blacklinesafety

Blackline Safety Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH PERIOD ENDED JANUARY 31, 2024

blacklinesafety

Notice

This Management's Discussion and Analysis ("MD&A") should be read together with Blackline Safety Corp.'s ("Blackline Safety", "Blackline", the "Corporation", the "Company", "we", or "our") unaudited condensed consolidated interim financial statements and accompanying notes, prepared in accordance with International Accounting Standard 34 *Interim Financial Statements* using accounting policies consistent with IFRS Accounting Standards, for the three-month period ended January 31, 2024. Additional information relating to the Company, including its audited consolidated financial statements for the year ended October 31, 2023, and its most recently completed Annual Information Form, is available on our website at www.blacklinesafety.com/investors/ and can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR+") at www.sedarplus.ca under Blackline Safety Corp.

This MD&A is presented as of March 13, 2024. All financial information contained herein is expressed in Canadian dollars, the Company's presentation currency, unless otherwise indicated. All figures in the MD&A are reported in thousands, except for per share, stock option, common share, and percentages.

This MD&A presents certain non-GAAP and supplementary financial measures, as well as non-GAAP ratios to assist readers in understanding the Company's performance. These measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Non-GAAP financial measures, ratios and supplementary financial measures include EBITDA (earnings before interest expense, interest income, income taxes, depreciation and amortization), Adjusted EBITDA (earnings before interest expense, interest income, income taxes, depreciation and amortization, stock-based compensation expense, foreign exchange loss (gain), and non-recurring impact transactions, if any), EBITDA per common share, Adjusted EBITDA per common share, gross margin percentage and other supplementary financial measures. See "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further information.

This MD&A contains company names, product names, trade names, trademarks and service marks of Blackline and other organizations, all of which are the property of their respective owners. Solely for convenience, Blackline's trademarks and trade names referred to in this MD&A may appear without the ® or ™ symbols, or other applicable symbols, but such references are not intended to indicate, in any way, that Blackline will not assert, to the fullest extent under applicable law, its rights to these trademarks and trade names.

Overview

Founded in 2004 and headquartered in Calgary, Canada, Blackline Safety is a hardware-enabled software as a service ("HeSaaS") technology company that is focused on bringing connected worker solutions to the global marketplace. Blackline develops, manufactures and markets a complete suite of safety devices and cloud-connected services to protect workers at their jobs and support businesses undergoing digital transformation.

Blackline's technology empowers businesses with real-time safety insights to manage emergency responses and evacuations, proactively manage gas detection compliance and increase operational efficiency. When seconds count, Blackline's connected technology enables a live monitoring team to deliver help directly to an employee in the shortest amount of time — to the worker's exact location.

Leveraging Blackline's ecosystem of connected safety devices and cloud software, businesses are empowered to increase operational performance through business analytics software and data science services known as Blackline Vision, adding value from the data generated by G6 and G7 safety wearables, G7 EXO area monitors and software. Productivity gains are achieved through employee movement pattern analysis, heat-mapping environmental gas leaks, viewing resource utilization, automating safety compliance reporting, wireless configuration management and interactive reporting.

Blackline's lineup of G7 safety wearables connect to the Blackline cloud using either cellular (G7c) or satellite (G7x) connectivity. Live-alerts are generated by monitoring personnel by pinpointing the employee's location on an interactive map using GPS or Blackline's proprietary location beacons. Blackline's monitoring teams efficiently manage incidents from alert to resolution using cloud-hosted software that provides employee messaging tools, the option for two-way voice calling and quick access to emergency contact escalation.

Blackline's G7c device features 4G direct-to-cloud connectivity with wireless coverage in over 100 countries and on over 350 mobile networks. For regions where cellular networks are not available, Blackline's two-part system with a G7x wearable and G7 Bridge satellite base station monitors workers in remote locations in North America, South America, Australia and New Zealand.

G7 wearables feature the industry's first expandable interface that enables customization to support each customer scenario and requirement. All products feature plug-and-play cartridges that are configured for lone worker and gas detection scenarios as required by the end customer. We offer one of four field-replaceable cartridges—a Standard Cartridge, a Single-gas Diffusion Cartridge, a Multi-gas Diffusion Cartridge or a Multi-gas Pumped Cartridge.

The Standard Cartridge is designed for evacuation management and lone worker monitoring scenarios. Single and Multi-gas cartridges support one to five gas configurations with a choice of 21 gas sensors, including combustibles, hydrogen sulfide, carbon dioxide, carbon monoxide, oxygen, volatile organic compounds, sulfur dioxide, ammonia and hydrogen.

Conventional gas detectors are either disposed of at the end of their service life, requiring new equipment to be deployed, or they are taken out of service and individual gas sensors are replaced. Removal and replacement of gas sensors is a time-consuming, technical process — businesses often require a third party to ease this burden. To address this problem, G7 offers field-replaceable cartridges that are pre-calibrated, ensuring that equipment stays in the field, maximizing up-time. Old cartridges can be sent to Blackline for remanufacturing, thereby ameliorating the overall cost of ownership and environmental footprint.

Businesses in energy, utilities, heavy industry and disaster response sectors use portable area monitoring equipment to monitor potential atmospheric hazards around tank farms and along fence lines, during facility maintenance or while containing spills. Until now, conventional area monitors suffer from short battery life, limited configurability and inadequate connectivity. Blackline's G7 EXO area monitor provides global businesses with new portable and semi-permanent gas detection monitoring options featuring drop and go deployment capabilities and the flexibility of four channel pump modules, as well as various power and mounting options and output port usage options. The G7 EXO also offers unlimited connectivity by directly connecting to the cloud via 4G or satellite so there are no range limits between monitors or maximum number of devices allowed on the network.

In September 2022, Blackline unveiled the G6 to the market, a single-gas cloud-connected gas monitor. The mass-market 4G-enabled, cloud connected single-gas monitor is even more accessible than the G7 series of connected safety monitors, requiring virtually no training for users to deploy. The long-lasting connectivity and market leading efficiency enables fast incident response time along with Blackline's leading safety and compliance. The total cost of ownership is reduced for G6 customers due to the G6's lifespan of up to 4 years, doubling that of disposable gas detectors. Connectivity allows for lower information technology infrastructure costs, reduced downtime and over-the-air updates. The G6 monitor is the first connected product designed specifically for industrial workers and is expected to drive further growth outside of North America and Europe for Blackline with its lower price point and thereby lowering customers' operating cost base. In September 2023, Blackline introduced new enhancements to the G6 service line known as "Protect" and "Protect Plus". These features enable the G6 to function with the same real-time connectivity as the G7 product line and includes an emergency SOS button as well as an expanded suite of data and analytics.

A significant portion of customers select Blackline's in-house, 24/7/365 Safety Operations Centre ("SOC"), although they have the option to self-monitor the safety of their personnel using the Blackline Live cloud-based software platform. Unlike a traditional call centre that often provides unrelated services such as telemarketing, technical support and answering services, Blackline's dedicated SOC focuses solely on safety monitoring. It delivers an immediate response, managing all safety alerts from receipt through to resolution according to each customer's customized emergency response protocol. Blackline's SOC provides customers with the option of centralizing the responsibility of monitoring lone workers within a highly specialized and trained emergency response centre. In regions not covered by Blackline's in-house SOC that provides 24/7 live monitoring, customers are able to access monitoring of their employees via an approved Blackline Alarm Receiving Centre partner. Blackline's SOC, together with its partner Alarm Receiving Centres in Europe, now monitor over 56,400 devices.

Blackline has developed and innovated a proprietary cloud-hosted safety monitoring infrastructure that runs on Amazon Web Services. Blackline has deployed tens of thousands of safety wearables and area monitors that connect to the Blackline Safety Cloud, continuously streaming status, environmental, location, gas readings and alerts. This information is stored via Amazon Web Services ("AWS") Cloud Servers and enables Blackline's data-driven services including analytics, emergency response management, notifications to users and more. To date, the Blackline Safety Cloud has stored 232 billion data points, over 3.3 billion locations and over 7.7 billion location-enabled gas readings.

Blackline's revenues are comprised of product and service revenues, which are the two operating segments of the Company. Product revenues are generated from sales of Blackline's connected safety monitoring hardware devices and accessories to a variety of industries and geographic locations. Blackline has a broad customer base both in terms of industry and geographic reach and this diversified market helps to mitigate against dependence on and fluctuations in any one market space. For the three-months ended January 31, 2024, product revenue was $11,435, accounting for 43% of total revenue (January 31, 2023: $9,424, accounting for 45% of total revenue).

Service revenues relate to software and support services that are provided to customers who purchase the Company's connected safety devices. Service revenues also include recurring revenues from existing customers who renew their services for their Blackline device as well as device rental and data consulting services. For the three-months ended January 31, 2024, service revenue was $14,890, accounting for 57% of total revenue (January 31, 2023: $11,622, accounting for 55% of total revenue).

The Company also offers its products and services through a lease program with variable lease term commitments. These agreements are typically four years in length and considered to be a finance lease commitment with the hardware revenue component recognized up-front as product revenue with service and interest revenue recognized over the life of the contract. The Company entered into a renewable one-year lease securitization program with a Canadian chartered bank in April 2023 to sell tranches of lease receivables to provide increased financial flexibility and improved liquidity.

Cost of sales for the Company includes the costs of manufacturing its safety monitoring products as well as the costs of servicing those products. The cost of sales for products comprises raw materials, direct costs, direct labor, an allocation of overhead, freight charges, warranty, depreciation and scrappage. The cost of sales for services associated with those products is comprised of direct costs, direct labor for the SOC, partner alarm receiving centres, maintenance of the Blackline Live portal, communication costs for devices equipped with cellular and/or satellite technology, and an allocation of overhead. For the three-months ended January 31, 2024, Blackline's product cost of sales were $8,123 (January 31, 2023: $7,470) and service cost of sales were $3,623 (January 31, 2023: $3,193).

Highlights

(CAD thousands, except per share and percentage amounts)	Three-months ended January 31, 2024	2023	% Change
Product revenue	11,435	9,424	21
Service revenue	14,890	11,622	28
Total Revenue	26,325	21,046	25
Gross profit	14,579	10,383	40
Gross margin percentage(1)	55%	49%	
Total Expenses	19,916	18,164	10
Total Expenses as a percentage of revenue(1)	76%	86%	
Net loss	(5,791)	(7,692)	(25)
Loss per common share - Basic and diluted	(0.08)	(0.11)	(27)
EBITDA(1)	(3,392)	(6,044)	44
EBITDA per common share(1) - Basic and diluted	(0.05)	(0.08)	38
Adjusted EBITDA(1)	(3,234)	(6,231)	48
Adjusted EBITDA per common share(1) - Basic and diluted	(0.04)	(0.09)	56

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Cash and cash equivalents and short-term investments	15,931	15,988	(1)
Working capital(1)	28,795	32,142	(10)
Total assets	107,194	109,120	(2)
Non-current liabilities	33,046	31,560	5
Shareholders' equity	28,129	33,198	(15)

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

Key Performance Indicators

Management uses a number of key performance indicators, including those identified below, to measure the performance of the business, identify and assess trends affecting the Company and to make strategic decisions. These key performance indicators do not have any standardized definitions prescribed by IFRS and cannot be reconciled to a directly comparable IFRS measure. These key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

Annual Recurring Revenue

Annual Recurring Revenue ("ARR") is the total annualized value of recurring service amounts (ultimately recognized as software services revenue) of all service contracts at a point in time. Annualized service amounts are determined solely by reference to the underlying contracts, normalizing for the varying revenue recognition treatments under IFRS 15, *Revenue from Contracts with Customers*. It excludes one-time fees, such as for rentals and non-recurring professional services, and assumes that customers will renew the contractual commitments on a periodic basis as those commitments come up for renewal, unless such renewal is known to be unlikely. We believe that ARR provides visibility into future cash flows and is a fair measure of the performance and growth of our service contracts. The increase in ARR is due to the service plans that have been added on new device sales as well as the expansion of existing contracts with our customers and indicates the continued strength in the growth of our business.

	As at January 31,			As at October 31,	
(CAD thousands)	2024	2023	% Change	2023	% Change
Annual Recurring Revenue(1)	54,245	39,672	37	51,117	6

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

Net Dollar Retention

Net Dollar Retention ("NDR") compares the aggregate service revenue contractually committed for a full period under all customer agreements of our total customer base as of the beginning of the trailing twelve-month period to the total service revenue of the same group at the end of the period. It includes the effect of our service revenue that expands, renews, contracts or is cancelled, but excludes the total service revenue from new activations during the period. The growth in NDR is due to the net expansion of our existing contracts with our customers and offset by the customers who declined to renew their service plans which provides a fair measure of the strength of our recurring revenue streams and growth within our existing customer base.

	As at January 31,			As at October 31,	
	2024	**2023**	**Change**	**2023**	**Change**
Net Dollar Retention[1]	130%	113%	1,700 bps[2]	129%	100 bps[2]

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

(2) Basis points ("BPS") is defined as one hundredth of 1 percentage point.

Results of Operations

(CAD thousands)	Three-months ended January 31, 2024	2023	% Change
Product revenue	11,435	9,424	21
Service revenue	14,890	11,622	28
Total Revenues	26,325	21,046	25
Product revenue as a percentage of revenue[1]	43%	45%	
Service revenue as a percentage of revenue[1]	57%	55%	
Total	100%	100%	

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

Total revenue for the three-month period ended January 31, 2024 was $26,325 which is an increase of $5,279 from $21,046 in the comparative period of the prior year. The 25% increase was driven by higher sales of our connected safety products as well as strong growth in recurring service revenues from new hardware sales over the past twelve months and by customer expansion of service on existing devices.

Product Revenue

For the three-months ended January 31, 2024, product revenue was $11,435, an increase of $2,011 or 21% compared to $9,424 in the prior year comparative quarter. The increase reflects the Company's expanded sales network and past investments in our global sales team through their targeted demand generation and sales development activities. The Company's enhanced pricing strategy also contributed to the increase.

Service Revenue

	Three-months ended January 31,		
(CAD thousands)	2024	2023	% Change
Software services revenue	13,902	10,641	31
Rental revenue	988	981	1
Total service revenue	14,890	11,622	28
Software services revenue as a percentage of service revenue(1)	93%	92%	
Rental revenue as a percentage of service revenue(1)	7%	8%	
Total	100%	100%	

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

The Company's first quarter total service revenue increased $3,268 or 28% to $14,890 compared to $11,622 in the comparative period of the prior year.

Software services revenue for the first quarter was $13,902, an increase of 31% from $10,641 in the prior year period. The increase is a result of the new activations of the devices sold to end-users over the past twelve months for customers utilizing the Company's monitoring, software and data services. Total increases in software services of $3,261 included newly activated device service revenues of $801 in the first quarter as well as net service revenue increases within our existing customer base of $2,821 compared to the prior year period. This was partially offset by certain customers who declined to renew their service plans resulting in an impact of $361 in the same period.

Rental revenue remained consistent between the first quarter and the prior year comparative quarter, increasing 1% to $988 from $981 as the Company continues to meet strong demand for our connected solutions in the industrial construction, turnaround and maintenance markets.

Revenues from external customers by country/ geographic area

	Three-months ended January 31,		
(CAD thousands)	2024	2023	% Change
Canada	6,223	5,596	11
United States	12,139	9,416	29
Europe	6,490	4,656	39
Rest of World	1,473	1,378	7
Total revenues	26,325	21,046	25
Canada as a percentage of revenue(1)	24%	27%	
United States as a percentage of revenue(1)	45%	45%	
Europe as a percentage of revenue(1)	25%	22%	
Rest of World as a percentage of revenue(1)	6%	6%	
Total	100%	100%	

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

The first quarter of fiscal 2024 saw our European sales team take advantage of a strengthening industrial safety sector, resulting in a 39% increase in revenue compared to the prior year comparative quarter. The first quarter of fiscal 2024 also saw our established sales network in the US markets deliver strong new hardware sales and growth in our service contracts with existing customers, resulting in a 29% increase in revenue compared to the prior year comparative quarter.

The Company's Rest of World market is primarily in Asia, the Middle East, Australia and New Zealand and has not been directly impacted by the ongoing military conflict between Russia and Ukraine or between Israel and Hamas. The growth in revenue across these markets is a result of the presence of sales personnel in these regions and the strategic targeting of customers in specific industries including fire, emergency and hazardous materials response, energy, water treatment and food processing.

Lease Revenue

The Company leases certain of its safety monitoring equipment to customers through the Company's 'G7 Lease' program with monthly or quarterly payments.

The present value of the hardware revenue component of finance leases is recognized up-front as product revenue with service and interest revenue recognized over the life of the contract. The hardware component of the Company's leases classified as finance leases is recognized in current and non-current other receivables on the condensed consolidated statements of financial position. The service component is recognized within trade receivables when the service is delivered.

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)	**January 31, 2024**	**October 31, 2023**
Within one year	18,584	17,758
Later than one year but not later than five years	23,237	21,878
Total	41,821	39,636

The 6% increase in undiscounted payments under non-cancellable finance lease contracts from October 31, 2023 is a result of new customers entering into finance lease agreements as well as existing customers renewing with leases rather than purchasing hardware upfront.

Cost of Sales

	Three-months ended January 31,		
(CAD thousands)	**2024**	**2023**	**% Change**
Product	8,123	7,470	9%
Service	3,623	3,193	13%
Total cost of sales	11,746	10,663	10%
Product cost of sales as a percentage of segment revenue[1]	71%	79%	
Service cost of sales as a percentage of segment revenue[1]	24%	27%	
Cost of sales as a percentage of revenue[1]	45%	51%	

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

Cost of sales for the three-months ended January 31, 2024, totaled $11,746 compared to $10,663 in the prior year comparative period. This is primarily due to the increase in the cost of sales for the product segment as a result of more products being sold in the period. It is also a result of an increase in the service segment with costs expanding to support our growing customer base.

Product Cost of Sales

Product cost of sales increased by $653 or 9% in the first quarter compared to the prior year comparative quarter due to increases in scrappage and reworks costs and increases in materials costs as more products were sold in the quarter compared to the prior year comparative quarter. There were also increases in warranty expenses in the quarter compared to the prior year comparative quarter due to a higher warranty provision in line with a greater number of devices under warranty in service. The increases were partially offset by lower unabsorbed material costs.

Service Cost of Sales

Service cost of sales increased by $430 or 13% in the first quarter compared to the prior year comparative quarter. The increase is primarily a result of increases in depreciation on owned cartridges generating cartridge-as-a-service revenue. There were also higher connectivity and data costs driven by the increased user base and associated higher service revenue in the first quarter.

Gross Profit

	Three-months ended January 31,		
(CAD thousands)	**2024**	**2023**	**% Change**
Product	3,312	1,954	69
Service	11,267	8,429	34
Gross profit	14,579	10,383	40
Product gross margin percentage[1]	29%	21%	
Service gross margin percentage[1]	76%	73%	
Gross margin percentage[1]	55%	49%	

(1) Refer to “Non-GAAP and Supplementary Financial Measures” at the end of this MD&A for further detail.

Total gross profit for the first quarter was $14,579 compared to $10,383 in the prior year comparative quarter. This represented a total gross margin percentage of 55%, a 6% increase compared to the prior year comparative quarter. The increase in total gross profit is due to a combination of higher sales volume, a shift to heavier weighting of service revenue, production line automation, cost management within our service segment, and our enhanced pricing strategy.

Product gross margin percentage in the first quarter increased to 29% from 21% as the Company has continued to process sales under our updated pricing structure. The Company has also been able to automate more of its manufacturing line, improving the efficiency and throughput of its operations.

Service gross margin percentage in the first quarter increased to 76% from 73%. The increase reflects a higher penetration of Blackline’s value-added services for which the Company realizes a higher margin. Continued growth and larger absorption of fixed costs as well as improvements to the Company’s received pricing for connectivity and infrastructure also contributed to the improvement in gross margin percentage. During the quarter, the service gross margin percentage also benefited from our enhanced pricing structure.

Expenses

Total expenses for the three-months ended January 31, 2024 was $19,916 compared to $18,164 in the prior year comparative quarter, an increase of 10% or $1,752. The increase was primarily due to increases in sales and marketing expenses and general and administrative expenses, slightly offset by a decrease in product research and development costs. Although total expenses increased as compared to the prior year comparative quarter, total expenses as a percentage of revenue for the three-months ended January 31, 2024 decreased to 76% compared to 86% in the prior year comparative quarter.

General and administrative expenses

(CAD thousands)	Three-months ended January 31, 2024	2023	% Change
General and administrative expenses	6,209	5,468	14
General and administrative expenses as a percentage of revenue[1]	24%	26%	

(1) Refer to “Non-GAAP and Supplementary Financial Measures” at the end of this MD&A for further detail.

General and administrative expenses is comprised of the salaries, benefits and stock-based compensation expense for the accounting and finance, business information technology, operational and quality assurance management as well as general management staff, the Executive Management Team and the Board of Directors of the Company. These costs also include professional fees, costs for internal and external systems supporting the Company's global operations, the costs of compliance associated with being a public company, amortization of intangible assets, depreciation of certain property and equipment and general corporate expenses.

General and administrative expenses increased $741 or 14% in the first quarter to $6,209 from $5,468 in the prior year comparative quarter, primarily due to increased subscriptions and license fees and salaries and related benefits expense, as the Company expanded administrative functions to support the scaling of the business. Additionally, there were increases in building operation costs, property taxes and insurance costs compared to the prior year comparative quarter. These increases were offset by lower third-party consulting costs, professional fees and stock-based compensation expense due to the impact of employee forfeitures in the first quarter. General and administrative expenses as a percentage of total revenue decreased to 24% from 26% for the first quarter compared to the prior year comparative quarter.

Sales and marketing expenses

(CAD thousands)	Three-months ended January 31, 2024	2023	% Change
Sales and marketing expenses	9,156	7,825	17
Sales and marketing expenses as a percentage of revenue[1]	35%	37%	

(1) Refer to “Non-GAAP and Supplementary Financial Measures” at the end of this MD&A for further detail.

Sales and marketing expenses include the salaries, internal and external commissions, benefits and stock-based compensation expense of the sales, marketing, business development, customer care, client success, client implementation, and sales support staff as well as travel costs, direct marketing and distribution channel expenses and supporting contractors and consultants’ professional fees.

Sales and marketing expenses for the first quarter increased $1,331 or 17% to $9,156 from $7,825 compared to the prior year comparative quarter. This was primarily due to increases in salaries and related benefits expenses and sales commissions due to the increase in sales in the first quarter as compared to the prior year comparative quarter. The increase was also attributable to higher distributor commission expenses due to an increase of larger lease contracts referred through channel distributors in the quarter compared to the prior year comparative quarter. There were also increases in contractor fees to support the Rest of World sales teams with growing demand for our connected solutions in those regions. Bad debt expense also increased in the current quarter compared to the prior year comparative quarter due to a higher provision from the overall aging profile of the portfolio. These increases were offset by decreases to tradeshow and advertising costs. Sales and marketing expenses as a percentage of total revenue decreased to 35% for the first quarter compared to 37% in the prior year comparative quarter.

Product research and development costs

(CAD thousands)	Three-months ended January 31, 2024	2023	% Change
Product research and development costs	4,745	5,597	(15)
Product research and development costs as a percentage of revenue[1]	18%	27%	

(1) Refer to “Non-GAAP and Supplementary Financial Measures” at the end of this MD&A for further detail.

Product research and development costs reflect Blackline’s ongoing efforts to expand its product line while enhancing the capabilities of the current revenue-generating hardware and services. Product research and development costs include the salaries and benefits of the product research and development team, external consultants, materials used specifically for product research and development purposes, amortization of intangible assets and depreciation of certain property and equipment.

Product research and development costs decreased $852 or 15% during the first quarter of 2024 to $4,745 from $5,597 in the prior year comparative quarter. The decrease was largely attributed to lower salaries and related benefits expense as a result of the workforce reduction in prior year. There were also decreases in subscriptions and license costs and expense materials due to ongoing efforts to reduce costs. These decreases were partially offset by higher third-party consulting costs as well as training and seminar costs. Our first quarter product research and development costs as a percentage of total revenue decreased to 18% from 27% in the prior year comparative quarter.

Foreign exchange gain

(CAD thousands)	Three-months ended January 31, 2024	2023	% Change
Foreign exchange gain	(194)	(726)	(73)

Total net realized and unrealized foreign exchange gain was $194 in the first quarter compared to a gain of $726 in the prior year comparative quarter. The Canadian dollar ended the first quarter at 1.34 USD/CAD, 1.45 EUR/CAD and 1.70 GBP/CAD compared to 1.34 USD/CAD, 1.45 EUR/CAD and 1.64 GBP/CAD at January 31, 2023. The average exchange rates of 1.35 USD/CAD this quarter was the same compared to the prior year comparable quarter, while 1.47 EUR/CAD and 1.70 GBP/CAD during the first quarter of 2024 were weaker than the same period in 2023 when they averaged 1.42 EUR/CAD and 1.63 GBP/CAD.

The foreign exchange gain or loss relates predominately to the impact of changes in the Canadian dollar on the Company’s foreign currency denominated cash and cash equivalents, trade and other receivables, trade accounts payables and other accrued liabilities and securitization facility payables at the end of the period.

Finance (expense) income, net

Finance expenses, net was $186 for the three-months ended January 31, 2024. This was compared to net finance income of $279 in the comparable prior year period. Finance expenses were higher in the quarter due to the interest expense incurred on the amount drawn on the Company's senior secured operating facility, interest expense on the Company's securitization facility, and increases to prime lending rates partially offset by interest revenue from finance leases and financial assets held for cash management purposes.

Net loss and Adjusted EBITDA

Net loss was $5,791 for the three-months ended January 31, 2024 compared to $7,692 in the prior year comparative quarter. The decrease in net loss in the three-month period was due primarily to the increase in revenue and overall gross profit as well as a reduction in product research and development costs, offset by increases in general and administrative expenses, sales and marketing expenses and a lower foreign exchange gain.

Adjusted EBITDA was $(3,234) for the three-months ended January 31, 2024 compared to $(6,231) in the prior year comparative quarter. The increase in Adjusted EBITDA was primarily due to the increase in gross profit and the decrease in net loss compared to the prior year comparable quarter.

Key Assets and Liabilities

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Total assets	107,194	109,120	(2)
Total liabilities	79,065	75,922	4

Total assets as at January 31, 2024 were $107,194 compared to $109,120 as at October 31, 2023. The decrease in total assets is primarily due to decreases in trade and other receivables and inventory, slightly offset by an increase in contract assets.

Total liabilities as at January 31, 2024 were $79,065 compared to $75,922 as at October 31, 2023. The increase in total liabilities is primarily due to increases in deferred revenue and contract liabilities, offset by decreases in accounts payable and other accrued liabilities and securitization facility payables.

Trade and other receivables

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Trade accounts receivable	30,321	32,123	(6)
Other receivables – current	8,196	7,816	5
Other receivables – non-current	9,070	8,625	5
Loss allowance	(447)	(411)	9
Total	47,140	48,153	(2)

Trade and other receivables as at January 31, 2024 totaled $47,140, compared to $48,153 as at October 31, 2023, a decrease of $1,013 or 2%. This is primarily due to a decrease in trade accounts receivable of $1,802 due to the timing of collections in the period. Current and non-current other receivables increased $825 as at January 31, 2024 compared to October 31, 2023 due to an increase in finance leases entered into.

Inventory

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Parts	11,361	11,861	(4)
Finished goods	5,527	5,212	6
Total	16,888	17,073	(1)

Inventory totaled $16,888 as at January 31, 2024 compared to $17,073 as at October 31, 2023. Overall, inventory remained consistent as the Company maintained inventory levels, while more effectively managing its supply chain and continuously working towards improving its inventory turns during the period.

Contract assets and contract liabilities

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Contract assets			
Current	1,397	1,185	18
Non-current	1,598	1,506	6
Total	2,995	2,691	11
Contract liabilities			
Current	2,839	2,072	37
Non-current	1,689	1,614	5
Total	4,528	3,686	23

Total contract assets, consisting of current and non-current costs related to the fulfillment of ‘G7 lease’ contracts, were $2,995 as at January 31, 2024 compared to $2,691 at October 31, 2023. The increase is largely due to the ‘G7 lease’ contracts sold through channel distributors in the period and the timing of recognition for distributor commissions related to the product component over the course of the contract term.

Total contract liabilities, which represent the Company’s obligations to pay commissions to third-party distributors who assist with the fulfillment of certain contracts was $4,528 compared to $3,686 at the prior year end. The increase is due to a larger number of lease contracts sold through channel distributors being added in the current period.

Accounts payable and other accrued liabilities

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Trade accounts payable	8,777	10,453	(16)
Other accrued liabilities	11,201	10,897	3
Total	19,978	21,350	(6)

Accounts payable and other accrued liabilities decreased by 6% at January 31, 2024 to $19,978 from $21,350 at October 31, 2023 due to the timing of payment of the Company's expenditures at the end of each fiscal period. Other accrued liabilities includes the provision for potential taxes payable within individual states in the United States.

Deferred Revenue

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Current	15,632	13,154	19
Non-current	13,393	13,583	(1)
Total	29,025	26,737	9

The current portion of the Company’s deferred revenue, whereby customers commit to service plans that are paid in advance, increased by $2,478. The non-current portion of the Company’s deferred revenue decreased marginally by $190 compared to the prior year quarter due to payments in advance from customers for service contracts, offset by service revenue recognized in the period.

Securitization facility payable

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Current	4,540	4,843	(6)
Non-current	4,695	5,354	(12)
Total	9,235	10,197	(9)

The Company entered into a lease securitization facility to sell certain existing and future finance lease contracts to a Canadian chartered bank on April 12, 2023, where there is an obligation to collect and remit payments associated with these contracts coincident with the Company’s provision of its connected safety devices and services over the duration of the underlying contracts. The net decrease in the total lease securitization facility payable of $962 is primarily due to repayments of $1,492, offset by new advances from the facility, interest and foreign exchange effects.

Bank indebtedness

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Non-current	10,854	8,610	26

The Company has a senior secured operating facility and as at January 31, 2024, bank indebtedness increased to $10,854 from $8,610 in October 31, 2023 as the Company drew down $2,244 during the three-months ended January 31, 2024. The draw down includes accrued interest expense on bank indebtedness in the period.

Summary of Quarterly Results

The following table highlights total revenue, gross margin percentage, net loss, net loss per common share, Adjusted EBITDA and Adjusted EBITDA per common share amounts for the eight most recently completed quarters ended January 31, 2024. These have been prepared in accordance with IFRS, with the non-GAAP and supplementary financial measures captioned below and are presented in Canadian dollars, which is the presentation and functional currency of the Company.

(CAD thousands, except per share amounts)	2024	2023				2022		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	26,325	30,035	24,830	24,095	21,046	22,030	18,567	16,665
Gross margin percentage(1)	55%	55%	54%	52%	49%	48%	45%	42%
Net loss	(5,791)	(4,455)	(6,842)	(6,557)	(7,692)	(9,940)	(16,291)	(14,543)
Net loss per common share	(0.08)	(0.06)	(0.09)	(0.09)	(0.11)	(0.14)	(0.27)	(0.24)
Adjusted EBITDA(1 & 2)	(3,234)	(1,829)	(3,760)	(4,500)	(6,231)	(7,653)	(11,517)	(12,330)
Adjusted EBITDA per common share(1 & 2)	(0.04)	(0.03)	(0.05)	(0.06)	(0.09)	(0.11)	(0.19)	(0.20)

(1) Refer to “Non-GAAP and Supplementary Financial Measures” at the end of this MD&A for further detail.

(2) In the fourth fiscal quarter of 2022, Management updated the non-GAAP composition to remove the adjustment of product research and development costs and included the adjustment for foreign exchange losses or gains. Comparative periods have been restated to reflect this change.

Fiscal Year 2024

The decrease in revenue in the first quarter of fiscal 2024 compared to the fourth quarter of fiscal 2023 of 12% or $3,710 relates to lower product revenues as well as marginally lower service revenues. Due to the seasonality of the business wherein results are stronger in the latter half of the fiscal year, the revenue in the first quarter of fiscal 2024 decreased expectantly compared to the fourth quarter of the fiscal year, however increased compared to the other quarters of fiscal 2023. The gross margin percentage in the first quarter of fiscal 2024 compared to the seasonally strong fourth quarter of fiscal 2023 remained the same as service revenue made up a higher proportion of total revenue, partially offset by slight decreases in product and service margin percentage compared to the fourth quarter of fiscal 2023. The increase in net loss and decrease in Adjusted EBITDA in the first quarter of fiscal 2024 compared to the fourth quarter of fiscal 2023 was a result of lower total revenue and higher overall expenses. Sales and marketing expenses decreased but were offset by higher general and administrative and product research and development expenses. Overall, the general and administrative and product research and development expenses as a percentage of revenue increased, while sales and marketing expenses as a percentage of revenue decreased.

Fiscal Year 2023

The increase in revenue in the fourth quarter of fiscal 2023 compared to the third quarter of fiscal 2023 relates to higher product and service revenues. The increase in gross margin percentage in the fourth quarter of fiscal 2023 compared to the third quarter of fiscal 2023 was due to a 3% increase in product gross margin and a 2% increase in service gross margin. The decrease in net loss and increase in Adjusted EBITDA in the fourth quarter of fiscal 2023 compared to the third quarter of fiscal 2023 was a result of higher gross margins as well as lower product research and development costs and a foreign exchange gain as opposed to a loss in the third quarter of fiscal 2023. Although general and administrative expenses were marginally higher in the fourth quarter as compared to the third quarter, the expenses as a percentage of revenue decreased. Similarly, despite sales and marketing expenses being higher in the fourth quarter as compared to the third quarter, the expenses as a percentage of revenue remained effectively the same.

The increase in revenue in the third quarter of fiscal 2023 compared to the second quarter of fiscal 2023 relates to higher product and service revenues. The increase in gross margin percentage in the third quarter of fiscal 2023 compared to the second quarter of fiscal 2023 was due to higher product and service gross margins. The increase in net loss in the third quarter of fiscal 2023 compared to the second quarter of fiscal 2023 was a result of higher sales and marketing expenses and foreign exchange losses. The increase to Adjusted EBITDA in the third quarter of fiscal 2023 compared to the second quarter of fiscal 2023 was a result of higher gross margins as well as lower general and administrative expenses and lower product research and development costs. The general and administrative expenses and product research and development costs as a percentage of revenue were lower in the third quarter compared to the second quarter. Although sales and marketing expenses were higher in the third quarter, the percentage of revenue was approximately the same for sales and marketing in the third quarter compared to the second quarter.

The increase in revenue in the second quarter of fiscal 2023 compared to the first quarter of fiscal 2023 relates to higher product and service revenue. The increase in gross margin percentage in the second quarter of fiscal 2023 compared to the first quarter of fiscal 2023 was due to higher product and service gross margins. The decrease in net loss and increase in Adjusted EBITDA in the second quarter of fiscal 2023 compared to the first quarter of 2023 was a result of higher gross margins as well as lower project research and development costs and a larger foreign exchange gain. Although general and administrative expenses and sales and marketing expenses were higher in the second quarter as compared to the first quarter, the expenses as a percentage of revenue were approximately the same for general and administrative expenses, but lower for sales and marketing expenses.

The decrease in revenue in the first quarter of fiscal 2023 compared to the fourth quarter of fiscal 2022 relates to lower product revenues, partially offset by increased service revenue. The increase in gross margin percentage in the first quarter of fiscal 2023 compared to the fourth quarter of fiscal 2022 was due to service revenue making up a higher proportion of total revenue as well as higher service margin percentage and was offset by a lower product margin. The decrease in net loss and increase in Adjusted EBITDA in the first quarter of fiscal 2023 compared to the fourth quarter of fiscal 2022 was a result of higher total gross margin and lower overall expense. Sales and marketing expenses decreased but were offset by higher general and administrative and product research and development costs. Although general and administrative and product research and development costs were higher, the expenses as a percentage of revenue were approximately the same.

Fiscal Year 2022

The increase in revenue in the fourth quarter of fiscal 2022 compared to the third quarter of fiscal 2022 relates to higher product and service revenue. The increase in gross margin percentage in the fourth quarter of fiscal 2022 compared to the third quarter of fiscal 2022 was due to a 9% higher product gross margin percentage. The decrease in net loss and increase in Adjusted EBITDA in the fourth quarter of fiscal 2022 compared to the third quarter of fiscal 2022 was a result of higher gross margin as well as lower general and administrative expenses, sales and marketing expenses, product research and development costs and foreign exchange losses.

The increase in revenue in the third quarter of fiscal 2022 compared to the second quarter of fiscal 2022 relates to higher product and service revenues. The increase in gross margin percentage in the third quarter of fiscal 2022 compared to the second quarter of fiscal 2022 was due to higher product and service gross margins. The increase in net loss and decrease in Adjusted EBITDA in the third quarter of fiscal 2022 compared to the second quarter of fiscal 2022 was a result of higher sales and marketing, product research and development costs and foreign exchange losses, which were offset by higher margins and a decrease in general and administrative expenses.

Liquidity and Capital Resources

The Company's primary requirements for capital are for general working capital requirements and to fund the development of enhanced product offerings. The Company finances these activities primarily through short-term investments, cash flows from operations, its operating facility with a Canadian financial institution and a lease securitization facility with a Canadian chartered bank.

Total cash and cash equivalents were $11,431 as at January 31, 2024. Cash and cash equivalents decreased $57 compared to October 31, 2023.

	Three-months ended January 31,		
(CAD thousands)	2024	2023	% Change
Cash provided by (used in) operating activities	(418)	(7,570)	94
Cash provided by (used in) financing activities	1,583	(631)	NM
Cash provided by (used in) investing activities	(989)	7,810	NM
Effect of foreign exchange	(233)	1,274	NM
Total net increase (decrease) in cash and cash equivalents	(57)	883	NM

NM – Not meaningful

Operating activities during the three-months ended January 31, 2024 used $418 of cash (January 31, 2023: $7,570). The decrease in cash used was a result of a lower net loss for the period, including greater non-cash charges of depreciation and amortization and also changes in non-cash working capital of $3,005 for the three-months ended January 31, 2024 (January 31, 2023: $(2,163)).

Improvements to changes in non-cash working capital for the three-months ended January 31, 2024 compared to the prior year quarter were primarily due to the net change of trade and other receivables of $1,503 (January 31, 2023: $(2,788)) and the current portion of deferred revenue of $2,477 (January 31, 2023: $(1,077)). Offsetting the changes that provided cash was accounts payable that used $1,506 of cash during the quarter (January 31, 2023: used $1,494), increases to non-current other receivables of $445 (January 31, 2023: decrease of $768) and decreases in current contract assets of $212 (January 31, 2023: decrease of $12).

Financing activities for the three-months ended January 31, 2024 provided $1,583 (three-months ended January 31, 2023 used $631) of cash. This was mainly from the draw down on bank indebtedness of $2,244 during the three-months ended January 31, 2024 compared to a net repayment of $584 in the prior year comparative quarter. For the three-months ended January 31, 2024 there were net repayments on the securitization facility of $926 and proceeds from share issuances and option exercises of $475 (three-months ended January 31, 2023: $nil and $140, respectively). Lease liability repayments of $210 were made during the three-months ended January 31, 2024, compared to $187 in the prior year comparable period.

Investing activities for the three-months ended January 31, 2024 used $989 (three-months ended January 31, 2023 provided $7,810) of cash. There were no purchases or redemptions of short-term investments in the three-months ended January 31, 2024 compared to purchases of $8,000 and redemptions of $16,500 in the prior year comparative quarter. During the three-months ended January 31, 2024, the Company incurred capital expenditures of $1,254 primarily for property and equipment additions of rental equipment, revenue-generating cartridges, and manufacturing equipment (January 31, 2023: $748).

Total short-term investments held at January 31, 2024 amounted to $4,500 and remains unchanged from October 31, 2023.

(CAD thousands)	January 31, 2024	October 31, 2023	% Change
Current assets	74,814	76,504	(2)
Current liabilities	(46,019)	(44,362)	4
Working capital(1)	28,795	32,142	(10)

(1) Refer to "Non-GAAP and Supplementary Financial Measures" at the end of this MD&A for further detail.

Working capital at January 31, 2024 was $28,795 compared to $32,142 at the prior year end, a decrease of $3,347. The decrease was mainly due to lower trade and other receivables and higher deferred revenue compared to the prior year end, offset by a decrease in accounts payable and other accrued liabilities.

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 $10,311 as at January 31, 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 January 31, 2024.

On April 12, 2023, Blackline's 100% owned subsidiary, Blackline Safety SPV Seller Corp. ("SPV") entered into a renewable one-year $15,000 plus US $35,000 securitization facility with a Canadian chartered bank 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 3.75%. The securitization facility is expected to provide increased financial flexibility and supplement the Company's liquidity position while lowering its overall cost of capital to finance these customer lease contracts.

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 January 31, 2024 with the exception of the tangible net worth. The Company received a formal waiver from the Canadian chartered bank in accordance with the agreement for period-end.

In the three-months ended January 31, 2024, SPV had sold certain of its preexisting lease receivables, under the facility, and drew $566 from the facility with repayment of $1,492 made in accordance with the terms of the securitization facility. The Company had available capacity on its securitization facility of $52,940 as at January 31, 2024 (October 31, 2023: $53,160).

Capital Management

Management's objective is to maintain sufficient cash and cash equivalents and short-term investments to finance operations and minimize dilution to shareholders. The Company's ongoing development program also requires funding for wages, tooling and product certifications during the development process. To meet these capital requirements, in addition to the operating facility, securitization facility and focusing on improving cash flow from operating activities, the Company continues to consider multiple levels of equity and debt financing, government grants and funding arrangements. Such arrangements can assist the Company in meeting its liquidity objective.

Management believes they have sufficient funds to support the growth of the Company and to fund its development activities. No assurance can be given that the Company will achieve all or part of its liquidity objective, that sufficient funds will be generated internally or that financing from outside sources, if needed, will be available.

There are no significant capital expenditure commitments as at January 31, 2024 other than the manufacturing of owned modular cartridges used in the G7 connected suite of technologies which generate service revenue for the Company. These budgetary commitments will be funded primarily through cash flows from operations, the Company's operating facility and the lease securitization facility.

Contractual Obligations

(CAD thousands)	Less than 1 year $	1-3 years $	Thereafter $	Total $
Finance lease obligations	1,004	1,573	94	2,671
Purchase commitments	1,723	1,063	—	2,786
Securitization facility commitment	5,067	4,744	282	10,093
Total	7,794	7,380	376	15,550

Contractual obligations relate to various lease obligations, raw materials purchase commitments, business information technology commitments and payments under the lease securitization facility.

The Company has various commitments to minimum inventory purchases and has contracted for the services of certain third parties. Other than the addition of the obligation to repay funds under the lease securitization facility, there were no material changes in the specified contractual obligations during the period ended January 31, 2024.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financing arrangements.

Related Party Transactions

There were no transactions between the Company and related parties for the three-month periods ended January 31, 2024 and 2023.

Critical Accounting Judgments and Estimates

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company's critical accounting judgements and estimates can be found in the notes to the annual consolidated financial statements and MD&A for the year ended October 31, 2023. There were no changes to or additional use of critical accounting judgments and estimates for the period ended January 31, 2024.

Changes in Accounting Policies Including Initial Adoption

New Accounting Policies Adopted by the Company

There were new or amended standards that became applicable and were adopted by the Company for the period ended January 31, 2024.

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.

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

New Accounting Policies Not Yet Adopted by the Company

Certain new and amended accounting standards and interpretations have been published that are not mandatory for the January 31, 2024 reporting period and have not been early adopted by the Company.

Internal Controls and Procedures

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have, as at January 31, 2024, designed or have caused to be designed under their supervision, disclosure controls and procedures and internal control over financial reporting as defined under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The objective of this instrument is to improve the quality, reliability and transparency of information that is filed or submitted under securities legislation. The CEO and CFO designed our disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes.

There were no changes in our internal control over financial reporting during the period beginning on November 1, 2023 and ended January 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The Company's disclosure and internal controls procedures can only provide reasonable assurance that the objectives of the control system will be met.

Financial Instruments

Blackline held the following financial instruments as at January 31, 2024 fiscal period end:

Financial Assets

The financial assets held by the Company consisted of cash and cash equivalents, short-term investments and trade and other receivables. These financial assets are initially measured at fair value and subsequently measured at amortized cost. The carrying amounts of these financial assets are not considered to be significantly different to their fair values due to the instruments' short-term nature.

Financial Liabilities

The financial liabilities held by the Company consisted of accounts payable and other accrued liabilities, bank indebtedness, contract liabilities, lease liabilities and the payments due under the lease securitization facility. These financial liabilities are initially measured at fair value and subsequently measured at amortized cost. The carrying amounts of these financial liabilities are not considered to be significantly different to their fair values due to the instruments' short-term nature.

The Company's risk exposure associated with these financial instruments and the strategies used to manage these risks are disclosed in Note 3 (b) of the January 31, 2024 condensed consolidated interim financial statements of the Company. The amounts, timing and certainty of future cash flows associated with those financial instruments are also disclosed in this note. Blackline does not have any financial assets or liabilities that are measured subsequently at fair value, either through other comprehensive income or through profit or loss, or derivative financial instruments used for hedging.

Outstanding Share Data

Blackline had 72,810,486 common voting shares issued and outstanding as at March 13, 2024. The following share options were outstanding at that date:

Share Option Exercise Price	Share Options Outstanding
$1.75	1,270,000
$2.75	639,000
$3.04	40,000
$3.35	559,000
$3.47	75,000
$4.25	698,251
$5.26	443,167
$5.84	10,000
$6.05	77,500
$6.55	100,000
$8.00	540,000
$8.50	260,000
$8.93	75,000
Total	4,786,918

Risk Factors and Uncertainties

A discussion of material risk factors that may affect Blackline's business, operations and financial condition or future performance can be found under the section entitled "Risk Factors" in the Company's most recent Annual Information Form filed on SEDAR+ under the Company's profile at www.sedarplus.ca, which section is incorporated by reference herein. As at January 31, 2024, there are no changes to the material risks that may affect Blackline's business, operations and financial condition or future performance than those described in the Company's Annual Information Form.

Outlook

Blackline has a comprehensive portfolio of connected safety wearables and area monitors which provide access to our unique monitoring portal – designed and developed in-house – to meet the connected safety needs of diverse industrial workplaces around the world. Our customers come from a broad range of sectors spanning utilities, energy and petrochemical, telecommunications, consumer packaged goods, transportation, manufacturing and emergency response. They rely on our technology for real-time safety insights to manage emergency responses and evacuations, proactively manage gas detection compliance, and increase productivity. With turnkey solutions that protect people operating in hazardous locations across urban, suburban, rural, and remote settings, our products and services are as versatile and easy-to-use as they are robust. Our customers continue to select Blackline over older technologies as our solution prevents fatalities by providing visibility and direct help to workers who are isolated or in extremely hazardous environments.

Throughout the first quarter of fiscal 2024, the Company's previous investments in its manufacturing and sales and marketing capabilities allowed Blackline to grow its revenue 25% year-over-year. We expect sales momentum and a strong growth trajectory for the rest of the 2024 fiscal year to continue in fiscal 2025 as we add sales of our G6 zero-maintenance wearable to accompany our robust sales of G7 and G7 EXO. A Net Dollar Retention of 130% along with these new activations has pushed the Company's Annual Recurring Revenue to above $50M and will continue to drive strong growth in our high margin service revenue as we continue to play our role in the transformation of the industrial workplace into a connected one.

The Company constantly assesses strategic opportunities in the current market conditions and will continue to manage its capital structure and liquidity risk in order to fund its product roadmap and strategic additions to its global sales and distribution network in order to execute our strategy to continue strong revenue and margin growth while achieving our goal of positive Adjusted EBITDA and Free Cash Flow as part of a successful sustainable financial business model.

We believe we are well-positioned to grow our market share with our comprehensive suite of connected safety products and services. With the addition of the G6, Blackline is now able to fully meet the gas detection and compliance requirements of thousands of new customers globally. We look forward to expanding our work with leading brands around the world – who share our purpose to ensure every worker has the confidence to get the job done and return home safe – to harness the power of data-driven safety to optimize their performance, increase their competitiveness and empower their people.

Non-GAAP and Supplementary Financial Measures

Non-GAAP and supplementary financial measures, including non-GAAP ratios not recognized under IFRS are provided where management believes they assist the reader in understanding Blackline's results. The calculations of the non-GAAP and supplementary financial measures are consistent, except where described, with the prior year comparable periods. The Company utilizes the following terms for measurement within the MD&A that do not have a standardized meaning or definition as prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other entities and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

blacklinesafety

Non-GAAP Financial Measures

A non-GAAP financial measure: (a) depicts the historical or expected future financial performance, financial position or cash of the Company; (b) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most comparable financial measure presented in the primary consolidated financial statements; (c) is not presented in the primary financial statements of the Company; and (d) is not a ratio.

Non-GAAP financial measures presented and discussed in this MD&A are as follows:

"EBITDA" is useful to securities analysts, investors and other interested parties in evaluating operating performance by presenting the results of the Company on a basis which excludes the impact of certain non-operational items. EBITDA refers to earnings before interest expense, interest income, income taxes, depreciation and amortization.

"Adjusted EBITDA" is useful to securities analysts, investors and other interested parties in evaluating operating performance by presenting the results of the Company which excludes the impact of certain non-operational items and certain non-cash and non-recurring items, such as stock-based compensation expense. Adjusted EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization, stock-based compensation expense, foreign exchange loss (gain), and non-recurring impact transactions, if any. The Company considers an item to be non-recurring when a similar revenue, expense, loss or gain is not reasonably likely to occur within the next two years or has not occurred during the prior two years.

Readers should be cautioned, however, that EBITDA and Adjusted EBITDA should not be construed as an alternative measure to net loss determined in accordance with IFRS.

Reconciliation of non-GAAP financial measures	**Three-months ended January 31,**		
(CAD thousands)	**2024**	**2023**	**% Change**
Net loss	(5,791)	(7,692)	(25)
Depreciation and amortization	1,945	1,737	12
Finance expense (income), net	186	(279)	NM
Income taxes	268	190	41
EBITDA	(3,392)	(6,044)	44
Stock-based compensation expense(1)	352	539	(35)
Foreign exchange gain	(194)	(726)	(73)
Adjusted EBITDA	(3,234)	(6,231)	48

(1) Stock-based compensation expense relates to the Company's stock compensation plan and stock option expense is extracted from cost of sales, general and administrative expenses, sales and marketing expenses and product research and development costs on the condensed consolidated statements of loss and comprehensive loss.

NM – Not meaningful

Non-GAAP Ratios

A non-GAAP ratio is a financial measure presented in the form of a ratio, fraction, percentage or similar representation and that has a non-GAAP financial measure as one or more of its components.

Non-GAAP ratios presented and discussed in this MD&A are as follows:

"EBITDA per common share" is useful to securities analysts, investors and other interested parties in evaluating operating and financial performance. EBITDA per common share is calculated on the same basis as net loss per common share, utilizing the basic and diluted weighted average number of common shares outstanding during the periods presented.

"Adjusted EBITDA per common share" is useful to securities analysts, investors and other interested parties in evaluating operating and financial performance. Adjusted EBITDA per common share is calculated on the same basis as net loss per common share, utilizing the basic and diluted weighted average number of common shares outstanding during the periods presented.

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio.

Supplementary financial measures presented and discussed in this MD&A are as follows:

- **“Gross margin percentage”** represents gross profit as a percentage of revenue
- **“Working capital”** represents current assets minus current liabilities
- “**Annual Recurring Revenue**” represents total annualized value of recurring service amounts of all service contracts
- “**Net Dollar Retention**” represents the aggregate service revenue contractually committed
- **“Product revenue as a percentage of revenue”** represents product revenue as a percentage of total revenue
- **“Service revenue as a percentage of revenue”** represents service revenue as a percentage of total revenue
- **“Software services revenue as a percentage of service revenue”** represents software services revenue as a percentage of service revenue
- **“Rental revenue as a percentage of service revenue”** represents rental revenue as a percentage of service revenue
- **“Canada as a percentage of revenue”** represents revenues generated in Canada as a percentage of total revenue
- **“United States as a percentage of revenue”** represents revenues generated in the United States as a percentage of total revenue
- **“Europe as a percentage of revenue”** represents revenues generated in Europe as a percentage of total revenue
- **“Rest of World as a percentage of revenue”** represents revenues generated in countries other than Canada, United States and Europe as a percentage of total revenue
- **“Product cost of sales as a percentage of segment revenue”** represents product cost of sales as a percentage of product revenue
- **“Service cost of sales as a percentage of segment revenue”** represents service cost of sales as a percentage of service revenue
- **“Cost of sales as a percentage of revenue”** represents cost of sales as a percentage of total revenue
- **“Product gross margin percentage”** represents product gross profit as a percentage of product revenue
- **“Service gross margin percentage”** represents service gross profit as a percentage of service revenue
- **“General and administrative expense as a percentage of revenue”** represents general and administrative expenses as a percentage of total revenue
- **“Sales and marketing expense as a percentage of revenue”** represents sales and marketing expenses as a percentage of total revenue
- **“Product research and development costs as a percentage of revenue”** represents product research and development expenses as a percentage of total revenue
- **“Total expenses as a percentage of revenue”** represents total expenses as a percentage of total revenue

Forward Looking Statements

Certain statements included in this MD&A constitute forward-looking statements. These statements relate to future events or the Corporation’s future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as ‘‘anticipate’’, ‘‘believe’’, “continue”, “could”, ‘‘estimate’’, ‘‘expect’’, “intend”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “targeting”, “will” and other similar expressions. All forward-looking statements are based on beliefs and assumptions based on information available at the time the assumption was made. These forward-looking statements are not based on historical facts but rather on expectations regarding Blackline's business plan and focus; the results, including but not limited to the functionality and benefits of the use of Blackline's products, technologies and hardware enabled software as a service and associated service revenue, undiscounted payments under non-cancellable finance lease contracts; anticipated orders for G6, G7, G7 EXO and associated accessories; the results of Blackline's building up stock on hand; the Company's expectation that it will continue to pursue multiple levels of equity and debt financing, government grants and funding arrangements and the results thereof; management's belief that the Company has sufficient funds to support the growth of the Company and to fund its development activities; the financing of the Company's working capital and capital expenditure commitments; the Company's expectation that it will continue sales momentum and strong growth trajectory for the rest of the fiscal year as it pursues the transformation of the industrial workplace into a connected one; while it shifts the Company to achieve positive Adjusted EBITDA; that the G6 will open Blackline's connected safety technology to hundreds of thousands more industrial workers and materially expand the Company's total addressable market; that recent actions will increase the Company's operational efficiency and improve capital management which will continue to benefit overall financial performance during 2024 and beyond, as the Company targets the generation of free cash flow; expected future initiatives including increasing prices for its products and services, lowering the cost base for its core products through design improvements and automation, improving inventory management, streamlining operating expenses through reductions in headcount, use of consultants, contractors recruitment and other business expenses and identifying the optimal capital structure for its portfolio of long-term customer lease contracts, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities, expanding our work with leading brands around the world; and the Company's ability to grow its market position in connected safety. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, levels of activity, performance or achievements to differ materially from those anticipated in such forward-looking statements. Although the forward-looking statements contained in the MD&A are based upon what the Corporation believes to be reasonable assumptions, no assurance can be given that these expectations will prove to be accurate and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These forward-looking statements are made as of the date of this MD&A. The Corporation does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Factors which could cause future outcomes to differ materially from those set forth in the forward-looking statements include, but are not limited to: (i) the ability to obtain sufficient and suitable financing to support operations, development and commercialization of products, (ii) the ability to execute partnerships and corporate alliances, (iii) uncertainties relating to the regulatory approval process, (iv) the ability to develop plant lines and manufacturing processes that result in competitive advantage and commercial viability, (v) the ability to develop enhanced products and software in a cost-effective and timely manner, (vi) the impact of competitive products and pricing and the ability to successfully compete in the targeted markets, (vii) the ability to attract and retain key personnel and key collaborators, (viii) the ability to adequately protect proprietary information and technology from competitors, (ix) market and general economic conditions and (x) the impact if a significant disruption to its information technology were to occur. See also risks identified in our Annual Information Form and our Annual MD&A as at October 31, 2023. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

With respect to the forward-looking statements and FOFI (as defined below) contained in this MD&A, management has made assumptions regarding, among other things: our ability to enter new markets and industry verticals; our ability to attract, develop and retain key personnel; our ability to maintain and expand geographic scope; our ability to raise additional capital and to execute on our expansion plans; timeline for new product launches, our ability to continue investing in infrastructure and implement scalable controls, systems and processes to support our growth; our ability to successfully integrate the companies we have acquired or companies we may acquire and to derive the benefits we expect from the acquisition thereof; seasonality in our business and in the business of our customers; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards.

Any financial outlook or future oriented financial information (in each case "FOFI") contained in this MD&A regarding prospective financial position is based on reasonable assumptions about future events, including those described above, based on an assessment by management of the relevant information that is currently available. The actual results will likely vary from the amounts set forth herein and such variations may be material. Readers are cautioned that any such FOFI contained herein should not be used for purposes other than those for which it is disclosed herein. Such information was made as of the date of this MD&A and the Company disclaims any intention or obligation to update or revise any such information, whether as a result of new information, future events, or otherwise, unless required pursuant to applicable law.

This page intentionally blank

This page intentionally blank

This page intentionally blank

blacklinesafety

Blackline Safety Corp.
Unit 100 803 24 Avenue SE
Calgary, AB
Canada, T2G 1P5
www.blacklinesafety.com