company's finance lease program, accrued interest from short-term investments, securitization facility funds held as a reserve against a portion of potential future customer defaults and taxes receivable. Non-current other receivables consist primarily of the net investment in the Company’s finance lease program.

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:

	April 30, 2024	October 31, 2023
	$	$
Within one year	20,210	17,758
Later than one year but not later than five years	25,800	21,878
Later than five years	—	—
Total	46,010	39,636

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

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

5. Property and equipment

						Net book value
	October 31, 2023 $	Foreign exchange differences $	Additions $	Other Disposals & Transfers $	Depreciation $	April 30, 2024 $
SMT equipment	1,577	—	7	—	130	1,454
Manufacturing equipment	1,142	—	348	—	238	1,252
Furniture and equipment	259	1	59	—	75	244
Equipment leased under 'G7 Lease' program	310	—	—	(104)	78	128
Rental equipment	4,563	7	1,770	—	764	5,576
Cartridges	4,385	—	1,264	(381)	1,201	4,067
Computer hardware	602	1	172	—	244	531
Evaluation kits	360	1	1	—	106	256
Leasehold improvements	343	—	5	—	147	201
Total	13,541	10	3,626	(485)	2,983	13,709

			April 30, 2024
	Cost $	Accumulated depreciation $	Net book value $
SMT equipment	2,497	1,043	1,454
Manufacturing equipment	3,285	2,033	1,252
Furniture and equipment	1,009	765	244
Equipment leased under 'G7 Lease' program	2,538	2,410	128
Rental equipment	7,840	2,264	5,576
Cartridges	14,441	10,374	4,067
Computer hardware	2,438	1,907	531
Evaluation kits	885	629	256
Leasehold improvements	1,523	1,322	201
Total	36,456	22,747	13,709

			October 31, 2023
	Cost $	Accumulated depreciation $	Net book value $
SMT equipment	2,491	914	1,577
Manufacturing equipment	2,937	1,795	1,142
Furniture and equipment	947	688	259
Equipment leased under 'G7 Lease' program	2,639	2,329	310
Rental equipment	6,063	1,500	4,563
Cartridges	13,630	9,245	4,385
Computer hardware	2,262	1,660	602
Evaluation kits	881	521	360
Leasehold improvements	1,518	1,175	343
Total	33,368	19,827	13,541

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.

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

6. Bank indebtedness

The Company has a two-year $25,000 senior secured operating facility (“operating facility” or "facility") with a Canadian financial institution (the "lender"). The facility includes a $5,000 accordion feature to increase the size of the facility. The loan facility borrowing base is derived from the Company's monthly recurring revenue and 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 facility was renewed and extended on October 31, 2023 for two years, maturing on October 31, 2025.

The Company had available capacity on its operating facility of $9,384 as at April 30, 2024 (October 31, 2023: $13,239).

The operating facility includes financial covenants, principally a quarterly liquidity to cash burn ratio, as defined in the agreement with the lender, of not less than 6.0 to 1.0. The Company was in compliance with all covenants as at April 30, 2024.

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

	Maturity Date	**April 30, 2024**	October 31, 2023
		$	$
Bank indebtedness	October 31, 2025	12,899	8,610

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

7. Securitization of lease finance receivables

Blackline Safety SPV Seller Corp. is 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 sale of lease contracts on behalf of the Company to the chartered bank which provides funding for the Company's operational needs.

The securitization facility is a renewable one-year $15,000 and USD $35,000 securitization facility with SPV and 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 Purchaser 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. Subsequent to the quarter-end, the securitization facility was renewed for an additional year covering the period from March 31, 2024 to March 31, 2025 (Note 14(a)).

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 Company is required to hold back an amount from the proceeds as a reserve against a portion of potential future customer defaults. As of April 30, 2024, the Company has $1,013 held in a reserve account (October 31, 2023: $476).

The securitization facility includes both financial and performance covenants, including maintaining a tangible net worth of $25,000 tested monthly and an unrestricted cash balance of $250 tested quarterly, as defined in the agreement with the Canadian chartered bank. As at April 30, 2024, the Company was in compliance with the amended covenants effective March 31, 2024, including maintaining a tangible net worth of $18,000, tested quarterly.

	April 30, 2024 **$**	October 31, 2023 $
Securitization facility payable, beginning of period	10,197	—
Amount drawn on securitization facility	566	12,376
Repayments on securitization facility	(2,960)	(2,704)
Interest expense on securitization facility	317	349
Foreign exchange on translation	(83)	176
Total securitization facility payable, end of period	8,037	10,197
Payments due in the next 12 months	4,174	4,843
Payments due thereafter	3,863	5,354
Maximum capacity on securitization facility	62,387	63,357
Less: Securitization facility payable	(8,037)	(10,197)
Remaining available capacity, end of period	54,350	53,160

(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, 2022	72,063,093	194,431
Issued through stock-based compensation plan	194,130	413
As at April 30, 2023	72,257,223	194,844
As at October 31, 2023	72,547,146	195,652
Options exercised	161,212	276
Issued through stock-based compensation plan	139,960	552
As at April 30, 2024	72,848,318	196,480

During the three-month period ended April 30, 2024, there were no common share options exercised. During the six-month period ended April 30, 2024, 225,000 common share options were exercised for proceeds net of income tax withholdings of $166. On exercise of these common share options, $110 was credited to share capital from contributed surplus.

During the three and six-month periods ended April 30, 2023, there were no common share options exercised.

9. Revenue from contracts with customers

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

	Three-Months Ended April 30,		Six-Months Ended April 30,	
Revenue	**2024**	**2023**	**2024**	**2023**
Product revenue	14,824	11,202	26,260	20,626
Software services revenue	14,542	11,333	28,443	21,974
	29,366	22,535	54,703	42,600
Rental revenue	2,214	1,560	3,202	2,541
Total revenues	31,580	24,095	57,905	45,141
Timing of revenue recognition				
At a point in time	14,637	11,092	25,942	20,420
Over time	16,943	13,003	31,963	24,721
Total revenues	31,580	24,095	57,905	45,141

(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 automated compliance, monitoring and support of those products and rental. 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 April 30,		Six-Months Ended April 30,	
	2024	**2023**	**2024**	**2023**
Revenue				
Product	14,824	11,202	26,260	20,626
Service	16,756	12,893	31,645	24,515
Total Revenues	31,580	24,095	57,905	45,141
Cost of sales				
Product	9,755	8,327	17,877	15,798
Service	3,795	3,244	7,419	6,437
Total Cost of sales	13,550	11,571	25,296	22,235
Gross profit				
Product	5,069	2,875	8,383	4,828
Service	12,961	9,649	24,226	18,078
Gross profit	18,030	12,524	32,609	22,906
General and administrative expenses	6,739	6,790	12,949	12,258
Sales and marketing expenses	10,515	8,586	19,671	16,411
Product research and development costs	5,071	5,050	9,816	10,647
Foreign exchange gain	(548)	(1,226)	(743)	(1,952)
Finance expense (income), net	279	(222)	465	(501)
Net loss before income tax	(4,026)	(6,454)	(9,549)	(13,957)
Income tax expense	(241)	(103)	(509)	(292)
Net loss	(4,267)	(6,557)	(10,058)	(14,249)

In the three and six-month periods ended April 30, 2024 and 2023, 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 April 30,		Six-Months Ended April 30,	
	2024	**2023**	**2024**	**2023**
Canada	8,535	6,367	14,758	11,964
United States	13,769	11,495	25,908	20,911
Europe	7,359	4,366	13,849	9,022
Rest of World(1)	1,917	1,867	3,390	3,244
Total revenues	31,580	24,095	57,905	45,141

(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 the ongoing military conflict between Russia and Ukraine and the ongoing conflict between Israel and Hamas.

11. Stock-based compensation

The Company has established 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 certain 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, 2022	5,672,644	4.68
Vested and exercisable at October 31, 2022	3,878,769	4.98
Granted during the period	639,000	2.75
Forfeited during the period	(344,750)	4.98
Expired during the period	(587,642)	5.50
As at April 30, 2023	5,379,252	4.34
Vested and exercisable at April 30, 2023	3,999,919	4.39
As at October 31, 2023	5,749,002	4.32
Vested and exercisable at October 31, 2023	4,006,127	4.60
Exercised during the period	(225,000)	1.75
Forfeited during the period	(78,500)	5.37
Expired during the period	(664,584)	5.26
As at April 30, 2024	4,780,918	4.16
Vested and exercisable at April 30, 2024	3,118,294	4.66

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

There were no stock options exercised in the three months ended April 30, 2024 and April 30, 2023. The weighted average share price at the date of exercise of options exercised during the six-months ended April 30, 2024 was $3.48 (there were no stock options exercised for the six-months ended April 30, 2023).

The weighted average remaining contractual life of the options outstanding as at April 30, 2024 is 3.15 years (April 30, 2023: 3.37 years). The Company uses the Black-Scholes model and a forfeiture rate of 38% (April 30, 2023: 28%), based on historical data, to calculate the stock-based compensation expense during the period.

There were no stock options granted during the period ended April 30, 2024. The model inputs for the option tranches granted during the period ended April 30, 2023 included:

	2024	**2023**
Risk-free interest rate	—	3.52%
Expected life of the option – employees	—	3 years
Expected life of the option – directors and officers	—	4 years
Expected dividend per share	—	$nil per share
Expected volatility of the Company’s shares	—	45%

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 April 30,**		**Six-Months Ended April 30,**	
	2024	**2023**	**2024**	**2023**
Weighted average shares outstanding – basic and diluted	72,987,558	72,184,377	72,764,931	72,148,105
Net Loss for the period	(4,267)	(6,557)	(10,058)	(14,249)
Basic and diluted loss per share	(0.06)	(0.09)	(0.14)	(0.20)

(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 April 30,		Six-Months Ended April 30,	
	2024	2023	2024	2023
Operating activities				
Changes in non-cash working capital:				
Trade and other receivables	(3,308)	(4,664)	(1,805)	(7,452)
Inventory	354	970	542	927
Prepaid expenses and advances	(676)	(169)	(474)	(228)
Contract assets	(245)	(123)	(457)	(135)
Contract assets – non-current	192	(314)	101	(268)
Other receivables – non-current	(1,293)	(1,080)	(1,738)	(312)
Accounts payable and other accrued liabilities	2,069	(88)	563	(1,582)
Warranty provision	82	204	170	193
Deferred revenue	2,632	1,171	5,109	94
Contract liabilities	745	110	1,513	333
Warranty provision – non-current	128	88	272	238
Deferred revenue – non-current	(244)	660	(430)	2,937
Contract liabilities – non-current	(383)	479	(308)	335
	53	(2,756)	3,058	(4,920)
Investing activities[1]				
Changes in non-cash working capital:				
Accounts payable and other accrued liabilities	(68)	216	197	88

(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 April 30,		Six-Months Ended April 30,	
	2024	2023	2024	2023
Cash taxes paid (received)	539	4	557	166
Cash interest paid (received)	440	(10)	617	(105)

14. Subsequent events

(a) On May 27, 2024, the securitization facility was renewed for $15,000 and USD $30,000 and extended for an additional year to March 31, 2025. The renewal agreement includes an amendment to the financial covenant wherein the quarterly tangible net worth shall not be less than $18,000. The agreement effective date is March 31, 2024.

(b) On June 12, 2024, the Company closed a bought deal short-form prospectus offering and issued 5,692,500 common shares at an issue price of $4.05 per common share for aggregate gross proceeds of $23,055. The total number of units sold includes 742,500 common shares issued to the Underwriters in connection with the offering.

The Company concurrently completed a non-brokered private placement of 2,846,250 common shares at an issue price of $4.05 per common share for gross proceeds of $11,527. The total number of units sold includes 371,250 common shares issued pursuant to the private placement as a result of the exercise of the over-allotment option by the Underwriters on the basis of 0.5 of an additional common share in the private placement for every one common share issued pursuant to the over-allotment option.

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