



xtract o|n|e

Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(Expressed in Canadian Dollars)

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Xtract One Technologies Inc.:

The accompanying consolidated financial statements of Xtract One Technologies Inc. (“Xtract One” or the “Company”) and its subsidiaries and all the information in Management’s Discussion and Analysis are the responsibility of management and have been approved by the Company’s Board of Directors (the “Board”).

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements include certain amounts that are based on best estimates and judgements of management and in the opinion of management present fairly, in all material respects, Xtract One’s financial position, results of operations and cash flows, in accordance with IFRS.

Management has developed and maintains a system of internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“DC&P”). Management believes the ICFR and DC&P provide reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a basis for the preparation of the consolidated financial statements and that Xtract One’s assets are properly accounted for and safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the “Audit Committee”). The Audit Committee, comprised entirely of independent directors, meets periodically with management and the independent external auditor to satisfy itself that management’s responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

Davidson & Company LLP serves as the Company’s external auditors. Davidson & Company LLP’s report on the accompanying consolidated financial statements follows. It outlines the extent of its examination as well as an opinion on the consolidated financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

“Karen Hersh”

Chief Financial Officer

October 23, 2025

“Peter Evans”

Director, Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Xtract One Technologies Inc.

Opinion

We have audited the accompanying consolidated financial statements of Xtract One Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2025 and 2024, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3(n) of the consolidated financial statements, which indicates the ability of the Company to continue as a going concern is dependent on either a single or a combination of events occurring - obtaining additional financing through the issuance of debt or equity, and/or generating profit through its operations. There is a risk that additional financing will not be available on a timely basis or terms acceptable to the Company or that profitable operations will not be achieved. These matters result in material uncertainties which may cast significant doubt on whether the Company will continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our auditor's report.



Revenue Recognition

Revenue

As described in Note 10 to the consolidated financial statements, during the year ended, July 31, 2025, the Company recognized revenue from operations of \$13,853,553.

The significant value of revenue transactions and complex terms under which title and control pass to the customer increases the risk of cut-off errors. Due to the significance of revenue for the Company's consolidated financial statements, and since the calculations are based on estimations and are susceptible to potential manipulation, we consider this to be a key audit matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Obtaining a detailed understanding of each of the revenue streams and processes to capture and record revenue.
- Reviewing the accounting policy for revenue recognition for compliance with IFRS Accounting Standards.
- On a test basis, tested sales transactions against sales contracts, invoices and shipping documents to assess that revenues have been recognized at appropriate prices and in the correct accounting period.
- On a sample basis, we vouched proceeds received against the terms of contract and invoices issued.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

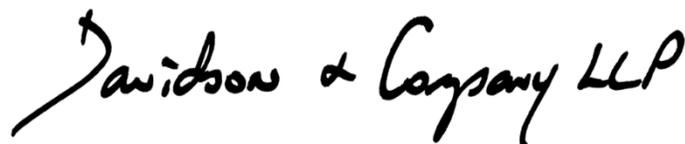
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Zachary Faure.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

October 23, 2025



Xtract One Technologies Inc.

Consolidated Statements of Financial Position as at July 31, 2025 and 2024
(Expressed in Canadian Dollars)

	July 31, 2025	July 31, 2024
Assets		
Current assets		
Cash and cash equivalents	\$ 8,220,089	\$ 8,628,521
Receivables (Note 4)	1,600,176	3,862,199
Prepaid expenses and deposits	2,328,455	949,012
Current portion of deferred cost of revenue (Note 6)	434,284	371,309
Inventory (Note 5)	2,829,437	3,688,246
	15,412,441	17,499,287
Property and equipment (Note 7)	2,351,765	2,135,956
Intangible assets (Note 8)	4,527,260	4,465,755
Non-current portion of deferred cost of revenue (Note 6)	167,850	496,868
Right of use assets (Note 9)	953,513	344,304
Total assets	\$ 23,412,829	\$ 24,942,170
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,027,553	\$ 3,991,292
Current portion of deferred revenue (Note 10)	6,142,469	3,443,524
Current portion of lease liability (Note 9)	252,104	190,400
	9,422,126	7,625,216
Non-Current liabilities		
Non-current portion of deferred revenue (Note 10)	2,426,834	3,155,579
Non-current portion of lease liability (Note 9)	878,294	190,526
	\$ 12,727,254	\$ 10,971,321
Shareholders' equity		
Share capital (Note 13)	\$ 150,239,300	\$ 144,372,452
Contributed surplus	18,535,306	16,163,950
Accumulated deficit	(158,442,649)	(146,565,553)
Accumulated other comprehensive income	353,618	-
	\$ 10,685,575	\$ 13,970,849
Total liabilities and shareholders' equity	\$ 23,412,829	\$ 24,942,170

Reporting entity (Note 1)
Basis of preparation (Note 2)
Subsequent events (Note 20)

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

Approved on behalf of the Board:

"Peter Evans"

Director, Chief Executive Officer

"Peter van der Gracht"

Director, Chairman of the Board



Xtract One Technologies Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2025 and 2024
(Expressed in Canadian Dollars)

	2025	2024
Revenue (Note 10)	\$ 13,853,553	\$ 16,358,007
Cost of revenue (Note 11)	4,774,300	6,099,988
Gross profit	\$ 9,079,253	\$ 10,258,019
Operating expenses (Note 12)		
Selling and marketing	\$ 6,208,637	\$ 5,593,432
General and administration	7,610,758	7,479,609
Research and development	6,971,625	8,265,043
Loss on inventory write-down (Note 5)	321,003	175,042
Loss on retirement of assets (Note 7)	24,199	95,066
Total operating expenses	\$ 21,136,222	\$ 21,608,192
Loss from operations	\$ (12,056,969)	\$ (11,350,173)
Interest and other income	179,873	285,318
Net loss for the year	\$ (11,877,096)	\$ (11,064,855)
Other comprehensive income for the year		
Currency translation differences from foreign operations	353,618	-
Comprehensive loss for the year	\$ (11,523,478)	\$ (11,064,855)
Weighted average number of shares	220,864,106	203,820,258
Basic and diluted loss per share	\$ (0.05)	\$ (0.05)

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



Xtract One Technologies Inc.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended July 31, 2025 and 2024
(Expressed in Canadian Dollars)

	Share Capital		Contributed surplus	AOCI ¹	Accumulated deficit	Total
	Number of shares	Amount				
Balance - July 31, 2024	218,388,237	\$ 144,372,452	\$ 16,163,950	\$ -	\$ (146,565,553)	\$ 13,970,849
Shares issued on the exercise of stock options (Notes 13, 15)	38,750	25,638	(8,669)	-	-	16,969
Shares issued on prospectus financing net of share issue costs (Note 13)	20,700,000	5,841,210	1,329,507	-	-	7,170,717
Share-based compensation (Notes 13, 14)	-	-	1,050,518	-	-	1,050,518
Other comprehensive income for the year	-	-	-	353,618	-	353,618
Loss for the year	-	-	-	-	(11,877,096)	(11,877,096)
Balance - July 31, 2025	239,126,987	\$ 150,239,300	\$ 18,535,306	\$ 353,618	\$ (158,442,649)	\$ 10,685,575
Balance - July 31, 2023	198,248,575	\$ 135,823,337	\$ 14,420,259	\$ -	\$ (135,500,698)	\$ 14,742,898
Shares issued on the exercise of warrants (Notes 13, 15)	736,683	574,928	(132,243)	-	-	442,685
Shares issued on the exercise of stock options (Notes 13, 15)	215,000	154,964	(54,777)	-	-	100,187
Shares issued on prospectus financing net of share issuance costs (Note 13)	16,100,000	6,358,056	780,265	-	-	7,138,321
Shares issued on private placement financing net of share issuance costs (Note 13)	3,087,979	1,461,167	113,702	-	-	1,574,869
Share-based compensation (Notes 13, 14)	-	-	1,036,744	-	-	1,036,744
Loss for the year	-	-	-	-	(11,064,855)	(11,064,855)
Balance - July 31, 2024	218,388,237	\$ 144,372,452	\$ 16,163,950	\$ -	\$ (146,565,553)	\$ 13,970,849

(¹) AOCI is Accumulated Other Comprehensive Income.

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



Xtract One Technologies Inc.

Consolidated Statements of Cash Flows
For the years ended July 31, 2025 and 2024
(Expressed in Canadian Dollars)

	2025	2024
Cash flow used in operating activities		
Loss for the year	\$ (11,877,096)	\$ (11,064,855)
Adjustment for:		
Share-based compensation (Notes 12, 13, 14)	1,050,518	1,036,744
Depreciation (Notes 7, 9, 12)	1,492,479	1,303,571
Amortization (Notes 8, 12)	846,175	805,900
Finance cost (Notes 9, 15)	45,181	22,420
Loss on retirement of assets (Note 7)	24,199	95,066
Loss on inventory (Note 5)	321,003	175,042
	(8,097,541)	(7,626,112)
Changes in non-cash working capital		
Receivables	2,313,323	(3,014,770)
Prepaid expenses and deposits	(1,374,687)	77,656
Inventory	(674,107)	(4,522,739)
Deferred cost of revenue (Note 6)	265,837	250,853
Accounts payable and accrued liabilities	(977,276)	1,471,942
Deferred revenue	2,003,964	5,219,362
Cash used in operating activities	(6,540,487)	(8,143,808)
Cash flow used in investing activities		
Purchase of property, plant and equipment (Note 7)	(185,725)	-
Internally developed intangible assets (Note 8)	(729,730)	(427,955)
Proceeds from disposal of property, plant and equipment (Note 7)	163,259	-
Acquisition of right of use asset, net of right of use liabilities (Note 9)	(4,518)	(1,800)
Cash used in investing activities	(756,714)	(429,755)
Cash flow generated in financing activities		
Net proceeds on issue of share capital (Note 13)	7,187,687	9,256,062
Lease payments (Note 9)	(285,350)	(381,427)
Cash received from financing activities	6,902,337	8,874,635
Effect of exchange rate changes on cash and cash equivalents	(13,568)	-
Net (decrease) increase in cash and cash equivalents for the year	\$ (408,432)	\$ 301,072
Cash and cash equivalents beginning of the year	8,628,521	8,327,449
Cash and cash equivalents end of the year	\$ 8,220,089	\$ 8,628,521

Supplemental cash flow information. (Note 15)

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



Xtract One Technologies Inc.

Notes to the Consolidated Financial Statements
For the years ended July 31, 2025, and 2024
(Expressed in Canadian Dollars)

1. Reporting entity

Xtract One Technologies Inc. (the “Company”) was incorporated under the *Business Corporation Act* of British Columbia. Its common shares (“Common Shares”) are listed under the trading symbol “XTRA” on the Toronto Stock Exchange (the “TSX”) in Canada, “XTRAF” on the OTCQX Best Market in the United States, and “OPL” on the Frankfurt Stock Exchange in Germany. Certain Common Share purchase warrants of the Company (“Warrants”) are also listed under the trading symbol “XTRA.WT” on the TSX in Canada. The Company’s wholly-owned subsidiaries include Xtract One Detection Ltd. (“Xtract Detection”), Patriot One (UK) Limited (“Patriot UK”), Xtract One (US) Technologies Inc. (“Xtract US”), EhEye Inc. (“EhEye”) and Xtract Technologies Inc. (“Xtract Technologies”). The principal business of the Company is the development and commercialization of an integrated, layered, AI-powered threat detection gateway solutions to enhance public health and safety.

The Company’s head office is located at 55 York Street, Suite 1100, Toronto, Ontario, Canada, M5J 1R7, and its registered and records office is located at Bentall 5, 2501 - 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements, including the comparative period, have been prepared in accordance with IFRS – Accounting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), and on a going concern basis. These consolidated financial statements were approved for issuance by the Board of Directors (the “Board”) on October 23, 2025.

(b) Principles of consolidation

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

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

(c) Functional currency, presentation currency and foreign currency translation

The functional currency of the Company and all of its subsidiaries is the Canadian dollar, except for Xtract US whose functional currency is the U.S. dollar. The functional currency of Xtract US changed from Canadian dollars to U.S. dollars as of August 1, 2024.



Xtract One Technologies Inc.

Notes to the Consolidated Financial Statements
For the years ended July 31, 2025, and 2024
(Expressed in Canadian Dollars)

These consolidated financial statements are presented in Canadian dollars.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statements of loss and comprehensive loss.

The financial statements of Xtract US, which have a functional currency that is different from the presentation currency of Canadian dollars, are translated into Canadian dollars as follows: assets and liabilities at the closing rate at the date of the consolidated statements of financial position, and income and expenses at the average rate of the period as this is considered a reasonable approximation to actual rates. All resulting changes are recognized in other comprehensive income (loss) as translation adjustments.

(d) Basis of measurement

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

(e) Comparative figures

The Company has reclassified comparative figures for the prior period Operating Expenses in Note 12 to align with the current period presentation. As a result, the Company has reclassified the amount of \$486,408 and \$221,394 from Other operating expenses to Information technology and Tradeshows and other marketing expenses respectively, for a total reclassification of \$707,802.

3. Material accounting policies

(a) Deferred cost of revenue

During the year ended July 31, 2025, the Company incurred costs for hardware and software delivered to customers in advance of recognizing revenue. These costs are recorded as deferred costs of revenue and are carried forward until the related revenues are recognized, at which time they are expensed. Deferred cost of revenue is recorded at the lower of cost and net realizable value. For the year ended July 31, 2025, the Company recognized \$114,578 (Note 6) (July 31, 2024 - 1,045,377) as deferred cost of revenue, and expensed amortization of \$380,621 (Note 6) (July 31, 2024 - \$250,853) as a component of cost of revenue.



Xtract One Technologies Inc.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)

(b) Revenue recognition

The main revenue streams for the Company include upfront commercial sales and subscription sales. Upfront commercial are made to either resellers or direct customers and revenue is recognized upon acceptance. Consideration for service and maintenance obligations is recognized as revenue over the term of the contract or when the service is provided as the obligation is met. Revenue from subscription sales is recognized over the duration of the subscription period on a straight-line basis.

(c) Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (loss).

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and cash equivalents and receivables are measured at amortized cost with subsequent impairments recognized in the statement of profit or loss.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to the estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the statement of profit or loss for the year.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.



Xtract One Technologies Inc.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)

Financial liabilities

Financial liabilities are designated and subsequently measured as either: (i) fair value through profit or loss; or (ii) amortized cost. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified and carried on the statement of financial position at amortized cost.

As of July 31, 2025, and 2024, the Company does not have any derivative financial liabilities.

(d) Intangible assets

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company has the intention and sufficient resources to complete development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditures are recognized in the statement of profit or loss as incurred. In subsequent periods, capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

The useful life of intangible assets is considered either finite or indefinite.

When the Company assesses the intangible asset life as finite, it applies a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its estimated residual value. Amortization is recognized in profit or loss on a sales-based rate over the estimated useful lives of the intangible assets from the date they are available for use. Where a sales-based rate could not be determined, the straight-line approach is used. Intangible assets arising from a service concession arrangement are amortized according to the unit of production method. These methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.



Xtract One Technologies Inc.

Notes to the Consolidated Financial Statements
For the years ended July 31, 2025, and 2024
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Intangible assets assessed with indefinite useful lives are not periodically amortized but are tested for impairment at least annually, either at the individual level or cash-generating unit level. An assessment is made at least annually to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Internally generated intangible assets are not systematically amortized while they are not available for use (i.e., they are not yet on site or in working condition for their intended use). Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

(e) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are periodically reviewed for impairment due to slow-moving and obsolete inventory. The provisions for obsolete, slow-moving, or defective inventories are recognized in the statements of loss and comprehensive loss. Previous write-downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of the inventories.

(f) Loss per share

Basic loss per share is calculated using the weighted average number of Common Shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, Warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, Warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase Common Shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and the exercise of options and Warrants that would be anti-dilutive.

(g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.



Xtract One Technologies Inc.

Notes to the Consolidated Financial Statements
For the years ended July 31, 2025, and 2024
(Expressed in Canadian Dollars)

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of profit or loss in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized.

(h) Cash and cash equivalents

Cash and cash equivalents consist of balances and investments in highly liquid short-term deposits, which may be converted into cash within 24 hours. Deposits with banks and short-term interest-bearing investments with an original term to maturity greater than three months but less than one year are presented as short-term investments.

As at July 31, 2025, the Company held a number of fixed guaranteed investment certificates ("GIC") valued at \$69,350 (July 31, 2024 - \$69,350), which are included and presented as cash equivalents. These GICs are considered highly liquid and readily convertible into cash, and as such, they are included in the calculation of cash and cash equivalents.

(i) Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of financial liability or financial asset. The Company's Common Shares are classified as equity instruments. Incremental costs directly attributable to the issue of new Common Shares are shown in equity as a deduction, net of tax, from the proceeds.

Proceeds from unit placements are allocated between Common Shares and Warrants using the residual value method which first allocates value to the more easily measurable component, Common Shares, as determined by the closing market price on the date of the announcement. The balance is then allocated to the attached Warrants.

(j) Share-based compensation

The Company may grant stock options of the Company to allow directors, officers, employees, and consultants to acquire Common Shares of the Company. Stock options granted to directors, officers, and employees are measured at their fair values determined on the date of grant using the Black-Scholes option pricing model and recognized as an expense over the vesting periods of the options.

Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from these parties, or at their Black-Scholes fair value if the fair value of the goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.



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(k) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated as the cost of property and equipment less the estimated residual value over the estimated useful lives of the assets on a declining balance basis and is recognized in profit or loss. The depreciation rates are as follows:

Furniture and fixtures	22%
Office equipment	25%
Computer hardware	55%
Leasehold improvements	Straight line over the term of the lease
Subscription and demo assets	Straight line over its useful life (three years)

Depreciation methods and useful lives are reviewed at each financial year end and adjusted if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in the statement of profit or loss. When property and equipment are disposed of through asset retirement in which no proceeds are obtained, the loss is recorded through loss on retirement of assets on the consolidated statements of loss and comprehensive loss.

(l) Leases

Leases are accounted for in accordance with IFRS 16 – *Leases* (“IFRS 16”). At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right of use asset and a right of use liability at the lease commencement date. The right of use asset is initially measured based on the initial amount of the right of use liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The assets are depreciated over the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right of use asset can be periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the right of use liability.

The right of use liability is initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. The right of use liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the right of use liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use asset. The Company has elected to apply the following practical recognition exemptions and practical expedients, as described under IFRS 16:



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- recognition exemption of short-term leases;
- recognition exemption of low-value leases;
- application of a single discount rate to a portfolio of leases with similar characteristics on transition;
- exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
- application of hindsight in determining the applicable lease term at the date of transition; and
- election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(m) Impairment of non-financial assets

All intangible assets are periodically reviewed for impairment. The estimated present value of future cash flows associated with the intangible asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, and the resulting loss is directly recognized in the statement of profit or loss for the year.

All property and equipment and definite life intangibles are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable value is the higher of an asset's fair value, less costs of disposal and value in use. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

(n) Material accounting judgments, estimates, and assumptions

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

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

Share-based compensation

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



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Deferred income tax assets and liabilities

The measurement of deferred income tax provision is subject to the uncertainty associated with the timing of future events and changes in legislation, tax rates, and interpretations by tax authorities.

The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before the expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

Treatment of development costs

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically, and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends, and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible.

Estimated useful lives, depreciation, and amortization of property and equipment and intangible assets

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

Right of use lease assets and liabilities

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



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Revenue recognition

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

Going concern

The preparation of the Company's consolidated financial statements requires management to identify whether the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. To assess this, the Company must identify events and conditions that may indicate significant doubt about the Company's ability to continue as a going concern. The Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The ability of the Company to continue as a going concern is dependent on either a single or a combination of events occurring - obtaining additional financing through the issuance of debt or equity, and/or generating profit through its operations. There is a risk that additional financing will not be available on a timely basis or terms acceptable to the Company or that profitable operations will not be achieved. These matters result in material uncertainties which may cast significant doubt on whether the Company will continue as a going concern.

The Company manages its liquidity risk to meet its contractual obligations by ensuring there is appropriate cash on hand and obtaining other opportunities for financing. The Company identifies when funds are required through the planning and budgeting process to support the Company's normal operations. The Company's ability to continue as a going concern involves significant judgments and estimates while determining forecasted cash flows and is dependent on the Company's ability to obtain financing.

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

(o) New accounting standards issued but not yet in effect

Presentation and Disclosure in Financial Statement (IFRS 18)

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* ("IFRS 18") which replaces IAS 1 *Presentation of Financial Statements*.



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IFRS 18 introduces:

- i. new requirements on presentation within the statement of profit or loss;
- ii. disclosure standards regarding management defined performance measures; and
- iii. principles for aggregation and disaggregation of financial information in the financial statements and the notes.

IFRS 18 will be effective for annual reporting periods beginning on or after January 1, 2027. IFRS 18 is to be applied retrospectively. The Company is currently assessing the impact that IFRS 18 will have on its consolidated financial statements.

4. Receivables

Receivables are comprised of the following:

	<u>July 31, 2025</u>	<u>July 31, 2024</u>
Trade receivables	\$ 1,416,532	\$ 3,268,990
Taxes receivable	183,644	593,209
	<u>\$ 1,600,176</u>	<u>\$ 3,862,199</u>

As of July 31, 2025, the Company had made a provision of \$nil for uncollectible accounts (July 31, 2024 - \$53,068).

5. Inventory

The Company's inventory consists of hardware components and finished goods that will be used in its product offerings and is summarized below:

	<u>July 31, 2025</u>	<u>July 31, 2024</u>
Components and work-in-progress	\$ 341,335	\$ 375,653
Finished goods	2,488,102	3,312,593
	<u>\$ 2,829,437</u>	<u>\$ 3,688,246</u>

During the year ended July 31, 2025, the Company recorded total inventory sold of \$2,664,724 (2024 - \$2,978,281) under the cost of revenue. The Company has reclassified inventory in the amount of \$1,534,395 (July 31, 2024 - \$2,231,085) to subscription and demo assets (Note 7), \$37,939 (July 31, 2024 - \$45,865) to office equipment (Note 7) and \$nil (July 31, 2024 - \$1,045,377) to deferred cost of revenue (Note 6). As of July 31, 2025, the Company had outstanding purchase obligations of \$2,023,958 (July 31, 2024 - \$2,850,453) related to future finished goods for the product offerings that will be drawn down within the next year. During the year ended July 31, 2025, the Company recognized a loss of \$321,003 (2024 - \$175,042) related to obsolete inventory.

6. Deferred cost of revenue

The Company's deferred cost of revenue consists of hardware and software delivered to customers in advance of recognizing revenue, and is summarized below:

	Deferred cost of revenue
Cost	
Balance at July 31, 2023	\$ -
Additions	1,561,774
Reclassification	(516,397)
Balance at July 31, 2024	1,045,377
Additions	114,578
Balance at July 31, 2025	\$1,159,955
Accumulated amortization	
Balance at July 31, 2023	\$ -
Amortization	250,853
Reclassification	(73,653)
Balance at July 31, 2024	177,200
Amortization	380,621
Balance at July 31, 2025	\$ 557,821
Carrying amount as at July 31, 2024	\$ 868,177
Carrying amount as at July 31, 2025	\$ 602,134
Current portion of deferred cost of revenue	(434,284)
Non-current portion of deferred cost of revenue	\$ 167,850

These costs are deferred until the corresponding revenues are recognized, at which point they are amortized to cost of revenue. For the year ended July 31, 2025, the Company recognized \$114,578 in deferred cost of revenue (July 31, 2024 - \$1,045,377), expensed \$380,621 to cost of revenue (2024 - \$250,853), and reclassified a net of \$nil to inventory (July 31, 2024 - \$442,744).



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7. Property and equipment

Details of the Company's property and equipment as at July 31, 2025, and July 31, 2024, are as follows:

	Office equipment	Computer hardware	Furniture & fixtures	Subscription & demo assets	Leasehold improvements	Total
Cost						
Balance at July 31, 2023	\$ 1,612,488	\$ 490,792	\$ 154,766	\$ 1,564,316	\$ 244,178	\$ 4,066,540
Additions	-	-	-	-	-	-
Reclassification	45,865	-	-	678,000	-	723,865
Retirement of assets	(217,881)	(164,509)	-	-	(85,910)	(468,300)
Balance at July 31, 2024	\$ 1,440,472	\$ 326,283	\$ 154,766	\$ 2,242,316	\$ 158,268	\$ 4,322,105
Foreign currency translation	4,349	-	-	69,738	-	74,087
Additions	-	-	-	-	185,725	185,725
Reclassification	37,939	-	-	1,210,864	-	1,248,803
Retirement of assets	-	-	(29,939)	(43,230)	(188,010)	(261,179)
Balance at July 31, 2025	\$ 1,482,760	\$ 326,283	\$ 124,827	\$ 3,479,688	\$ 155,983	\$ 5,569,541
Accumulated depreciation						
Balance at July 31, 2023	\$ 1,039,696	\$ 431,589	\$ 100,512	\$ 292,855	\$ 138,071	\$ 2,002,723
Depreciation	144,909	29,385	11,936	738,367	51,590	976,187
Reclassification	-	-	-	(419,527)	-	(419,527)
Retirement of assets	(142,272)	(161,313)	-	-	(69,649)	(373,234)
Balance at July 31, 2024	\$ 1,042,333	\$ 299,661	\$ 112,448	\$ 611,695	\$ 120,012	\$ 2,186,149
Foreign currency translation	1,988	-	-	28,288	-	30,276
Depreciation	105,961	11,926	8,179	946,636	34,826	1,107,528
Reclassification	(3,021)	-	-	(29,436)	-	(32,457)
Retirement of assets	-	-	(20,520)	(30,884)	(22,317)	(73,721)
Balance at July 31, 2025	\$ 1,147,261	\$ 311,587	\$ 100,107	\$ 1,526,299	\$ 132,521	\$ 3,217,775
Carrying amount as at July 31, 2024	\$ 398,139	\$ 26,622	\$ 42,318	\$ 1,630,621	\$ 38,256	\$ 2,135,956
Carrying amount as at July 31, 2025	\$ 335,499	\$ 14,696	\$ 24,720	\$ 1,953,389	\$ 23,461	\$ 2,351,765

During the year ended July 31, 2025, the Company recorded depreciation of subscription assets in the amount of \$806,740 (2024 - \$691,264) under the cost of revenue (Note 11). During the year ended July 31, 2025, the Company wrote off \$24,199 in disposals of property and equipment (2024 - \$95,066), which excludes \$163,259 associated with a write down of leasehold improvement assets after the application of lease incentives.



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8. Intangible assets

The carrying values of intangible assets as at July 31, 2025, and July 31, 2024, are as follows:

	Quasar licensed distribution rights	EhEye intellectual property	Internally developed intellectual property	Total
Cost				
Balance at July 31, 2023	\$ 6,574,000	\$ 1,250,000	\$ 235,000	\$ 8,059,000
Additions	-	-	427,955	427,955
Balance at July 31, 2024	\$ 6,574,000	\$ 1,250,000	\$ 662,955	\$ 8,486,955
Foreign currency translation	348,000	-	-	348,000
Additions	-	-	729,730	729,730
Balance at July 31, 2025	\$ 6,922,000	\$ 1,250,000	\$ 1,392,685	\$ 9,564,685
Accumulated amortization				
Balance at July 31, 2023	\$ 2,658,425	\$ 468,750	\$ 88,125	\$ 3,215,300
Amortization	657,400	125,000	23,500	805,900
Balance at July 31, 2024	\$ 3,315,825	\$ 593,750	\$ 111,625	\$ 4,021,200
Foreign currency translation	170,050	-	-	170,050
Amortization	697,675	125,000	23,500	846,175
Balance at July 31, 2025	\$ 4,183,550	\$ 718,750	\$ 135,125	\$ 5,037,425
Carrying amount as at July 31, 2024	\$ 3,258,175	\$ 656,250	\$ 551,330	\$ 4,465,755
Carrying amount as at July 31, 2025	\$ 2,738,450	\$ 531,250	\$ 1,257,560	\$ 4,527,260

Quasar - Licensed distribution rights

In June 2019, the Company entered into a licensing agreement with Quasar Federal Systems, Inc. ("Quasar") receiving a perpetual, worldwide, exclusive, fully paid-up, transferable, and irrevocable license (with a right of sublicense) to use Quasar's intellectual property in exchange for an aggregate cash consideration of \$6,574,000 (US\$5,000,000). The Quasar license includes access to patented sensor technology and patent-pending magnetic detection and security screening technology. The Company also has the right to engage Quasar's development team to assist with future modifications to the technology, as well as manufacturing and implementation engineering. The license was recognized as an intangible asset and is amortized over its estimated useful life of ten years. The remaining useful life of the Quasar license is approximately four years.

EhEye - Intellectual property

In connection with the acquisition of EhEye during the year ended July 31, 2019, the Company acquired intellectual property of \$1,250,000. As at November 1, 2019, the Company determined that this technology was ready for commercial use and began amortizing the acquired intellectual property over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately four years.



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Internally developed intellectual property

In fiscal 2019 and 2020, the Company determined that \$235,000 of directly attributable development expenditures met the criteria for capitalization. As at November 1, 2019, the Company determined that this technology was ready for commercial use and began amortizing the capitalized development costs over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately four years.

During fiscal 2024, the Company had capitalized \$427,955 of qualifying development expenditure. In fiscal 2025, the Company determined that a further \$729,730 of directly attributable development expenditures met the criteria for capitalization. As at July 31, 2025, the Company has determined that this technology is not yet available for commercial use, but will be in fiscal year 2026, therefore amortization on the capitalized expenditures is expected to commence in the next fiscal year.

9. Right of use assets and lease liabilities

The Company has recorded the right of use assets and lease liabilities in its statements of financial position related to three properties for which the Company has entered into office lease agreements with an initial term of one year or more. These leases have been classified as a single class of right of use assets under office leases. During the year ended July 31, 2025, the Company remeasured its right of use asset and liability for one of its properties due to application of lease incentives applied to leasehold improvements and entered into one new office lease agreement. The acquisition cost of the new lease agreement was \$5,028 (July 31, 2024 - \$1,800), which was capitalized as part of the right of use asset.

The carrying amounts of the Company's right of use assets, liabilities, and the movements for the year ended July 31, 2025, and the year ended July 31, 2024, are as follows:

	<u>Right of use assets</u>	<u>Right of use liabilities</u>
As at July 31, 2023	\$ 286,796	\$ 356,841
Additions	242,181	240,381
Depreciation	(327,384)	-
Finance costs (Note 15)	-	22,420
Remeasurement	142,711	142,711
Lease payments	-	(381,427)
As at July 31, 2024	\$ 344,304	\$ 380,926
Additions	868,375	863,856
Depreciation	(384,951)	-
Finance costs (Note 15)	-	45,181
Remeasurement	125,785	125,785
Lease payments	-	(285,350)
As at July 31, 2025	\$ 953,513	\$ 1,130,398



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

<u>Fiscal year</u>	<u>Amount</u>
2026	\$ 290,638
2027	313,901
2028	249,089
2029	235,277
2030	137,248
<u>Effects of discounting</u>	<u>(95,755)</u>
Right of use liabilities	\$ 1,130,398
<u>Current portion of right of use liabilities</u>	<u>(252,104)</u>
<u>Non-current portion of right of use liabilities</u>	<u>\$ 878,294</u>

During the year ended July 31, 2025, there were no short term or low value leases recorded (2024 - \$nil).

10. Revenue

The Company recognized \$13,853,553 (2024 - \$16,358,007) of revenue during the year ended July 31, 2025. As at July 31, 2025, accounts receivable pertaining to revenue was \$1,416,532 (July 31, 2024 - \$3,268,990) and deferred revenue was \$8,569,303 (July 31, 2024 - \$6,599,103).

Deferred revenue consists of advance payments received from customers for the future sale of or subscription to use the Company's products. The Company estimates that these amounts will be recognized as revenue under the following timelines:

<u>Fiscal year</u>	<u>Amount</u>
2026	\$ 6,142,469
2027	1,902,453
2028	458,594
2029	63,223
2030	2,564
	<u>\$ 8,569,303</u>
<u>Current portion of deferred revenue</u>	<u>(6,142,469)</u>
<u>Non-current portion of deferred revenue</u>	<u>\$ 2,426,834</u>

Revenue from two customers represented 27% of the Company's total revenue for the year ended July 31, 2025 (2024 – two customers represented 28%).



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The Company has a backlog of contracted sales that has not yet been recognized as revenue but will be recognized in future periods as performance obligations are met. It is estimated that these commitments will be recognized as revenue under the following timelines:

	Less than one year	Greater than one year	Total backlog July 31,	
			2025	2024
Total backlog*	\$ 7,431,696	\$ 8,041,790	\$ 15,473,486	\$ 13,787,836

* Backlog figures exclude contracted sales that are pending installation.

11. Cost of revenue

The breakdown of expenses incurred as part of the cost of revenue is as follows:

	Year ended July 31,	
	2025	2024
Product	\$ 3,252,275	\$ 4,150,855
Installation	143,398	474,031
Shipping	240,258	312,729
Depreciation	806,740	691,264
Salaries and commissions	331,629	471,109
	\$ 4,774,300	\$ 6,099,988



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12. Operating expenses

The Company's operating expenses are comprised of the following:

	Year ended July 31, 2025			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	\$ 4,333,196	\$ 4,677,223	\$ 3,702,461	\$ 12,712,880
Professional fees	429,962	45,776	-	475,738
Facilities	290,431	100,475	-	390,906
Tradeshows and advertising	271,997	-	2,080,465	2,352,462
Development supplies	-	647,069	-	647,069
Insurance	313,837	-	-	313,837
Share-based compensation (Note 13)	608,680	306,701	135,137	1,050,518
Depreciation (Note 7, 9)	546,194	-	139,545	685,739
Amortization (Note 8)	-	846,175	-	846,175
Information technology	429,275	4,601	142,722	576,598
Other	387,186	343,605	8,307	739,098
	\$ 7,610,758	\$ 6,971,625	\$ 6,208,637	\$ 20,791,020

	Year ended July 31, 2024			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	\$ 4,137,337	\$ 4,939,599	\$ 3,445,188	\$ 12,522,124
Professional fees	573,235	86,585	-	659,820
Facilities	193,640	95,138	-	288,778
Tradeshows and advertising	221,394	-	1,866,405	2,087,799
Development supplies	-	1,801,414	-	1,801,414
Insurance	239,869	-	-	239,869
Share-based compensation (Note 13)	679,331	265,494	91,920	1,036,745
Depreciation (Note 7, 9)	565,199	-	47,108	612,307
Amortization (Note 8)	-	805,900	-	805,900
Information technology	328,782	16,967	140,659	486,408
Other	540,822	253,946	2,152	796,920
	\$ 7,479,609	\$ 8,265,043	\$ 5,593,432	\$ 21,338,084

13. Share capital

Authorized capital

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



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Share capital

The issued and outstanding share capital is as follows:

	Year ended July 31, 2025		Year ended July 31, 2024	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	218,388,237	\$ 144,372,452	198,248,575	\$ 135,823,337
Shares issued on the exercise of warrants	-	-	736,683	574,928
Shares issued on the exercise of stock options	38,750	25,638	215,000	154,964
Shares issued on prospectus financing, net of share issue costs	20,700,000	5,841,210	16,100,000	6,358,056
Shares issued on private placement financing, net of share issue costs	-	-	3,087,979	1,461,167
Balance end of year	239,126,987	\$ 150,239,300	218,388,237	\$ 144,372,452

On June 18, 2025, the Company issued a total of 20,700,000 units (“Units”) at a price of \$0.39 per Unit for aggregate gross proceeds of \$8,073,000 pursuant to a prospectus financing (the “2025 Prospectus Offering”), which included the issuance of 18,000,000 Units and an additional 2,700,000 Units in connection with the full exercise of the underwriter’s over-allotment option. Each Unit consisted of one common share of the Company (each, a “Common Share”) and one Warrant, with each Warrant exercisable into one Common Share until June 18, 2028, at an exercise price of \$0.49. The Warrants issued in the 2025 Prospectus Offering, including those from the over-allotment, were assigned a fair value of \$0.055 per Warrant, resulting in an aggregate fair value of \$1,138,500, calculated using the residual value approach in which proceeds are first allocated to the Common Shares based on the closing market price on the date of issuance, with any residual balance allocated to the Warrants.

In connection with the 2025 Prospectus Offering, the Company paid cash commissions of \$565,110 and issued 1,449,000 non-transferable Warrants to the underwriter of the 2025 Prospectus Offering (the “Underwriter’s Warrants”). The total fair value of the Underwriter’s Warrants was \$191,007 with each Underwriter’s Warrant exercisable into one Common Share at an exercise price of \$0.39 until June 18, 2028.

The total fair value of \$191,007 of the Underwriter’s Warrants was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	June 18, 2025
Expected life (in years)	3
Expected market volatility of shares	60.0%
Share price	\$ 0.36
Expected dividend rate	0%
Exercise price	\$ 0.39
Risk-free interest rate	2.69%
Weighted average fair value per warrant granted	\$ 0.132

Additional transaction costs associated with the 2025 Prospectus Offering were \$337,173.



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During the fiscal year ended July 31, 2024, the Company completed a public offering (the “2024 Prospectus Offering”) and concurrent private placement (the “Private Placement”). On April 24, 2024, the Company issued 14,057,500 Units at a price of \$0.51 per Unit pursuant to the 2024 Prospectus Offering for gross proceeds of \$7,169,325. Each Unit consisted of one Common Share and one Warrant exercisable at a price of \$0.64 until April 24, 2027. Concurrently, the Company completed a private placement with Madison Square Garden Sports Corp. (“MSG Sports”) and issued 2,696,228 Units (each, an “MSG Unit”) at a price of \$0.51 per MSG Unit for gross proceeds of \$1,375,076, with each MSG Unit consisting of one Common Share and one Warrant (each, an “MSG Warrant”) on the same terms. In connection with the 2024 Prospectus Offering, the Company paid cash commissions of \$500,800 and issued 981,960 non-transferable Warrants to the agents (the “Agents’ Warrants”), each exercisable at \$0.51 until April 24, 2026.

On May 1, 2024, the Company issued an additional 2,042,500 Units upon the full exercise of the over-allotment option granted to the agents under the 2024 Prospectus Offering for additional gross proceeds of \$1,041,575 and concurrently issued 391,751 MSG Units to MSG Sports for gross proceeds of \$199,793. In connection with the over-allotment, the Company paid additional commissions of \$72,917 and issued 142,975 Agents’ Warrants with a total fair value of \$20,988.

The Company measured the fair value of all Warrants and MSG Warrants underlying the Units and MSG Units, respectively, using the residual value approach, whereby proceeds are first allocated to the Common Shares based on the closing market price on the issuance date, with any residual balance allocated to the related Warrants and MSG Warrants. The fair value of the Agents’ Warrants was determined using the Black-Scholes option pricing model, with key assumptions summarized in the table below:

	<u>May 1, 2024</u>	<u>April 24, 2024</u>
Expected life	2 years	2 years
Expected market volatility of shares	66.0%	66.0%
Share price	\$ 0.45	\$ 0.49
Expected dividend rate	0%	0%
Exercise price	\$ 0.51	\$ 0.51
Risk-free interest rate	3.81%	3.82%
Weighted average fair value per warrant granted	\$ 0.147	\$ 0.170

Additional transaction costs associated with the 2024 Prospectus Offering and Private Placement were \$498,965.



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Warrants

Warrant activity for the years ended July 31, 2025, and July 31, 2024, is as follows:

	Year ended July 31, 2025		Year ended July 31, 2024	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of year	61,075,159	0.63	41,548,456	0.63
Warrants issued on financing	22,149,000	0.48	20,312,914	0.63
Warrants exercised	-	-	(736,683)	0.60
Warrants expired	(8,836,650)	0.75	(49,528)	0.60
Balance end of year	74,387,509	\$ 0.57	61,075,159	\$ 0.63

As at July 31, 2025, outstanding Warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
1,124,935	\$ 0.51	April 24, 2026	9
19,187,979	\$ 0.64	April 24, 2027	21
20,000,000	\$ 0.60	February 10, 2028	30
11,925,595	\$ 0.60	April 12, 2028	32
22,149,000	\$ 0.48	June 18, 2028	35
74,387,509	\$ 0.57		29.1

Incentive Awards

The Company offers an omnibus equity incentive plan (the "Omnibus Plan") that provides for the granting of incentive awards of up to 10% of its issued and outstanding Common Shares to directors, officers, employees, and consultants. Incentive awards may consist of options, restricted share units, deferred share units, performance share units, and other share-based awards. The exercise price of each option is equal to the quoted market price of the Company's Common Shares on the five-day volume weighted average price immediately preceding the date of grant with a maximum term of five years. Vesting terms, if any, are set at the discretion of the Board. During the year ended July 31, 2025, and the year ended July 31, 2024, other than stock options as discussed herein, no other incentive awards were issued or outstanding under the Omnibus Plan.



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The stock option activity for the years ended July 31, 2025, and July 31, 2024, are as follows:

	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of year	11,250,204	\$ 0.65	9,680,386	\$ 0.75
Granted	4,018,750	0.64	3,474,818	0.70
Exercised	(38,750)	0.44	(215,000)	0.47
Forfeited / Expired	(1,126,000)	0.81	(1,690,000)	1.36
Balance end of year	14,104,204	\$ 0.63	11,250,204	\$ 0.65

During the year ended July 31, 2025, the Company recognized share-based compensation related to stock options of \$1,050,518 (2024 - \$1,036,744).

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

	Year ended July 31,	
	2025	2024
Expected life	3.4 years	3.4 years
Expected market volatility of shares	65.0%	69.0%
Share price	\$ 0.66	\$ 0.67
Expected dividend rate	0%	0%
Exercise price	\$ 0.64	\$ 0.69
Risk-free interest rate	3.11%	4.08%
Weighted average fair value per option granted	\$ 0.304	\$ 0.320



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Details of the outstanding stock options as at July 31, 2025, are as follows:

Number of stock options outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)	Number of stock options exercisable	Weighted average exercise price
250,000	\$ 0.97	August 10, 2025 *	0.3	250,000	\$ 0.97
30,000	\$ 0.56	October 29, 2025	3.0	30,000	\$ 0.56
720,000	\$ 0.57	November 11, 2025	3.4	720,000	\$ 0.57
60,000	\$ 0.49	March 22, 2026	7.7	60,000	\$ 0.49
770,000	\$ 0.52	June 15, 2026	10.5	770,000	\$ 0.52
135,000	\$ 0.43	October 25, 2026	14.8	135,000	\$ 0.43
135,000	\$ 0.44	December 8, 2026	16.3	135,000	\$ 0.44
882,500	\$ 0.73	February 16, 2027	18.5	882,500	\$ 0.73
100,000	\$ 0.54	April 1, 2027	20.0	100,000	\$ 0.54
150,000	\$ 0.54	April 4, 2027	20.1	150,000	\$ 0.54
700,000	\$ 0.57	April 13, 2027	20.4	700,000	\$ 0.57
125,000	\$ 0.46	June 14, 2027	22.5	125,000	\$ 0.46
125,000	\$ 0.42	July 11, 2027	23.4	125,000	\$ 0.42
554,000	\$ 0.38	October 3, 2027	26.1	402,375	\$ 0.38
1,000,000	\$ 0.50	January 13, 2028	29.4	1,000,000	\$ 0.50
448,348	\$ 0.69	March 17, 2028	31.6	448,348	\$ 0.69
250,000	\$ 0.75	April 24, 2028	32.8	187,500	\$ 0.75
86,644	\$ 0.95	June 16, 2028	34.5	64,983	\$ 0.95
400,000	\$ 0.90	July 1, 2028	35.0	300,000	\$ 0.90
101,644	\$ 0.91	July 10, 2028	35.3	76,233	\$ 0.91
1,926,250	\$ 0.68	October 3, 2028	38.1	959,375	\$ 0.68
555,068	\$ 0.69	February 7, 2029	42.2	277,534	\$ 0.69
106,000	\$ 0.69	March 15, 2029	43.5	53,000	\$ 0.69
650,000	\$ 0.75	July 9, 2029	47.3	650,000	\$ 0.75
3,084,000	\$ 0.67	October 7, 2029	50.2	771,000	\$ 0.67
50,000	\$ 0.68	November 4, 2029	51.1	12,500	\$ 0.68
550,000	\$ 0.50	February 7, 2030	54.2	137,500	\$ 0.50
59,750	\$ 0.51	February 14, 2030	54.5	14,938	\$ 0.51
100,000	\$ 0.40	April 4, 2030	56.1	25,000	\$ 0.40
14,104,204	\$ 0.63		33.5	9,562,786	\$ 0.63

* Options were unexercised and expired subsequent to year end.

Loss per share

Stock options and Warrants are not included in the calculation of fully diluted loss per share for the year ended July 31, 2025, and 2024, as these instruments are anti-dilutive.

14. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board and corporate officers. During the year ended July 31, 2025, one additional employee was added as a key executive officer. Key management compensation earned by officers and directors of the Company



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during the year ended July 31, 2025, was \$2,414,650 (2024 - \$2,055,732). In addition, share-based compensation expense relating to key management for the year ended July 31, 2025, was \$667,532 (2024 - \$668,840).

As at July 31, 2025, there was \$487,995 (July 31, 2024 - \$482,000) in accounts payable and accrued liabilities due to officers and directors of the Company or to companies controlled by directors and officers of the Company. There were no other related party transactions during the years ended July 31, 2025, and 2024.

15. Supplemental cash flow information

Non-cash financing and investing activities during the year ended July 31, 2025, conducted by the Company are as follows:

Transfer of inventory to property and equipment (Notes 5, 7)	\$	1,248,803
Fair value of 20,700,000 Warrants issued to investors (Note 13)	\$	1,138,500
Fair value of 1,449,000 Warrants issued for broker fee (Note 13)	\$	191,007
Transfer of contributed surplus on the exercise of stock options	\$	8,669

Non-cash financing and investing activities during the year ended July 31, 2024, conducted by the Company are as follows:

Transfer of inventory to property and equipment (Notes 5, 7)	\$	2,276,950
Transfer of inventory to deferred cost of revenue (Note 5)	\$	1,045,377
Fair value of 1,124,935 Warrants issued for broker fee (Note 13)	\$	187,449
Fair value of 19,187,979 Warrants issued to investors (Note 13)	\$	706,518
Transfer of contributed surplus on the exercise of Warrants	\$	132,243
Transfer of contributed surplus on the exercise of stock options	\$	54,777

No cash was paid toward income taxes during the years ended July 31, 2025, and 2024. The Company incurred finance costs embedded in its lease payments of \$45,181 during the year ended July 31, 2025 (2024 - \$22,420).

16. Financial instruments and risk management

As at July 31, 2025, the Company's financial instruments comprise cash and cash equivalents, receivables, accounts payable, and accrued liabilities. The carrying values of receivables, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of the instruments. The Company's cash and cash equivalents are carried at amortized cost.

Risks to the Company's financial instruments and their potential impact on the Company's financial instruments are summarized below:



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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk to meet its contractual obligations by ensuring there is appropriate cash on hand and obtaining other opportunities for financing. As at July 31, 2025, the Company had current assets of \$15,412,441 (July 31, 2024 - \$17,499,287) to settle current liabilities of \$9,422,126 (July 31, 2024 - \$7,625,216). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents and receivables. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset-backed commercial paper. The Company's receivables primarily consist of trade receivables that the Company continues to collect, and refundable sales tax from the Canada Revenue Agency, which are not subject to significant credit risk. The Company's maximum exposure to credit risk is limited to the carrying amount of cash and cash equivalents and receivables.

Market risk

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

Interest rate risk

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

Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. The Company's financial assets and liabilities that are denominated in foreign currencies are impacted by changes in the exchange rate between the Canadian dollar relative to the U.S. dollar. This primarily includes cash and cash equivalents, trade and other receivables, and trade and other payables. A 5% appreciation or depreciation of the CAD against the USD as of the reporting date would have resulted in an increase or decrease in profit or loss by approximately \$25,757 assuming all other variables remain constant. During the year ended July 31, 2025, the Company generated a portion of revenue in U.S. dollars, along with corresponding expenses in U.S. dollars. Management continues to evaluate its foreign currency risk as the business grows internationally.

Price risk

Price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company did not hold material equity investments during the year, and therefore, exposure to price risk is insignificant.



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17. Capital management

The Company defines its capital as its shareholders' equity. The Company manages its capital structure and makes adjustments based on the funds available to the Company, in order to support the research, development and commercialization of its integrated, layered, AI-powered threat detection gateway solution. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is dependent upon external financing to fund activities. In order to carry out planned research and development and pay for administrative costs, the Company will spend its existing working capital and will raise additional funds if needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's capital management objectives, policies, and processes have not been changed over the year presented. The Company is not subject to any externally imposed capital requirements.

18. Income taxes

The reconciliation of the combined federal and provincial income tax rate to the income tax expenses presented in the consolidated statements of loss and comprehensive loss is as follows:

	Year ended July 31,	
	2025	2024
Loss for the year before income taxes	\$ (11,877,096)	\$ (11,064,855)
Combined Canadian federal and provincial statutory rate	27%	27%
Income tax recovery at statutory rate	(3,207,000)	(2,988,000)
Reconciliation of effective rate:		
Change in statutory, foreign tax, foreign exchange rates and other	68,000	(122,000)
Permanent differences	246,000	314,000
Share issue costs	(244,000)	(290,000)
Adjustment to prior year provision versus statutory tax return	904,000	283,000
Changes in unrecognized deductible temporary timing differences and other items	2,233,000	2,803,000
Current tax recovery	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:



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	2025		2024	
	Amount	Expiry	Amount	Expiry
Research and development assets	\$ 198,000	indefinite	\$ 198,000	indefinite
ROU assets and lease liability	177,000	indefinite	37,000	indefinite
Investment tax credit	613,000	indefinite	613,000	indefinite
Property and equipment	3,994,000	indefinite	3,044,000	indefinite
Share issue costs	1,714,000	2045 to 2048	1,560,000	2044 to 2047
Non-capital losses - Canada	90,882,000	2036 to 2044	84,087,000	2036 to 2043
Non-capital losses - United States	12,751,000	indefinite	13,974,000	indefinite
Non-capital losses - United Kingdom	2,370,000	indefinite	2,368,000	indefinite
	\$ 112,699,000		\$ 105,881,000	

19. Geographic information

The following table summarizes the operations and current financial position by geographic area:

Geographic location	For year ended July 31, 2025	
	Revenue	Non-current assets
United States	\$ 10,982,996	\$ 4,236,832
Japan	1,567,807	167,850
Canada	840,315	3,407,375
United Kingdom	402,062	188,331
France	60,373	-
Total	\$ 13,853,553	\$ 8,000,388

Geographic location	For year ended July 31, 2024	
	Revenue	Non-current assets
United States	\$ 12,906,667	\$ 4,528,450
Japan	2,301,375	496,868
Canada	537,280	2,116,235
France	396,711	-
United Kingdom	215,974	301,330
Total	\$ 16,358,007	\$ 7,442,883

During fiscal year 2025, the Company reassessed its segment reporting in accordance with IFRS 8 Operating Segments. Management determined that the previously disclosed Xtract operating segments of "Platform" and "Xtract" no longer meet the quantitative thresholds for a separate disclosure. As a result, the Company now reports as a single operating and reportable segment, with



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comparative information adjusted to conform to the current year's presentation. Accordingly, no additional segment disclosures are required or presented.

20. Subsequent events

- i. Subsequent to the year ended July 31, 2025, a total of 4,128,000 Warrants were exercised at an exercise price of \$0.49 per Warrant, generating gross proceeds of \$2,022,720.
- ii. On September 29, 2025, the Company granted 3,582,770 employee stock options with an exercise price of \$0.74 per option. The options were granted with a term of five years and a vesting period over three years.