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**Management's Discussion and Analysis**

For the three and six months ended January 31, 2025



# Xtract One Technologies Inc.

Management's Discussion and Analysis  
For the three and six months ended January 31, 2025

## Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") is prepared as of March 12, 2025, and is intended to assist in understanding the results of operations and the financial condition of Xtract One Technologies Inc. (the "Company"). Throughout the MD&A, reference to the Company is on a consolidated basis. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six month period ended January 31, 2025, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies applied in the unaudited condensed consolidated interim financial statements are based on IFRS policies effective as of March 12, 2025, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. All amounts in this MD&A are expressed in Canadian Dollars unless otherwise indicated. The business of the Company is subject to a number of risks and uncertainties. Please refer to the Company's annual information form (the "AIF") for the fiscal year ended July 31, 2024, available under the Company's profile at [www.sedarplus.ca](http://www.sedarplus.ca), and the "Risk Factors" section of this MD&A for more information about these risks and uncertainties.

## Forward-Looking Information

This MD&A contains forward-looking information that involves material assumptions and known and unknown risks and uncertainties, which are beyond the Company's control. Such assumptions, risks, and uncertainties include, without limitation, those associated with loss of markets, expected sales, future revenue recognition, the effect of global and regional economic conditions, global tariff regimes, industry conditions, changes in laws and regulations and how they are interpreted and enforced, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates, demand for the Company's products, and availability of funding. The Company's performance could differ materially from that expressed in, or implied by, this forward-looking information, and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if they do so, what benefits the Company will derive therefrom. The forward-looking information is made as of the date of this MD&A, and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events, or otherwise, except as may be required by applicable securities laws. Actual events or results could differ materially from the Company's expectations and projections.

## Corporate Structure and Profile

The Company's common shares (the "Common Shares") are listed for trading under the trading symbol "XTRA" on the Toronto Stock Exchange in Canada (the "TSX"), under the trading symbol "XTRAF" on the OTCQX in the United States, and under the trading symbol "OPL" on the Frankfurt Stock Exchange in Germany. Certain warrants of the Company are also listed for trading on the TSX under the trading symbol "XTRA.WT". The Company is a reporting issuer in all provinces and territories of Canada, except Québec. The principal regulator of the Company is the Ontario Securities Commission.

As at January 31, 2025, the Company had five wholly-owned subsidiaries, Xtract One Detection Ltd. ("Xtract Detection"), a limited company incorporated under the laws of the province of British Columbia, Canada, Patriot One (UK) Limited ("Patriot UK"), a limited company incorporated under the laws of England and Wales, United Kingdom, Xtract One (US) Technologies Inc. ("Xtract US"), a limited company incorporated under the laws of the state of Colorado, United States of America, EhEye Inc. ("EhEye"), a limited company incorporated under the laws of the province of New Brunswick, Canada, and Xtract Technologies Inc.





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("Xtract Technologies"), a limited company incorporated under the laws of the province of British Columbia, Canada.

The Company, through Xtract US, has a 49% interest in Sotech Secure, LLC, a limited liability corporation formed under the laws of the State of Delaware.

## Highlights for the three months ended January 31, 2025

The following is a summary of the Company's key financial highlights for the three months ended January 31, 2025:

- Total contract value of new bookings<sup>1</sup> was \$13.5 million as of January 31, 2025, as compared to \$5.1 million for the three month period ended January 31, 2024, representing an increase of 165% and representing the strongest quarterly bookings in the Company's history;
- Contractual backlog was \$16.7 million as of January 31, 2025, as compared to \$12.3 million as of January 31, 2024, representing an increase of 36%. The backlog as of January 31, 2025 excludes an additional \$20.5 million in signed agreements pending installation<sup>1</sup> representing an increase of 105% over the previous year, when the signed agreements pending installation balance was \$10 million;
- Revenue of \$3.4 million for the three month period ended January 31, 2025 as compared to \$2.9 million for the same three month period ended January 31, 2024, representing a 17% increase in revenue; and
- Gross margin of 70% for the three month period ended January 31, 2025 as compared to 61% for the same three month period ended January 31, 2024.

The following is a summary of the Company's key business highlights for the three months ended January 31, 2025:

- Announced, through its partnership with Core Secure LLC, that the Company has been selected by Bowie State University, located in Bowie, Maryland to deploy the SmartGateway across all major college access points, further solidifying the Company's commitment to delivering non-invasive security solutions within the education market segment;
- Announced a new partnership with Velasea, a market-leading full-service OEM distributor of physical security, retail analytics, computer vision and artificial intelligence (AI) solutions, to sell Xtract One's products to the marketplace through Velasea's channel of over 900 channel partners; and
- Announced that the Company had been selected to protect key hospital locations in Manitoba, Canada, including at the province's Health Sciences Centre and Crisis Response Centre locations operated by Shared Health.

<sup>1</sup> This is a non-IFRS measure and is not defined or standardized under IFRS. Refer to section *Non-IFRS and Supplementary Financial Measures*.



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## Business of the Company

The principal business of the Company is to develop and commercialize integrated, layered, artificial intelligence ("AI") powered threat detection gateway solutions, with the aim of enhancing public safety. This includes the SafeGateway, SmartGateway and newly announced Xtract One Gateway (together, the "Gateways") and Xtract One View. The Company's mission is to create transformative technology solutions that deliver exceptional experiences, safer environments, and informed operational insights for our customers, their patrons and staff.

## Outlook and Overall Performance

During the quarter, continued progress was made in the commercialization of the Company's Gateway solutions. Revenue related to subscription arrangements or upfront sales amounted to \$7.0 million for the first half of fiscal 2025. As at January 31, 2025, the backlog of sales commitments was approximately \$16.7 million and continues to grow. This excludes an additional \$20.5 million in signed agreements that are pending installation. As the Company continues to sell its Gateway solutions using a subscription model, management expects monthly recurring revenue and sales backlog to increase, providing predictable long-term cash flow.

During the first half of fiscal 2025, the Company maintained its focus on accelerating customer sales and sales-related activities through continued customer wins and further development with channel resellers, resulting in the highest quarterly bookings in the Company's history. The partnerships with Madison Square Garden Sports Corp. ("MSG Sports") and the Oakview Group ("OVG"), continue to support the Company in the sports and entertainment markets. Various targeted sales and marketing initiatives have also strengthened the Company's market position in the education and healthcare markets as evidenced through new customer wins such as Shared Health in Manitoba and Bowie State University in Maryland, demonstrating the Company's ability to further penetrate these markets, resulting in increased backlog and signed contracts.

The Company continues to invest in the research and development of its suite of technologies and to advance the functionality of its product offerings in response to the growing market opportunities and feedback from customers, resellers, and partnership organizations. The Company continues to accelerate its product development roadmaps in response to market opportunities and customer needs, focusing on the industry-specific utility of the various solutions and capabilities under development.

Management is encouraged by the ongoing and accelerating interest in its solutions and sees the recent growth in successful deployments, customer commitments, and the continued sales pipeline growth, as validation of its product performance and the addressable market. Management sees these factors as positive leading indicators of the expected future performance of the Company.

## Investing in Research and Development

During the first half of the fiscal year, the Company continued to invest in research and development activities focused on its primary product offerings to advance functionality in response to the expanding addressable market and global opportunities.



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## *AI-Powered Threat Detection Gateway*

The first AI-powered threat detection gateway was initially released to the market in August 2020, followed by numerous enhanced versions. The most recent version of the SmartGateway was deployed in December 2023, which featured a ruggedized version enhancement to ensure its durability and performance in various environments, therefore, creating a single product offering and deployment model for all customers.

The SmartGateway is currently the primary focus within the Company's technology portfolio due to the significant market demand for AI threat detection screening solutions. Accordingly, the Company has invested in the continued development, testing, and enhancement of the SmartGateway product, with the primary objective being to meet the growing market demands of its current and future customers, further maintaining the Company's status as a market leader in advanced patron screening solutions.

In addition, these investments in technology research have also facilitated ancillary product development to support increasingly complex environments such as, workplaces, schools, and healthcare organizations, as evidenced by the Company's recent launch of the Xtract One Gateway product. These product developments are expected to increase the capabilities which suit our customers' requirements and specifically advance threat detection technology in medium clutter environments, thereby expanding the market for the Gateways beyond the current primary target markets.

In preparation for market segmentation expansions, the Company has diligently worked on the regulatory requirements for different geographic markets, while continuing to optimize the Gateway's functionality for customer configurability, accuracy, and supportability.

## **Technology Update**

During the quarter, the Company continued to focus its efforts to actively improve on its technological solutions. The Company's commitment to innovation and meeting the ever-changing needs of customers remains unwavering. In direct response to feedback from field engineers and customers in the live entertainment and sports venue markets, changes to the SmartGateway were focused on improved durability and system diagnostics. The Company has also invested significant development effort in Xtract One View, a software as a service (SaaS) platform that seamlessly integrates with a customer's fleet of Gateways. Xtract One View provides a combination of fleet management functionality, real time analytics, and post event reporting capabilities. The cloud platform provides facilities with a single, simplified dashboard view to oversee an entire fleet of Gateway settings and critical information from a single logon. The Company continues to look for ways to further improve its technology suite with planned software updates and new value-added functionality to deliver exceptional customer service and improved patron experience as additional insights in the field and features are identified by customers following successful deployments.

On September 17, 2024, the Company announced the launch of Xtract One Gateway, the Company's latest AI-driven security solution with advanced bi-directional screening and proprietary sensors designed for precise weapons detection and identification. Xtract One Gateway is purpose-built for locations where visitors regularly enter carrying numerous larger personal items, eliminating the need for ancillary x-ray machines or separate bag searches, and unobtrusively scan individuals, their pockets, and bags for mass casualty items while distinguishing against non-threatening objects like laptops, 3-ring binders, phones, water bottles, and other personal belongings.

The Company continues to build out new functionality and advance scalability to support the growing set of clients adopting the Company's Gateways. The Company's unified AI-powered security solutions remain





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unique in the marketplace and are being bolstered with enterprise features to support high traffic venues and facilities implementing Gateways at scale. The Company continues to develop and expand its capabilities through development partnerships and strategic integrations.

## Market Opportunity

The total addressable market available to the Company in the physical security space is approximately \$135 billion and is expected to experience rapid growth and transformation. Organizations are becoming increasingly concerned about employee and patron safety while being unwilling to sacrifice the patron experience. These organizations are looking for creative solutions to address these competing priorities, which is driving demand for unique and innovative physical security solutions. The Company believes its patron screening solutions help address both problems far better than anything else in the market today.

The Company continues to focus on markets where its solution operates effectively in the customer's physical environment, and where the timing of the sales cycle is reasonable. This strategy has been adopted to deliver near-term revenue. The Company initially identified the following primary market segments that are well-suited for the Company's SmartGateway and SafeGateway threat detection solutions:

- stadiums, arenas, theatres, and outdoor event spaces;
- casinos; and
- manufacturing and other workplace facilities.

These primary target market segments have been the Company's priority in the short term, in which the SmartGateway solution is best positioned to meet the needs of these facilities which have high traffic and low personal belongings on entrance. SmartGateway streamlines the experiences for entrance to these types of facilities, reducing the impact of divestments and gets people in quicker to maximize their time within the facility.

Further, during Fiscal 2024, the Company announced that the SmartGateway and SafeGateway had been awarded the DHS SAFETY Act Designation as a QATT. This award solidifies the Company's standing as a trusted partner for major professional sports leagues and stadiums and recognizes Xtract One's efficacy in safeguarding public spaces against advanced modern threats.

During the first half of fiscal 2025, the Company announced the launch of Xtract One Gateway as its latest AI-driven security solution. Xtract One Gateway is purpose-built for locations where visitors regularly enter carrying numerous larger personal items, otherwise categorized in the security screening field as medium-clutter environments, eliminating the need for separate bag searches. The Company has selectively engaged customers in certain key market verticals such as schools, healthcare, and distribution centers, where there is a strong product fit and a solid demand for our solutions. We believe Xtract One Gateway's superior threat and object detection best meets the needs of these environments where there is a medium volume of personal belongings on entrance, including laptops.

The Company has been using marketing campaigns targeted at these industry groups which have led to promising opportunities and have helped secure a growing backlog and pipeline of commitments. In addition, the Company has secured key strategic partnerships with two prominent industry leaders, OVG and MSG Sports, to further solidify its position as a market leader in the sports and entertainment market.

During the first half of fiscal 2025, the Company continued to make meaningful progress with many customers and built up its backlog of subscription contracts. Some of the Company's initial sales begin as smaller purchases from large enterprise customers, after which these existing customers have expanded





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their commitments by increasing the number of deployments of the Gateway to additional sites. Many customers prefer a phased approach with a rollout of the Gateway to a few entrances to ensure they are comfortable with their related security protocols before using it throughout their venues. The Company's focused success in these deployments have started to lead to much larger customer commitments.

The Company continues to make significant enhancements to its products to improve capabilities and address customer needs. As products continue to develop, we will continue to expand our target market to new market verticals and geographies. To support this, the Company has placed an emphasis on third party testing and validation of its products as well as obtaining various regulatory certifications. These certifications increase credibility in the marketplace and assist in the pursuit of new market opportunities.

The Company is currently expanding its reseller base, covering larger geographical territories and their respective end-user clientele. In furtherance of these initiatives, the Company also uses a direct-to-end-user sales model that more precisely addresses our target industry groups. This gives greater visibility into opportunities enabling the Company to forecast more accurately, control the sales process, remain competitive, increase sales margins, maintain the relationship with the end-user, and learn directly from these customers for further enhancements to the product offering. The effect of this approach has already been seen with a substantial increase in sales, sales pipeline, and the number of well-qualified opportunities where we have intimate knowledge of the customer and their processes. The Company has also instituted competitive sales programs and pricing schemes in close coordination with resellers and end-user customers to ensure that the go to market strategy is competitive and directly addresses market needs. In parallel, the Company continues to build a program to support the recruitment of strategic alliance partners that offer complementary technologies where we can develop integrations and connect our products to offer more complete solutions together. This will also provide us with access to a larger installation base to promote direct sales.

The Company continues to engage in selected opportunities for collaboration, innovation, and business development relationships to accelerate growth and expand its presence globally. The Company is actively pursuing international opportunities, as appropriate, to leverage new technologies, build brand awareness, execute new business, and grow our client base.



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## Quarterly Financial Performance

### Selected Financial Data - Summary of Financial Results

	Three months ended January 31,			Six months ended January 31,		
	2025	2024	% Change	2025	2024	% Change
<b>Revenue</b>	\$ 3,412,189	\$ 2,920,058	17%	\$ 7,040,026	\$ 6,036,411	17%
<b>Cost of revenue</b>	1,008,420	1,136,386	(11%)	2,321,850	2,168,328	7%
<b>Gross profit</b>	\$ 2,403,769	\$ 1,783,672	35%	\$ 4,718,176	\$ 3,868,083	22%
<b>Operating expenses</b>						
Selling and marketing	1,224,575	1,299,727	(6%)	2,887,734	2,807,384	3%
General and administration	1,648,688	1,693,019	(3%)	3,512,880	3,340,835	5%
Research and development	1,640,018	2,058,606	(20%)	3,439,629	3,784,797	(9%)
Loss on inventory write-down	281,429	107,013	163%	281,429	107,013	163%
Loss on retirement of assets	21,675	-	0%	21,675	-	0%
<b>Total operating expenses</b>	4,816,385	5,158,365	(7%)	10,143,347	10,040,029	1%
<b>Loss before undernoted</b>	(2,412,616)	(3,374,693)	(29%)	(5,425,171)	(6,171,946)	(12%)
<b>Other income</b>						
Interest and other income	66,671	56,543	18%	141,590	152,583	(7%)
<b>Net loss for the period</b>	\$ (2,345,945)	\$ (3,318,150)	(29%)	(5,283,581)	(6,019,363)	(12%)
<b>Other comprehensive income for the period</b>						
Currency translation differences for foreign operations	263,300	-	0%	546,119	-	0%
<b>Comprehensive loss for the period</b>	\$ (2,082,645)	\$ (3,318,150)	(37%)	\$ (4,737,462)	\$ (6,019,363)	(21%)
<b>Weighted average number of shares</b>	218,423,567	198,495,594		218,410,655	198,463,158	
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ (0.02)	(50%)	\$ (0.02)	\$ (0.03)	(33%)



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## Selected Financial Information (in \$000s except loss per share amounts)

	Three months ended January 31,		
	2025	2024	2023
<b>Total revenue</b>	\$ 3,412	\$ 2,920	\$ 815
<b>Comprehensive loss for the period</b>	(2,083)	(3,318)	(4,271)
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ (0.02)	\$ (0.03)
<b>Total assets</b>	\$ 21,291	\$ 16,498	\$ 11,121
<b>Non-current liabilities</b>	\$ 4,490	\$ 63	\$ 183

	Six months ended January 31,		
	2025	2024	2023
<b>Total revenue</b>	\$ 7,040	\$ 6,036	\$ 1,462
<b>Comprehensive loss for the period</b>	(4,737)	(6,019)	(9,190)
<b>Basic and diluted loss per share</b>	\$ (0.02)	\$ (0.03)	\$ (0.06)
<b>Total assets</b>	\$ 21,291	\$ 16,498	\$ 11,121
<b>Non-current liabilities</b>	\$ 4,490	\$ 63	\$ 183

## Overall Quarterly Results

Overall comprehensive loss for the three month period ended January 31, 2025, was \$2.1 million compared with \$3.3 million for the same period ended January 31, 2024 representing a decrease of \$1.2 or 37%. Overall loss and comprehensive loss for the six months ended January 31, 2025, was \$4.7 million compared with \$6.0 million for the same period ended January 31, 2024, representing a decrease of \$1.3 million or 21%. The decrease in loss for the six month period ended January 31, 2025, was mainly attributable to the increase in revenue and subsequent increase in gross profit.

## Revenue

The Company reported revenue of \$3.4 million during the three month period ended January 31, 2025, compared with \$2.9 million, for the same period ended January 31, 2024, representing an increase of \$0.5 million or 17%. The Company earned revenue of \$7.0 million during the six months ended January 31, 2025, compared with \$6.0 million for the same period ended January 31, 2024, representing an increase of \$1.0 million or 17%. The Company believes that revenue will continue to grow in the upcoming periods due to the extensive backlog it has built up from maintenance and subscription contracts, adding to the growth in monthly recurring revenue, as well as the increase in customer site surveys, trials, and deployment activities currently underway.



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The Company's backlog of contracted commitments is broken down as follows:

	Less than one year	Greater than one year	As of January 31,		% Change
			2025	2024	
Total backlog	\$ 6,992,355	\$ 9,701,374	\$ 16,693,729	\$ 12,293,846	36%

The Company recorded a backlog of \$16.7 million as of January 31, 2025, as compared with \$12.3 million as of January 31, 2024, representing an increase of \$4.4 million or 36%. The increase is mainly attributable to several new contracts that the Company secured and deployed in recent quarters. The backlog as of January 31, 2025, excludes an additional \$20.5 million in signed agreements that are pending installation, which represents an increase of \$7.5 million or 58% as compared with the \$13.0 million of signed contracts that existed as of July 31, 2024. As the Company continues to sell its Gateway solutions using a subscription model, management expects a continued increase in sales backlog, providing predictable long term cash flow.

## Cost of revenue

Cost of revenue was \$1.0 million for the three month period ended January 31, 2025, as compared with \$1.1 million for the same period ended January 31, 2024, representing a decrease of 10% or \$0.1 million. Cost of revenue was \$2.3 million for the six month period ended January 31, 2025, as compared with \$2.2 million for the same period ended January 31, 2024, representing an increase of 5% or \$0.1 million. The increase in these costs during the period was primarily attributable to a concurrent increase in related revenues.

## Gross profit

The following table provides a breakdown of gross profit and gross margin for the reported periods:

	Three months ended January 31,				Six months ended January 31,			
	Gross Profit (\$000s)		Gross Margin		Gross Profit (\$000s)		Gross Margin	
	2025	2024	2025	2024	2025	2024	2025	2024
<b>Total</b>	\$ 2,404	\$ 1,784	70%	61%	\$ 4,718	\$ 3,868	67%	64%

Total gross profit as a percentage of total revenue for the three and six month periods ended January 31, 2025 was 70% and 67% respectively, as compared with 61% and 64% for the same periods ended January 31, 2024. We expect gross margins will remain relatively stable in the upcoming periods.

## Sales and marketing

Sales and marketing costs were \$1.2 million for the three month period ended January 31, 2025, as compared with \$1.3 million from the same period ended January 31, 2024, representing a decrease of \$0.1 million or 6% primarily due to timing differences in our marketing spend year over year. Sales and marketing costs were \$2.9 million for the six month period ended January 31, 2025, as compared with \$2.8 million from the same period ended January 31, 2024, representing an increase of \$0.1 million or 3%. The relative increase in these costs was primarily attributable to the Company's continued investment in our initial and expanded target markets through campaigns and trade shows. We expect these expenses will remain



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steady or increase slightly as sales and marketing activity expands to new market verticals in the upcoming periods.

## General and administration

General and administrative costs were \$1.6 million for the three month period ended January 31, 2025, as compared with \$1.7 million from the same period ended January 31, 2024, representing a decrease of \$0.1 million or 6%. General and administrative costs were \$3.5 million for the six month period ended January 31, 2025, as compared with \$3.3 million from the same period ended January 31, 2024, representing an increase of \$0.2 million or 6%. This increase was primarily attributable to an increase in non-cash share-based compensation expense during the six month period ended January 31, 2025. The Company is continually looking for opportunities to reduce non-strategic expenses. We expect general and administrative expenses will remain steady in the upcoming periods.

## Research and development

R&D costs were \$1.6 million for the three month period ended January 31, 2025, as compared with \$2.1 million for the same period ended January 31, 2024, representing a decrease of \$0.5 million or 21%. R&D costs were \$3.4 million for the six month period ended January 31, 2025, as compared with \$3.8 million for the same period ended January 31, 2024, representing a decrease of \$0.4 million or 9%. We expect R&D expenses will remain steady or increase slightly in upcoming periods as we continue to invest in the continued enhancement and development of our technology product portfolio.

## Loss on inventory

During the three and six month periods ended January 31, 2025, the Company wrote down \$0.3 million of inventory compared to \$0.1 million during the three and six month periods ended January 31, 2024, representing an increase of \$0.2 million or 163%. Management continuously reviews the inventory it holds for signs of impairment or obsolescence.

## Loss on retirement of assets

During the three and six month periods ended January 31, 2025, the Company wrote down \$0.02 million of obsolete fixed assets as compared with \$nil for the period ended January 31, 2024, representing an increase of 100% or \$0.02 million. Management continuously reviews fixed assets for indications of impairment or obsolescence.

## Interest and other income

Interest and other income was \$0.07 million for the three month period ended January 31, 2025, as compared with \$0.06 million for the same period ended January 31, 2024, representing an increase of \$0.01 million or 18%. Interest and other income was \$0.14 million for the six month period ended January 31, 2025, as compared with \$0.15 million for the same period ended January 31, 2024, representing a decrease of \$0.01 million or 7% due to lower market interest rates and lower cash balances compared to the previous period.

## Net loss per share

On a per weighted average share basis, net loss per share was \$0.01 and \$0.02 for the three and six month



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periods ended January 31, 2025, respectively, as compared with \$0.02 and \$0.03 for the comparative periods in 2024. The decrease of \$0.01 or 33% in net loss per share for the six month ended January 31, 2025 was primarily attributable to the increase in revenue and corresponding increase in gross profit resulting in a decrease in loss and comprehensive loss.

## Financial Data – Summary of Quarterly Results (in \$000s except per share amounts)

	Quarter Ended							
	Jan 31, 2025	Oct 31, 2024	Jul 31, 2024	Apr 30, 2024	Jan 31, 2024	Oct 31, 2023	Jul 31, 2023	Apr 30, 2023
<b>Revenue</b>	\$ 3,412	\$ 3,627	\$ 5,638	\$ 4,683	\$ 2,920	\$ 3,116	\$ 1,774	\$ 875
<b>Cost of Revenue</b>	1,008	1,313	1,954	1,977	1,136	1,032	533	347
<b>Gross profit</b>	\$ 2,404	\$ 2,314	\$ 3,684	\$ 2,706	\$ 1,784	\$ 2,084	\$ 1,241	\$ 528
<b>Operating expenses</b>								
Selling and marketing	\$ 1,225	\$ 1,663	\$ 1,527	\$ 1,259	\$ 1,300	\$ 1,508	\$ 1,118	\$ 996
General and administration	1,649	1,864	2,202	1,937	1,693	1,648	1,741	1,802
Research and development	1,640	1,800	2,297	2,183	2,059	1,726	1,624	1,505
Loss on inventory write-down	281	-	64	4	107	-	30	2
Loss on retirement of assets	22	-	55	40	-	-	77	23
<b>Total operating expenses</b>	\$ 4,816	\$ 5,327	\$ 6,145	\$ 5,423	\$ 5,158	\$ 4,882	\$ 4,590	\$ 4,328
<b>Other income</b>								
Unrealized gain (loss) on investment	-	-	-	-	-	-	(55)	(58)
Interest and other income	67	75	88	45	57	96	83	31
<b>Net loss for the period</b>	\$ (2,346)	\$ (2,938)	\$ (2,373)	\$ (2,672)	\$ (3,317)	\$ (2,702)	\$ (3,321)	\$ (3,827)
<b>Other comprehensive income for the period</b>								
Currency translation differences for foreign operations	263	283	-	-	-	-	-	-
<b>Comprehensive loss for the period</b>	\$ (2,082)	\$ (2,655)	\$ (2,373)	\$ (2,672)	\$ (3,317)	\$ (2,702)	\$ (3,321)	\$ (3,827)
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)
<b>Working capital</b>	\$ 5,575	\$ 7,100	\$ 9,874	\$ 10,395	\$ 1,865	\$ 5,113	\$ 7,672	\$ 8,358
<b>Total assets</b>	\$ 21,291	\$ 23,696	\$ 24,942	\$ 25,262	\$ 16,498	\$ 16,468	\$ 18,998	\$ 18,750
<b>Non-current liabilities</b>	\$ 4,490	\$ 3,925	\$ 3,346	\$ 3,128	\$ 63	\$ 94	\$ 124	\$ 154

## Quarterly Results Trend Analysis

The quarterly expenditure trend across the eight fiscal quarters ending January 31, 2025 above reflects the evolution of the Company's strategy to accelerate revenue growth while driving efficiencies in operating expenditures. The Company's primary objective has been the further development and commercialization of integrated, layered, AI-powered threat detection solutions. In Fiscal 2024, the Company's strategic partnerships and customer relationships continued to grow revenue and the sales pipeline and contributed towards scaling the Company's operations. In Fiscal 2025, the Company's investment in new products and technological capabilities, and larger planned customer deployments, combined with the entrance into



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secondary market verticals and new geographies will support the continued expansion of the business with the anticipation of long-term recurring revenue.

The Company has no discontinued operations.

## Liquidity and Capital Resources

As at January 31, 2025, the Company had a working capital of \$5.6 million which includes current assets of \$12.5 million to meet current liabilities of \$6.9 million. The majority of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has non-current liabilities of \$4.5 million, related to deferred revenue and the long-term portion of the capitalized lease liabilities in accordance with IFRS 16.

### *Selected Cash Flow Information – Summary of results for the six month periods ended January 31*

	2025	2024	% Change
<b>Cash and cash equivalents beginning of period</b>	\$ 8,628,521	\$ 8,327,449	4%
Cash used in operating activities	(2,200,157)	(4,029,340)	(45%)
Cash used in investing activities	(844,362)	-	100%
Cash used in financing activities	(145,159)	(105,649)	37%
Effect of foreign exchange rate changes	(10,397)	-	100%
<b>Change in cash for the period</b>	<b>(3,200,075)</b>	<b>(4,134,989)</b>	<b>(23%)</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 5,428,446</b>	<b>\$ 4,192,460</b>	<b>29%</b>

During the six month period ended January 31, 2025, the Company had a net decrease in cash flow from operations, investing, and financing activities of \$3.2 million, compared with \$4.1 million for the same period ended January 31, 2024.

The cash flow used in operating activities was \$2.2 million for the six month period ended January 31, 2025, as compared with \$4.0 million for the same period ended January 31, 2024, representing a decrease of \$1.8 million or 45%. The decrease in negative cash flow from operating activities can be primarily attributable to the reduced investment in working capital in the period ended January 31, 2025.

Cash flow used in investing activities was \$0.8 million for the six month period ended January 31, 2025, as compared with \$nil for the same period in 2024, representing an increase of \$0.8 million. The increase in negative cash flow from investing activities can be attributed to intangible assets related to one-time development costs associated with the Xtract One Gateway product during the six month period ended January 31, 2025.

Cash used in financing activities was \$0.14 million for the six month period ended January 31, 2025, as compared to \$0.1 million for the same period ended January 31, 2024, representing an increase of \$0.04 million or 37%. This increase is primarily attributed to higher lease payments during the six month period ended January 31, 2024.

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and



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anticipated investing and financing activities. The Company's objective in managing liquidity risk is to safeguard its ability to continue as a going concern and to sustain the future development of the business. The Company's objective is met by retaining adequate cash reserves to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. To maintain or adjust the Company's capital structure, the Company may issue shares, such as through private placements or other possible debt or equity arrangements. The Board of Directors does not establish a quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements.

## Commitments

### Purchase Commitments

The Company continues to invest in its supply chain and has outstanding purchase obligations of \$1.5 million (July 31, 2024 - \$2.9 million) related to the assembly of future finished goods, that will be drawn down within the next fiscal year.

### Lease Commitments

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

Fiscal year	Amount
2025	\$ 208,631
2026	252,138
2027	288,876
2028	233,927
2029	235,279
2030	19,608
Effects of discounting	(116,565)
Right of use liabilities	\$ 1,121,894
Current portion of right of use liabilities	167,004
Non-current portion of right of use liabilities	\$ 954,890

## Use of proceeds from Prospectus Offering and Private Placement dated April 24, 2024 and May 1, 2024

On February 6, 2024, the Company filed a final short form base shelf prospectus allowing the Company to raise up to \$50 million of securities over a 25-month period. On April 24, 2024 and May 1, 2024, the Company completed the Prospectus Offering and over-allotment option, and issued a total of 16,100,000 Units and received net proceeds of \$7.1 million, of which \$1.1 million were allocated to general working capital. Net proceeds in the amount of \$1.6 million raised in connection with a Private Placement were added to general working capital for a total of \$2.7 million when combined with the proceeds from the Prospectus Offering. The intended uses of the Prospectus Offering and Private Placement net proceeds are outlined below:



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Business Objective	Estimated Use of Net Proceeds	Approximate Use of Proceeds as at January 31, 2025	Proceeds Unutilized as at January 31, 2025
Product Development	\$2,500,000	\$1,750,079	\$749,921
Sales and Marketing	2,000,000	1,553,040	446,960
Production and Operations	1,500,000	580,269	919,731
General Working Capital	2,700,000	1,252,039	1,447,961
<b>Total</b>	<b>\$8,700,000</b>	<b>\$5,135,427</b>	<b>\$3,564,573</b>

The Company's intention to spend the net proceeds of the Prospectus Offering and the Private Placement as set forth above is based on the expectations of management at the time of the financing raise. However, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. At the current time, there are no significant changes to the business objectives and milestones.

## Non-IFRS and Supplementary Financial Measures

This MD&A refers to historical non-IFRS performance measures and supplementary financial measures. These measures do not have any standardized meaning prescribed under IFRS, and therefore may not be comparable to other reporting issuers.

Supplementary financial measures included in this MD&A are, 'Agreements pending installation' and 'Total contract value of new bookings'. Agreements pending installation reflect the total value of signed contracts awarded to the Company that have not been installed at the customer site. 'Total contract value of new bookings' is comprised of all new contracts signed and awarded to the Company, regardless of the performance obligations outstanding as at the reporting period. Total contract value is the aggregate value of sales commitments from customers as at the reporting period without consideration of the Company's completion of the associated performance obligations outlined in each contract. Management believes that these supplementary financial measures provide a better evaluation of the operating performance of the Company's business and facilitates meaningful comparison of results in the current period with those in prior periods and future periods.

## Financial Instruments and Other Instruments

The Company's only material financial instruments are cash and cash equivalents, receivables, and 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.

The Company's risk exposures and the impact on financial instruments are summarized below:

### 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 in order to meet its contractual obligations by ensuring there is appropriate capital to meet short-term business requirements and obtaining other opportunities for financing. The Company identifies when funds are required through the planning and budgeting process to





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support the Company's normal operations. The Company's ability to continue as a going concern involves significant judgments and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing.

## 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 consequently, 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 and the U.S. dollar. This primarily includes cash and cash equivalents, trade and other receivables, and trade and other payables. During the period ended January 31, 2025, the Company generated a portion of revenue in U.S. dollars, along with corresponding expenses in U.S. dollars, which acted as a natural foreign exchange hedge. 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 period, and therefore, exposure to price risk is insignificant.

## Material Accounting Policies, Judgements and Estimates

For a complete description of the Company's material accounting policies, please see the accompanying notes to the condensed consolidated interim financial statements for the three and six month periods ended January 31, 2025, and the audited consolidated financial statements for the year ended July 31, 2024.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and





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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 results may 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.

## 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 prior to 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 technologically 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, when assets are available for use and are depreciated and meets the criteria.

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

Depreciation and amortization of property and 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 consider 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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## Assessment of a subsidiary's functional currency

As per IAS 21 *The Effects of Changes in Foreign Exchange Rates*, an entity's functional currency is the currency of the primary economic environment in which it operates. Management exercises judgment when assessing the primary and secondary indicators to determine an entity's functional currency.

## Revenue recognition

Revenue arising from the sale of or subscription to use the Company's products 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 are not 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 in order 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 cashflows and is dependent on the Company's ability to obtain financing.

The condensed consolidated interim 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 the condensed consolidated interim financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

## Recent Accounting Pronouncements

The International Accounting Standards Board (IASB) has published new standards and amendments or interpretations to existing standards which are outlined below.



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## 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*.

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 condensed consolidated interim financial statements.

## Related Party Balances and 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 of Directors and corporate officers. Key management compensation earned by officers and directors of the Company during the six month period ended January 31, 2025, was \$932,049 (2024 - \$614,822). In addition, share-based compensation expense relating to key management for the six month period ended January 31, 2025, was \$365,112 (2024 - \$185,276). During the period ended April 30, 2024, two additional personnel were added as key executive officers who were not included in the prior year's related party compensation.

As at January 31, 2025 there was \$nil (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 six month period ended January 31, 2025.

## Controls and Procedures

### Evaluation of disclosure controls and procedures

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. As at January 31, 2025, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized, and reported within the time periods specified under applicable securities legislation.

### Internal controls over financial reporting

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material





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information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer in a timely manner.

In addition, the Chief Executive Officer and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

The Chief Executive Officer and Chief Financial Officer have been advised that the control framework used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether there were changes to its ICFR during the six month period ended January 31, 2025, that have materially affected or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

## Risk and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF and further outlined below. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks occur, business plans may be impacted and the financial condition and results of operation may suffer, potentially significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval, which can be accessed at [www.sedarplus.ca](http://www.sedarplus.ca).

### Tariffs

On February 1, 2025, the United States' Trump Administration issued three executive orders imposing broad-based tariffs at the rate of 25% on all goods exported from Canada and Mexico into the U.S., and on all imports from China (and Hong Kong) into the U.S. at the rate of 10% (since changed to 20%), which were to come into effect on March 4, 2025, and have been paused until April 2, 2025.

On February 10, 2025, the United States' Trump Administration issued two additional proclamations - modifying the steel and aluminum tariffs that were originally imposed in 2018 under Section 232 of the Trade Expansion Act of 1962. The new action expands the original Section 232 tariffs by (i) ending all country exemptions, phasing out the specific product exclusion process, and terminating all existing General Approved Exclusions (GAEs); (ii) raising the aluminum tariffs from 10% to 25%; (iii) adding more downstream steel and aluminum products to the tariffs' coverage; (iv) and creating an exemption process





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for imported derivative articles made from steel "melted and poured" and aluminum "smelted and cast" in the United States.

As of the date of this MD&A, all imports into the United States from Mexico and Canada will be subject to 25% tariffs (with the exception of Canadian energy imports subject to 10% import duties) as of April 2, 2025.

Amendments and modifications to tariffs have already been, and may continue to be, implemented on an irregular and ad-hoc basis, which makes the determination of the impact on the Company's business difficult to predict. Notwithstanding the current uncertainty, the Company considers that the imposition of tariffs may negatively impact the Company's sales in the United States. More broadly, these tariffs, and any changes to these tariffs or imposition of any new tariffs, taxes or import or export restrictions or prohibitions, could have a material adverse effect on the Canadian economy, the Canadian technology industry and the Company. Furthermore, there is a risk that the tariffs imposed by the U.S. on other countries will trigger a broader global trade war which could have a material adverse effect on the Canadian, U.S. and global economies, and by extension the Canadian technology industry and the Company.

## Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

## Proposed Transactions

There are no undisclosed proposed transactions that will materially affect the performance of the Company.

## Subsequent Event

On February 14, 2025, the Company granted 59,750 employee stock options with an exercise price of \$0.51 per option. The options were granted with a term of five years and a vesting period over three years.

## Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of the date of this MD&A, the Company has 218,426,987 common shares issued and outstanding. In addition, there are 61,075,159 warrants which may be converted to one common share each at prices ranging from \$0.51 to \$0.75. The Company also has stock options outstanding to purchase an additional 14,647,704 common shares with exercise prices ranging from \$0.38 to \$0.97 per share.