

A photograph of an industrial facility, likely a refinery or chemical plant, at sunset. The sky is filled with dark, heavy clouds, with a bright orange and yellow glow from the setting sun on the right side. The industrial structures, including tall distillation columns and various pipes, are silhouetted against the sky. In the foreground, a body of water reflects the industrial structures and the colorful sky. The overall mood is industrial and serene.

# AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended October 31, 2020

## **MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL RESULTS**

The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and have been approved by the Board of Directors.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements include amounts which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility principally through the Audit Committee.

The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, PricewaterhouseCoopers LLP, appointed by the shareholders of the Company, have audited the consolidated financial statements and have expressed an unqualified opinion on the statements. The external auditors have free access to the Audit Committee. Their report is included with the consolidated financial statements.

(Signed) "Shane Grennan"  
Shane Grennan, CPA, CA  
Chief Financial Officer



## Independent auditor's report

To the Shareholders of Blackline Safety Corp.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Blackline Safety Corp. and its subsidiaries (together, the Company) as at October 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at October 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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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 identified above 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.

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.

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### **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, 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.

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### **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.

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
January 26, 2021

**Blackline Safety Corp.**  
**Consolidated Statements of Loss and Comprehensive Loss**

	October 31, 2020 \$	October 31, 2019 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (note 6)	28,522,703	13,636,427
Short-term investments (note 7)	23,000,000	17,003,361
Trade and other receivables (note 8)	11,601,814	9,840,853
Inventory (note 9)	10,771,252	5,849,769
Prepaid expenses and advances	1,400,483	754,511
Contract assets (note 10)	498,886	515,017
<b>Total current assets</b>	<b>75,795,138</b>	<b>47,599,938</b>
<b>NON-CURRENT ASSETS</b>		
Property and equipment (note 11)	8,562,410	9,449,817
Intangible assets (note 12)	802,152	658,638
Right-of-use assets (note 13)	1,486,321	-
Long-term contract assets (note 10)	223,571	460,595
Long-term other receivables (note 8)	1,740,041	564,816
<b>Total non-current assets</b>	<b>12,814,495</b>	<b>11,133,866</b>
<b>TOTAL ASSETS</b>	<b>88,609,633</b>	<b>58,733,804</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (note 15)	7,311,475	7,367,353
Deferred revenue	9,287,542	7,099,703
Current portion of contract liabilities	632,151	611,143
Current portion of government assistance (note 17 (a))	-	288,793
Current portion of lease liabilities (note 18)	496,539	-
<b>Total current liabilities</b>	<b>17,727,707</b>	<b>15,366,992</b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred revenue	3,288,545	3,630,635
Contract liabilities	201,997	193,405
Lease liabilities (note 18)	1,063,885	-
Deferred lease incentives	-	171,725
<b>Total non-current liabilities</b>	<b>4,554,427</b>	<b>3,995,765</b>
<b>TOTAL LIABILITIES</b>	<b>22,282,134</b>	<b>19,362,757</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 19)	128,159,004	92,781,280
Contributed surplus (note 19)	9,271,331	8,770,346
Accumulated other comprehensive income (loss)	(895,772)	177,465
Deficit	(70,207,064)	(62,358,044)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>66,327,499</b>	<b>39,371,047</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>88,609,633</b>	<b>58,733,804</b>

Commitments (note 27), Subsequent event (note 32)  
 See accompanying notes to the consolidated financial statements

Approved by the Board  
 (signed) "Cody Z. Slater", Director  
**Cody Z. Slater**

(signed) "Robert J. Herdman", Director  
**Robert J. Herdman**

**Blackline Safety Corp.**  
**Consolidated Statements of Loss and Comprehensive Loss**

	Years Ended	
	October 31, 2020	October 31, 2019
	\$	\$
Revenues (note 20 and 21)		
Product revenue	12,859,937	15,288,315
Service revenue	25,517,180	17,983,135
Total revenues	38,377,117	33,271,450
Cost of sales (note 21)	18,189,055	17,769,438
<b>Gross margin</b>	<b>20,188,062</b>	<b>15,502,012</b>
Expenses (note 2 (b) and 22)		
General and administrative expenses	5,294,479	6,558,886
Sales and marketing expenses	14,066,296	12,641,311
Product development costs (note 17)	9,174,884	7,027,338
Total expenses	28,535,659	26,227,535
<b>Results from operating activities</b>	<b>(8,347,597)</b>	<b>(10,725,523)</b>
Finance income, net (note 24)	326,859	801,064
<b>Net loss</b>	<b>(8,020,738)</b>	<b>(9,924,459)</b>
Other comprehensive income (loss)		
Foreign exchange translation gain (loss) on foreign operations (note 5 (b)(i))	(1,073,237)	79,842
<b>Comprehensive loss for the year</b>	<b>(9,093,975)</b>	<b>(9,844,617)</b>
<b>Loss per common share</b> (note 30)		
Basic and diluted	(0.16)	(0.21)

*See accompanying notes to the consolidated financial statements*

**Blackline Safety Corp.**  
**Consolidated Statements of Changes in Equity**

	Number of Shares	Share Capital \$	Contributed Surplus \$	Accumulated Other Comprehensive Income (Loss) \$	Deficit \$	Total Equity \$
<b>Balance at October 31, 2018</b>	47,147,538	90,791,496	7,940,859	97,623	(52,433,585)	46,396,393
Loss for the year	-	-	-	-	(9,924,459)	(9,924,459)
Foreign exchange translation of foreign operations	-	-	-	79,842	-	79,842
Exercising of options (note 19)	636,362	1,694,259	(513,289)	-	-	1,180,970
Stock-based compensation expense (note 19)	51,943	295,525	1,342,776	-	-	1,638,301
<b>Balance at October 31, 2019</b>	47,835,843	92,781,280	8,770,346	177,465	(62,358,044)	39,371,047
Opening adjustment (Note 2(b)(i))	-	-	-	-	171,718	171,718
Loss for the year	-	-	-	-	(8,020,738)	(8,020,738)
Foreign exchange translation of foreign operations	-	-	-	(1,073,237)	-	(1,073,237)
Exercising of options (note 19)	390,876	1,328,965	(423,550)	-	-	905,415
Brokered private placement (note 19)	6,000,000	36,000,000	-	-	-	36,000,000
Share issuance costs (note 19)	-	(2,361,503)	-	-	-	(2,361,503)
Stock-based compensation expense (note 19)	68,996	410,262	924,535	-	-	1,334,797
<b>Balance at October 31, 2020</b>	54,295,715	128,159,004	9,271,331	(895,772)	(70,207,064)	66,327,499

See accompanying notes to the consolidated financial statements

**Blackline Safety Corp.**  
**Consolidated Statements of Cash Flows**

	Years Ended	
	October 31, 2020	October 31, 2019
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the year	(8,020,738)	(9,924,459)
Depreciation and amortization (note 22)	4,159,385	2,575,124
Stock-based compensation expense (note 23)	924,705	1,343,252
Finance income, net (note 24)	(416,954)	(790,399)
Unrealized foreign exchange (gains) losses	35,378	(14,635)
Loss on disposals of property and equipment	613,316	58,004
	<u>(2,704,908)</u>	<u>(6,753,113)</u>
Net changes in non-cash working capital (note 31)	(6,453,346)	1,630,099
<b>Net cash provided by (used in) operating activities</b>	<u>(9,158,254)</u>	<u>(5,123,014)</u>
<b>Financing activities</b>		
Proceeds from share issuances and option exercises (note 19)	37,315,490	1,476,021
Share issuance costs (note 19)	(2,361,503)	-
Repayment of lease liabilities	(371,982)	-
Proceeds from government assistance (notes 17 (a) and 31)	-	100,000
Repayments of government assistance (notes 17 (a) and 31)	(288,793)	(211,207)
<b>Net cash provided by (used in) financing activities</b>	<u>34,293,212</u>	<u>1,364,814</u>
<b>Investing activities</b>		
Purchase of short-term investments (note 7)	(25,402,580)	(20,000,000)
Redemption of short-term investments (note 7)	19,405,941	31,327,404
Finance income, net (note 24)	356,109	795,625
Purchase of property and equipment and intangible assets (notes 11 and 12)	(3,509,279)	(6,268,956)
<b>Net cash provided by (used in) investing activities</b>	<u>(9,149,809)</u>	<u>5,854,073</u>
<b>Effect of foreign exchange changes on cash and cash equivalents</b>	(1,098,873)	178,914
<b>Net increase (decrease) in cash and cash equivalents</b>	14,886,276	2,274,787
Cash and cash equivalents, beginning of year	13,636,427	11,361,640
<b>Cash and cash equivalents, end of year</b>	<u>28,522,703</u>	<u>13,636,427</u>

Supplementary cash flow information (note 31)

See accompanying notes to the consolidated financial statements

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**1. Nature of operations**

Blackline Safety Corp. (the "Company") is a global connected safety technology company that develops, manufactures and markets products and services that empower businesses with real-time safety insights to manage emergency responses, evacuations and gas detection compliance programs. The Company is a public company listed on the Toronto Venture Exchange (TSXV) under the ticker symbol "BLN" and is incorporated and domiciled in Canada.

The Company's principal business office is Unit 100, 803 24 Avenue S.E., Calgary, Alberta, T2G 1P5 and the Company's registered office is Suite 2400, 525 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on January 26, 2021.

**2. Summary of significant accounting policies**

**a) Basis of preparation**

The consolidated financial statements and accompanying notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations as issued by IFRS Interpretations Committee applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention.

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. This includes the comparative consolidated statement of loss expense line 'selling, general and administrative' which has been reconstituted in the current year consolidated statement of loss to be 'general and administrative' and 'sales and marketing' expenses.

**b) Changes in accounting policy and disclosures**

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

The following new standard was adopted by the Company in the year:

- IFRS 16 *Leases*

The impact of the adoption of this standard on November 1, 2019 and the new accounting policies applied for the current period are disclosed below.

As a result of the changes in the Company's accounting policies, the comparative periods did not have to be restated and continue to be presented under the accounting policies disclosed in the audited consolidated financial statements for the year ended October 31, 2019.

**IFRS 16 *Leases* – Impact of adoption**

The Company has adopted IFRS 16 *Leases* using the modified retrospective approach from November 1, 2019. Prior to the adoption of this standard, identified leases were categorized as either operating or finance leases, and operating leases were not subject to statement of financial position recognition. The Company has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position as at November 1, 2019.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at November 1, 2019. For leases previously classified as finance leases, the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use ("ROU") asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related ROU assets immediately after the date of initial application.

*a) Practical expedients applied*

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as at November 1, 2019 as short-term leases and expense the payments as incurred;
- excluding initial direct costs for the measurement of the ROU asset at the date of initial application; and
- leases of low dollar value based on the value of the asset when it is new, regardless of the age of the asset, will be expensed as incurred.

Several key judgments and estimates were made such as assessing whether an arrangement contains a lease, determining the lease term, calculating the incremental borrowing rate and whether to account for the lease and any non-lease components as a single lease component.

The Company elected not to reassess whether a contract contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made by applying IAS 17 to determine whether an arrangement contains a lease.

*b) Measurement of lease liabilities*

	Impact on statement of financial position item	Carrying amount
As at November 1, 2019		\$
ROU assets	Increase	1,682,655
Current portion of lease liabilities	Increase	444,752
Long-term portion of lease liabilities	Increase	1,237,903
Other deferred liabilities	Decrease	(171,718)
Deficit	Increase	171,718

ROU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at October 31, 2019. The lease liability is measured at the present value of the lease payments using an incremental borrowing rate of 4.95%. There were no onerous lease contracts that would have required an adjustment to the ROU assets at the date of initial application. The following table represents the reconciliation between the disclosed commitments as at October 31, 2019 and lease liability as at November 1, 2019.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

<i>Commitments reconciliation</i>	Amount
As at November 1, 2019	\$
Operating lease commitments as at October 31, 2019	5,622,222
Discounted using the incremental borrowing rate	4,375,793
Less: short-term lease recognized as expense	(6,411)
Less: low-value lease recognized as expense	(109,094)
Less: arrangements not containing a lease	(2,577,633)
Lease liability recognized as at November 1, 2019	1,682,655

Prior to the adoption of IFRS 16 *Leases* the accounting policy applicable under IAS 17 *Leases* was as follows:

Leases of property and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

***ii) New standards and interpretations not yet adopted***

Certain new and amended accounting standards and interpretations have been published that are not mandatory for October 31, 2020 reporting period and have not been early adopted by the Company.

There are no other standards that are not yet effective that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

**c) Consolidation**

Subsidiaries are all entities (including structured entity) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries are consistent with the policies adopted by the group.

Unless otherwise indicated the term "Company" refers both to the Company and its wholly owned subsidiaries.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**d) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

**e) Foreign currency translation**

i) *Functional and presentation currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Canadian dollars ("CAD"), which is also the Company's presentation currency.

ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of loss. Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of loss within 'Finance income, net'.

iii) *Group companies*

The results and financial position of all the Company's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses are translated at average exchange rates for the year (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates); and
- All resulting exchange differences are recognized in other comprehensive income ("OCI") as foreign exchange translation gain (loss) on foreign operations.

**f) Cash and cash equivalents**

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities at purchase of three months or less. Any accrued interest earned at the period end date is recorded within other receivables.

Bank overdrafts are shown as bank indebtedness within current liabilities in the consolidated statement of financial position.

**g) Short-term investments**

Short-term investments consist of short-term interest-bearing securities which mature more than three months but less than 12 months from the date of purchase. Short-term investments are held with highly rated financial institutions. Any accrued interest earned at the period end date is recorded within other receivables.

**h) Trade and other receivables**

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of the amounts is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. The Company leases certain of its safety monitoring equipment to customers through the Company's G7 Lease program ("G7 Lease") with monthly payments. Other receivables include the net investment in 'G7 Lease' finance leases and transactions outside the usual operating activities of the Company.

Due to the short-term nature of the current receivables, their carrying amount is considered to approximate their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts. Trade receivables are recognized initially at their carrying value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment through an expected credit loss assessment.

**i) Contract assets**

Contract assets consist of costs related to the fulfilment of a 'G7 Lease' contract and any other revenue contracts in progress at the period end. The costs are recognized over the life of the contract. If contract costs are expected to be recognized in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

**j) Inventory**

Raw materials and finished goods are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method using the standard costing method which is updated regularly to reflect current conditions and approximate cost. The cost of finished goods inventory comprises of raw materials, direct labour, other direct costs and related production overhead expenditures, the latter being allocated on the basis of normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Finished goods are comprised of finished hardware units ready for sale.

**k) Financial instruments and risk management**

***Financial assets***

*i) Classification*

The Company classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value (either through OCI, or through profit or loss) and those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Company's financial instruments are all classified at amortized cost. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

ii) *Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company currently classifies all financial assets in the amortized cost category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets are included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of loss.

The Company's cash and cash equivalents and short-term investments are held at amortized cost and considered to have low credit risk with the loss allowance recognized during the period limited to 12 months expected losses. Management considers 'low credit risk' for short-term investments to be an investment grade credit rating with at least one major rating agency.

iii) *Impairment*

For trade receivables, the Company applies the simplified approach permitted by IFRS 9 *Financial Instruments* ("IFRS 9"), which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Company assesses, on a forward-looking basis, the expected credit loss ("ECL") associated with its financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

***Financial liabilities***

i) *Classification*

The Company classifies its financial liabilities in the following categories: financial liabilities at FVPL, financial liabilities at FVOCI or amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company holds the following financial liabilities at the end of the reporting period:

*Financial liabilities at amortized cost*

Financial liabilities held by the Company are measured at amortized cost. If payment of the amounts is expected in one year or less they are classified as current liabilities. If not, they are presented as non-current liabilities.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

The Company's accounts payable and accrued liabilities are generally due for settlement within 30 days and therefore are all classified as current. Bank indebtedness is classified as current as it is repayable on demand. Contract liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period. The government assistance is repayable in accordance with the terms of the agreements with the estimated repayable amount due within one year classified as current with the remainder classified as a non-current liability.

ii) *Measurement*

At initial recognition, the Company measures a financial liability at its fair value less transaction costs.

Financial liabilities are subsequently carried at amortized cost using the effective interest method should the fair values be deemed to be significantly different to their carrying amounts.

**i) Property and equipment**

Property and equipment are recorded at historical cost less accumulated depreciation. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The Company offers its connected safety products and monitoring services through its 'G7 Lease' leasing program. The Company accounts for certain of these as operating leases within the meaning of IFRS 16 *Leases* and are separately accounted for within property and equipment. The cartridge asset category represents the modular cartridge options, including gas sensors, used in the Company's principal safety product devices.

Depreciation is calculated using the straight-line method to expense the cost of property and equipment, less their residual values, over their estimated useful lives as follows:

Surface mount technology (SMT) equipment	10 years
Furniture and equipment	5 years
Manufacturing equipment	5 years
Equipment leased under 'G7 Lease' program	4 years
Rental equipment	4 years
Cartridges	4 years
Computer hardware	3 years
Evaluation kits	3 years
Service equipment	1 year
Leasehold improvements	Length of lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**m) Intangible assets**

The Company's intangible assets consist of computer software, government certifications for products and product patent costs. The assets are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Computer software	5 years
Government certifications	Life of certification (1-5 years)
Product patent costs	Estimated life of product (5 years)

The amortization of government certifications and product patent costs commences when the associated products are available for commercial sale.

Product development costs are expensed in the year they are incurred and are not recognized as an intangible asset for deferral in accordance with IAS 38 *Intangible Assets*. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

**n) Impairment of non-financial assets**

Property and equipment and intangible assets subject to depreciation and amortization respectively are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible indicators of reversal at the end of each reporting period.

**o) Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are obligations to pay for goods or services provided to the Company prior to the end of the reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. The carrying amounts of accounts payable and accrued liabilities are considered to be the same as their fair values, due to their short-term nature.

**p) Contract liabilities**

Contract liabilities are obligations to pay commissions to third-party distributors who assist with the fulfilment of 'G7 Lease' lease contracts. The obligations are recognized upon the start of a 'G7 Lease' lease contract. Contract liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period. The carrying amounts of contract liabilities are considered to be the same as their fair values.

**q) Leases**

On the date that the leased asset becomes available for use, the Company recognizes a ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to the consolidated statement of loss over the lease. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in depreciation expense.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include fixed lease payments, variable lease payments that are based on an index or a rate, and expected payments to exercise an extension or termination option, if the Company is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The Company's incremental borrowing rate is used to determine the present value of the liability and ROU asset arising from a lease.

The Company will continue to apply the IFRS 16 practical expedient whereby short-term leases and leases of low-value assets are not recognized on the statement of financial position and lease payments are instead recognized in the consolidated statement of loss as incurred.

When the Company acts as a lessor, it determines at the inception of each lease whether it is a finance lease or an operating lease. The classification is dependent on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset; if this is the case, then the lease is a finance lease. The Company's operating lease payments received are recognized in lease revenue on the consolidated statement of loss.

**r) Provisions**

Provisions for service warranties are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, adjusted for discounting if considered significant.

**s) Stock-based compensation**

The Company operates two equity-settled, stock-based compensation plans, under which the Company grants equity instruments (options and common stock) as consideration for services provided by employees and directors of the Company.

i) Stock option plan

Under the Company's stock option plan, options can be granted to officers, employees, consultants, and members of the Board of Directors. The exercise price of options is determined by the Board but will be no less than the closing market price of the Company's stock on the trading day immediately prior to the grant of the option in accordance with TSX Venture Exchange guidelines. Vesting is provided for at the discretion of the Board and the expiration of options is to be no greater than 10 years from the date of grant.

The Company recognizes the value of stock options awarded to employees and non-employees in the consolidated financial statements based on the estimated fair value at the date of grant. The Company calculates the value of stock options issued using the Black-Scholes option pricing model with consideration of factors specific to the Company. Each tranche in an award is considered a separate award with its own vesting year and grant date fair value. Stock-based compensation expense is recognized over the tranche's vesting period, with a corresponding increase to contributed surplus based on the number of awards expected to vest. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. The number of awards expected to vest is reviewed at least quarterly, with any impact being recognized immediately.

ii) Employee Share Ownership Plan

Under the Employee Share Ownership Plan (the "ESOP") employees can contribute up to 10% of their salary to purchase shares of the Company with the Company matching 50%. The Company has the option of contributing its employer portion as cash to purchase shares off the market or to issue the shares from treasury.

The employer portion of the ESOP has a one-year vesting period during the first year of an employee's contributions, six month vesting period during the second year of employee contributions and immediately vest during the third and later years of employee contributions.

The Company records the employer portion of the ESOP as stock-based compensation expense in the statement of comprehensive loss and values the amounts as either the cash contributed or the sum of the weighted average fair value of shares issued.

**t) Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**u) Loss per common share**

i) Basic loss per common share

Basic loss per common share is calculated by dividing:

- the loss for the period
- by the weighted average number of common shares outstanding.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

ii) Diluted loss per common share

Diluted loss per common share adjusts the figures used in the determination of basic loss per common share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential common shares, and
- the weighted average number of additional common shares that would have been outstanding assuming the conversion of all dilutive potential common shares.

**v) Revenue recognition**

Revenue is recognized for the Company's business activities using the methods outlined below:

i) *Product revenue*

The Company designs, manufactures and sells a range of safety monitoring products. Revenue from the sale of hardware devices is recognized when control of the products has been transferred, this being when the products are shipped to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the customer's location, and the risks of loss have been transferred to the customer, the price to the customer is fixed or determinable and collectability is reasonably assured.

Payment of the transaction price is due upon the product being shipped to the customer in accordance with the agreed credit terms.

The Company's obligation to provide a replacement for defective products under the standard warranty terms is recognized as a warranty provision within 'Accounts payable and accrued liabilities'.

ii) *Service revenue*

The Company provides monitoring and supporting services for its range of safety products. Revenues for safety monitoring and supporting services are recognized over the term of the contracted service period with amounts prepaid by customers accounted for as deferred revenue. Payment of the transaction price is due from the customer in accordance with the agreed credit terms.

Revenues from the rental of modular cartridge options are recognized over the term of the contracted service period with amounts prepaid by customers accounted for as deferred revenue. Payment of the transaction price is due from the customer in accordance with the agreed credit terms.

Revenues from development contracts are recognized using the input method on the basis of the Company's costs incurred relative to total estimated costs to determine the extent of progress towards completion. Payment of the transaction price is due from the customer in accordance with the agreed credit terms.

iii) *Bundled product and service arrangements*

The Company offers certain arrangements whereby a customer can purchase products and services together.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

Where such bundled arrangements exist, the amount of the transaction price allocated to each performance obligation is based upon the relative stand-alone selling prices of each distinct product or service in the contract. The best evidence of a stand-alone selling price is the observable price of a product or service when the Company sells that product or service separately in similar circumstances and to similar customers.

When a stand-alone selling price is not directly observable, the Company estimates using the residual approach method to determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone contract with a customer. This method is applied consistently to similar arrangements. Consideration is given to all reasonably available information and suitable methods.

Any discounts identified as part of a bundled arrangement are proportionately allocated across all distinct performance obligations in the contract, based on their relative stand-alone selling prices.

iv) *Lease revenue*

The Company offers its safety products and monitoring services through its 'G7 Lease' leasing program. The Company accounts for a three-year 'G7 Lease' contract, and associated statement of loss and statement of financial position impacts, as an operating lease within the meaning of IFRS 16 *Leases*. Revenues are recognized on a straight-line basis over the term of the lease with no deferred revenue element on the statement of financial position.

The Company also offers its safety products and monitoring services through a 'G7 Lease' finance lease. Assets subject to finance leases are initially recognized at an amount equal to the net investment in the lease and are included in current and long-term other receivables. Revenues are recognized as product revenue upon initial inception of the lease, service revenue is recognized on a straight-line basis over the term of the lease. Interest income is recognized over the term of the applicable leases based on the effective interest rate method.

Customers are generally invoiced on a monthly basis and consideration is payable when invoiced in accordance with the agreed credit terms in each lease contract.

w) **Government assistance**

The Company may receive government assistance in connection with product development expenditures that qualify for the Scientific Research and Experimental Development program ("SR&ED"). Federal and provincial investment tax credits are accounted for as a reduction of expenditures in the period in which the credits are determinable and when there is likely assurance of their recovery. The tax credit amounts received can be subject to a detailed technical and financial review which could result in the repayment of certain of the amounts received.

Assistance from governmental funding agencies related to supporting product development is recorded in the period that the assistance is received. The manner in which the assistance is recorded is dependent on the terms of the agreement between the Company and the relevant governmental agency.

The Company's repayable funding is recorded at its carrying value. The fair value of the repayable funding equals its carrying value, as the impact of discounting is not deemed to be significant.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

The classification of that debt as short or long-term is dependent on the period in which the repayments are estimated to become due under the terms of the agreement with the relevant governmental agency.

Government assistance relating to payroll costs are recognized over the period necessary to match them with the costs that they are intended to compensate.

**x) Income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

**3. Capital management**

The Company's primary objectives when managing capital are to profitably grow its business while maintaining adequate financing flexibility to fund new investment opportunities and other unanticipated requirements or opportunities that may arise. Profitable growth is defined as earnings growth commensurate with the additional capital being invested in the business in order for the Company to earn an appropriate rate of return on that capital.

The Company's capital structure is comprised of shareholders' equity and repayable debt. The Company's objectives when managing its capital structure are to:

- maintain sufficient cash to finance operations; and
- minimize dilution to shareholders.

The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays. The factors considered when determining whether to issue new debt or equity include the amount of cash estimated to be required, the availability of debt or equity capital and the related costs, and the need to balance value creation for shareholders against the increased liquidity risks associated with debt. The Company may require additional equity and/or debt capital to fund any significant acquisition or development opportunities. The Company's capital management objectives have not changed over the years presented.

Under the terms of the demand operating revolving loan facility, the Company is required to comply with the following financial covenants:

- ratio of debt to tangible net worth, defined as total equity less intangible assets, shall not at any time exceed 3.00 to 1.00, tested quarterly; and
- ratio of current assets to current liabilities shall not at any time be less than 1.25 to 1.00, tested quarterly.

The Company was in compliance with these covenants during the 2020 and 2019 reporting periods.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**4. Significant accounting judgments and estimates**

The preparation of financial statements requires the use of accounting estimates with management also needing to use judgment in applying the Company's accounting policies.

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the most significant accounting estimates that the Company has made in the preparation of the consolidated financial statements:

a) Stock-based compensation

The determination of the fair value of stock options requires the use of a pricing model which requires the estimation of stock price volatility, the expected term of the underlying instruments, the estimation of the risk-free interest rate, and if applicable the resulting number of options that will ultimately vest.

b) Property and equipment and intangible assets

Measurement of property and equipment and intangible assets involves the use of estimates in determining the expected useful lives of those assets and the depreciation and amortization methods used.

c) Standard costing of inventory

By their nature, estimates used in the standard costing of inventory are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in estimates in future periods could be significant.

d) Warranty provision

A provision is recognized for expected warranty claims on products sold during the year, based on previous levels of repairs and returns. Assumptions used to calculate the provision are based on current sales levels and information available about returns based on the warranty period for all products sold.

The following is the most significant judgement that the Company has made in the preparation of the consolidated financial statements

a) Revenue recognition – bundled arrangements

The determination of the amount of revenue to allocate to individual elements in a bundled arrangement and whether a deliverable constitutes a separate unit of accounting.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**5. Financial instruments and risk management**

**a) Financial instruments**

The Company holds the following financial instruments:

<i>Financial assets</i>	Notes	Carrying amount
As at October 31, 2020		\$
Cash and cash equivalents	6	28,522,703
Short-term investments	7	23,000,000
Trade and other receivables	8	13,341,855
		64,864,558
As at October 31, 2019		
Cash and cash equivalents	6	13,636,427
Short-term investments	7	17,003,361
Trade and other receivables	8	10,405,669
		41,045,457
<i>Financial liabilities</i>	Notes	Carrying amount
As at October 31, 2020		\$
Accounts payable and accrued liabilities	15	7,311,475
Contract liabilities		834,148
Lease liabilities	18	1,560,424
		9,706,047
As at October 31, 2019		
Accounts payable and accrued liabilities	15	7,367,353
Contract liabilities		804,548
Government assistance	17	288,793
		8,460,694

The Company does not hold financial liabilities at FVPL as at October 31, 2020 and October 31, 2019.

The carrying amounts of the financial assets and liabilities are deemed to be the same as their fair values, due to their short-term nature or the interest receivable is close to current market rates.

The Company's risk exposure to various risks associated with the financial instruments is discussed in note 5 b). The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

**b) Financial risk management**

The Company's risk management includes foreign exchange risk, interest rate risk, credit risk and liquidity risk.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**i. Market risk**

**Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, including U.S. dollar (“USD”), British pound (“GBP”), Euro (“EUR”) and Australian dollar (“AUD”). Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Company’s policy with respect to foreign currency risk management is to obtain natural hedges of revenue and expenses to the extent possible. The Company does not speculate in foreign currency and remains at risk to the market where natural hedges are not in place.

*Exposure*

The Company’s exposure to foreign currency risk at the end of the reporting period, expressed in Canadian dollars, was as follows:

	October 31, 2020			
	USD	GBP	EUR	AUD
	\$	\$	\$	\$
<i>Financial assets</i>				
Cash and cash equivalents	1,133,409	1,685,351	1,439,603	1,065,757
Short-term investments	-	-	-	-
Trade and other receivables	7,373,163	1,486,644	1,389,947	146,557
<i>Financial liabilities</i>				
Accounts payable and accrued liabilities	2,378,447	673,896	125,256	38,646
Contract liabilities	401,059	-	-	-
Lease liabilities	11,861	440,904	-	-

  

	October 31, 2019			
	USD	GBP	EUR	AUD
	\$	\$	\$	\$
<i>Financial assets</i>				
Cash and cash equivalents	1,959,071	2,444,733	1,166,582	727,999
Short-term investments	1,003,361	-	-	-
Trade and other receivables	4,814,033	2,298,543	1,082,422	210,663
<i>Financial liabilities</i>				
Accounts payable and accrued liabilities	2,767,875	853,652	30,507	33,330
Contract liabilities	96,729	-	-	-

*Amounts recognized in Consolidated Statement of Loss and Comprehensive Loss*

During the year, the following foreign-exchange related amounts were recognized in loss and other comprehensive loss.

	October 31, 2020	October 31, 2019
	\$	\$
<i>Amounts recognized in profit or loss</i>		
Net foreign exchange gain/(loss)	1,215,649	15,419
<i>Net gains (losses) recognized in Comprehensive Loss</i>		
Translation of foreign operations	(1,073,237)	79,842

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

*Sensitivity*

As disclosed in the table above, the Company is primarily exposed to changes in USD/CAD, GBP/CAD, EUR/CAD and AUD/CAD exchange rates. The sensitivity of profit or loss to changes in exchange rates arises mainly from USD, GBP, EUR and AUD denominated cash and cash equivalents, short-term investments, trade and other receivables and accounts payable and accrued liabilities.

As at October 31, 2020, if the Canadian dollar had weakened/strengthened by 10% against the USD, GBP, EUR and AUD with all other variables held constant, the impact on net loss for the year would have been as follows, mainly as a result of foreign exchange gains/(losses) on translation of USD, GBP, EUR and AUD denominated cash and cash equivalents, short-term investments, trade accounts receivable and accounts payable and accrued liabilities:

	October 31, 2020	October 31, 2019
	\$	\$
USD/CAD exchange rate – increase 10%	454,241	621,573
USD/CAD exchange rate – decrease 10%	(454,241)	(621,573)
GBP/CAD exchange rate – increase 10%	165,573	351,872
GBP/CAD exchange rate – decrease 10%	(165,573)	(351,872)
EUR/CAD exchange rate – increase 10%	390,581	352,589
EUR/CAD exchange rate – decrease 10%	(390,581)	(352,589)
AUD/CAD exchange rate – increase 10%	115,100	85,499
AUD/CAD exchange rate – decrease 10%	(115,100)	(85,499)

The Company's exposure to other foreign exchange risk is not significant.

**Interest rate risk**

The Company's interest rate risk arises from its cash and cash equivalents and bank indebtedness with variable rates which expose the Company to cash flow interest rate risk. The Company's short-term investments have fixed interest rates.

*Exposure*

The exposure of the Company's cash and cash equivalents and bank indebtedness are subject to variable interest rate changes and the fixed interest rate short-term investments have contractual repricing dates of six months or less.

	October 31, 2020	October 31, 2019
	\$	\$
Variable rate cash and cash equivalents	28,522,703	13,636,427
Fixed interest rate short-term investments – repricing date: 6 months or less	23,000,000	17,003,361
	51,522,703	30,639,788

*Sensitivity*

The net loss of the Company is sensitive to higher/lower interest income from cash and cash equivalents and to higher/lower interest expenses from bank indebtedness as a result of changes in interest rates. As at October 31, 2020 and October 31, 2019, if the interest rate had increased/decreased by 100 basis points, with all other variables held constant, the impact on net loss for the periods would not have been significant.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**ii. Credit risk**

Credit risk arises from cash and cash equivalents, short-term investments held with banks as well as credit exposure to customers, including outstanding trade accounts receivables.

*Risk management*

Credit risk is managed consistently across the Company. The cash and cash equivalents are comprised of cash and highly liquid short-term deposits with two Canadian chartered banks, a United States chartered bank and a UK plc bank. The bank indebtedness is comprised of the amount drawn on the Company's demand operating revolving loan facility with a Canadian chartered bank. The Company only deals with highly rated financial institutions.

The Company assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings with compliance with credit limits regularly monitored.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

*Credit quality*

The credit quality of the following financial assets that are neither past due nor impaired can be assessed by reference to an external credit rating.

	October 31, 2020	October 31, 2019
	\$	\$
<i>Cash and cash equivalents</i>		
AA-	13,000,411	13,636,427
A+	15,522,292	-
<i>Short-term investments</i>		
A+	16,000,000	-
A	7,000,000	-
AA-	-	17,003,361
	<u>51,522,703</u>	<u>30,639,788</u>

The external credit ratings are those of Standard and Poor's (where available) and DBRS as at the year end reporting dates. None of the held-to-maturity short-term investments are either past due or impaired.

*Impaired trade receivables*

Individual trade receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The remaining trade receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified.

For these trade receivables the estimated impairment losses are recognized in a separate provision for an ECL.

The Company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or delinquency in payments.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. Impairment losses are recognised in profit or loss within 'sales and marketing' expenses. Subsequent recoveries of amounts previously written off are credited against 'sales and marketing' expenses.

Movements in the ECL for trade receivables are as follows:

October 31, 2020					
	Current	Less than 30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due
	\$	\$	\$	\$	\$
Expected loss rate	0.3%	1.6%	4.0%	6.0%	6.9%
Gross carrying amount	7,421,795	464,413	292,536	68,695	1,425,186
Loss allowance	22,265	7,431	11,701	4,122	98,614

November 1, 2019					
	Current	Less than 30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due
	\$	\$	\$	\$	\$
Expected loss rate	0.1%	0.4%	2.0%	7.0%	7.0%
Gross carrying amount	7,875,390	961,421	222,894	61,690	649,951
Loss allowance	7,875	3,846	4,458	4,318	45,497

	October 31, 2020	November 1, 2019
	\$	\$
Expected credit loss	144,133	65,994
Provision for specifically identified contracts	-	396,912
Loss allowance	144,133	462,906

The creation and release of the ECL has been included in 'sales and marketing' expenses in the consolidated statement of loss. Amounts specifically identified and charged to the loss allowance are generally written off, when there is no expectation of recovery.

During the year, the following losses were recognized in relation to impaired receivables.

	October 31, 2020	October 31, 2019
	\$	\$
Impairment losses – movement in the loss allowance	(48,661)	(14,853)
Reversal of previous impairment losses	211,201	-

*Past due but not impaired*

As at October 31, 2020, trade receivables of \$2,106,697 (October 31, 2019: \$1,444,588) were past due but not impaired. The aging analysis of these trade receivables is as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Up to 3 months	780,125	1,235,101
3 to 6 months	1,326,572	209,487

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

There were no amounts which were deemed to be impaired which were not included in the ECL assessment.

**iii. Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period, the Company held cash and cash equivalents of \$28,522,703 (October 31, 2019: \$13,636,427) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying business, the Company maintains flexibility in funding by maintaining availability under a committed credit line.

Management maintains a forward-looking cash requirement forecast, comprising cash and cash equivalents, short-term investments and a demand operating revolving loan facility with a Canadian chartered bank. This ensures that funds are readily available to meet financial obligations as they become due, as well as ensuring that adequate funds exist to support business strategies.

The Company has financed its activities primarily through cash flows from operations, funds from brokered and non-brokered private placements, a bank demand operating revolving loan facility and government assistance in the form of repayable debt. The ability to sustain operations is dependent on successfully commercializing its products, continuing to increase sales of the Company's products and services and, if required, the ability to raise additional equity through financing. The Company has sufficient funds and access to capital for at least the next 12 months.

*Financing arrangements*

The Company had access to the following borrowing facility with the balance drawn against the operating line at the end of the reporting period is as follows:

	October 31, 2020	October 31, 2019
	\$	\$
<b>Floating rate</b>		
Demand operating revolving loan facility	-	-

The demand operating revolving loan facility may be drawn on at any time and may be repaid on demand by the bank. The demand operating revolving loan facility is secured by a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property.

*Maturity of financial liabilities*

The tables below analyze the Company's financial liabilities into relevant maturity groupings based on their contractual maturities.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 24 months equal their carrying balances as the impact of discounting is not significant.

<i>Contractual maturities of financial liabilities</i>	Less than 6 months	6 – 12 months	Over 1 year	Total contractual cash flows	Carrying amount
As at October 31, 2020	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	6,260,426	1,051,049	-	7,311,475	7,311,475
Contract liabilities	498,059	134,092	201,997	834,148	834,148
Lease Liabilities	241,324	255,215	1,063,885	1,560,424	1,560,424
<b>Total</b>	<b>6,999,809</b>	<b>1,440,356</b>	<b>1,265,882</b>	<b>9,706,047</b>	<b>9,706,047</b>
As at October 31, 2019					
Accounts payable and accrued liabilities	6,640,778	726,575	-	7,367,353	7,367,353
Contract liabilities	393,157	217,986	193,405	804,548	804,548
Government assistance	200,000	88,793	-	288,793	288,793
<b>Total</b>	<b>7,233,935</b>	<b>1,033,354</b>	<b>193,405</b>	<b>8,460,694</b>	<b>8,460,694</b>

**6. Cash and cash equivalents**

	October 31, 2020	October 31, 2019
	\$	\$
Cash at bank	24,378,980	9,560,307
Notice term deposits	4,143,723	4,076,120
	<b>28,522,703</b>	<b>13,636,427</b>

a) **Restricted cash**

Cash at bank includes \$217,162 (October 31, 2019: \$214,101) that is subject to restrictions and therefore not available for general use.

b) **Notice term deposits**

Notice term deposits are comprised of a \$3,000,000 (October 31, 2019: \$3,000,000) and \$1,000,000 (October 31, 2019: \$1,000,000) CAD 31-day notice term deposits with variable interest rates of 0.6% (October 31, 2019: 2.73%) and 0.6% (October 31, 2019: 2.14%) respectively.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**7. Short-term term investments**

	October 31, 2020 \$	October 31, 2019 \$
Guaranteed investment certificate with fixed interest of 0.60% and maturity date of January 27, 2021	7,000,000	-
Guaranteed investment certificate with fixed interest of 0.50% and maturity date of April 27, 2021	8,000,000	-
Guaranteed investment certificate with fixed interest of 0.58% and maturity date of October 29, 2021	8,000,000	-
Guaranteed investment certificate with fixed interest of 2.20% and maturity date of December 2, 2019	-	2,000,000
Guaranteed investment certificate with fixed interest of 2.23% and maturity date of January 27, 2020	-	3,000,000
Term deposit of USD \$762,000 with fixed interest of 1.95% and maturity date of January 27, 2020	-	1,003,361
Guaranteed investment certificate with fixed interest of 2.28% and maturity date of February 26, 2020	-	1,000,000
Guaranteed investment certificate with fixed interest of 2.33% and maturity date of April 27, 2020	-	2,000,000
Guaranteed investment certificate with fixed interest of 2.20% and maturity date of October 29, 2020	-	8,000,000
	23,000,000	17,003,361

**8. Trade and other receivables**

	October 31, 2020 \$	October 31, 2019 \$
Trade accounts receivable	9,672,625	9,771,346
Loss allowance	(144,133)	(462,906)
Trade accounts receivables - net	9,528,492	9,308,440
Other receivables	3,813,363	1,097,229
Total trade and other receivables	13,341,855	10,405,669

**9. Inventory**

	October 31, 2020 \$	October 31, 2019 \$
Parts	6,142,483	3,056,325
Finished goods	4,628,769	2,793,444
	10,771,252	5,849,769

Inventories recognized as an expense and included in 'cost of sales' in the consolidated statement of loss during the year ended October 31, 2020 amounted to \$4,611,882 (October 31, 2019: \$7,854,321). These were included in cost of sales for product.

Write-downs of obsolete parts inventory amounted to \$541,246 for the year ended October 31, 2020 (October 31, 2019: \$266,244). These were recognized as an expense and included in cost of sales for product.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**10. Contract assets**

	October 31, 2020	October 31, 2019
	\$	\$
Asset recognised from costs incurred to fulfil a contract – short term	498,886	515,017
Asset recognised from costs incurred to fulfil a contract – long term	223,571	460,595
	<u>722,457</u>	<u>975,612</u>

**11. Property and equipment**

	At November 1, 2019	Exchange differences	Additions	Other Disposals & Transfers	Depreciation	Net book value At October 31, 2020
	\$	\$	\$	\$	\$	\$
Furniture and equipment	377,005	993	60,029	-	107,557	330,470
Leasehold improvements	667,325	43	56,715	-	169,135	554,948
Manufacturing equipment	485,692	185	679,257	-	227,101	938,033
SMT equipment	1,046,173	-	244,349	-	134,273	1,156,249
Computer hardware	225,793	122	222,476	-	153,409	294,982
Equipment leased under 'G7 Lease' program	1,618,944	1,124	188,166	(312,551)	626,183	869,500
Equipment rental	147,643	-	-	(3,028)	43,422	101,193
Service equipment	3,445	-	-	-	3,445	-
Evaluation kits	129,259	13	26,390	(71,697)	70,321	13,644
Cartridges	4,748,538	-	1,924,623	(453,273)	1,916,497	4,303,391
	<u>9,449,817</u>	<u>2,480</u>	<u>3,402,005</u>	<u>(840,549)</u>	<u>3,451,343</u>	<u>8,562,410</u>

	Cost	Accumulated depreciation	October 31, 2020 Net book value
	\$	\$	\$
Furniture and equipment	578,885	248,415	330,470
Leasehold improvements	810,647	255,699	554,948
Manufacturing equipment	1,577,097	639,064	938,033
SMT equipment	1,462,714	306,465	1,156,249
Computer hardware	599,984	305,002	294,982
Equipment leased under 'G7 Lease' program	2,133,462	1,263,962	869,500
Equipment rental	173,247	72,054	101,193
Evaluation kits	107,401	93,757	13,644
Cartridges	7,174,243	2,870,852	4,303,391
	<u>14,617,680</u>	<u>6,055,270</u>	<u>8,562,410</u>

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

	At November 1, 2018	Exchange differences	Additions	Other Disposals & Transfers	Depreciation	Net book value At October 31, 2019
	\$	\$	\$	\$	\$	\$
Furniture and equipment	132,605	(1,434)	326,430	-	80,596	377,005
Leasehold improvements	87,161	(638)	769,740	(15,603)	173,335	667,325
Manufacturing equipment	431,768	(69)	212,424	-	158,431	485,692
SMT equipment	1,045,880	-	118,245	-	117,952	1,046,173
Computer hardware	157,614	(59)	164,966	-	96,728	225,793
Equipment leased under 'G7 Lease' program	1,654,818	1,684	571,315	13,311	622,184	1,618,944
Equipment rental	26,332	-	146,087	-	24,776	147,643
Service equipment	5,878	-	-	13,781	16,214	3,445
Evaluation kits	134,253	24	50,462	6,260	61,740	129,259
Cartridges	2,015,235	18	3,777,697	(75,753)	968,659	4,748,538
	5,691,544	(474)	6,137,366	(58,004)	2,320,615	9,449,817

	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Furniture and equipment	574,173	197,168	377,005
Leasehold improvements	753,885	86,560	667,325
Manufacturing equipment	1,106,818	621,126	485,692
SMT equipment	1,218,365	172,192	1,046,173
Computer hardware	400,751	174,958	225,793
Equipment leased under 'G7 Lease' program	2,659,065	1,040,121	1,618,944
Equipment rental	176,276	28,633	147,643
Service equipment	19,659	16,214	3,445
Evaluation kits	199,321	70,062	129,259
Cartridges	5,991,168	1,242,630	4,748,538
	13,099,481	3,649,664	9,449,817

Depreciation expense of \$2,965,571 (October 31, 2019: \$1,915,450) is included in 'cost of sales', \$432,076 (October 31, 2019: \$360,626) in 'general and administrative' expenses, and \$53,696 (October 31, 2019: \$44,539) in 'product development' in the consolidated statement of loss.

**12. Intangible assets**

	At November 1, 2019	Exchange differences	Additions	Amortization	Net book value At October 31, 2020
	\$	\$	\$	\$	\$
Computer software	157,070	-	-	60,542	96,528
Government certifications and product patent cost	501,568	-	405,769	201,713	705,624
	658,638	-	405,769	262,255	802,152

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

	Cost	Accumulated amortization	October 31, 2020 Net book value
	\$	\$	\$
Computer software	460,941	364,413	96,528
Government certifications and product patent cost	1,338,256	632,632	705,624
	1,799,197	997,045	802,152

	At November 1, 2018	Exchange differences	Additions	Amortization	Net book value At October 31, 2019
	\$	\$	\$	\$	\$
Computer software	220,542	1	26,837	90,310	157,070
Government certifications and product patent cost	474,249	-	191,518	164,199	501,568
	694,791	1	218,355	254,509	658,638

	Cost	Accumulated amortization	October 31, 2019 Net book value
	\$	\$	\$
Computer software	460,941	303,871	157,070
Government certifications and product patent cost	932,487	430,919	501,568
	1,393,428	734,790	658,638

Amortization expense of \$33,041 (October 31, 2019: \$26,106) is included in 'cost of sales', \$60,542 (October 31, 2019: \$90,310) in 'general and administrative' expenses, and \$168,672 (October 31, 2019: \$138,063) in 'product development' in the consolidated statement of loss.

**13. Right-of-use asset**

The following table details the cost and accumulated depreciation of the Company's ROU assets:

	As at November 1, 2019	Exchange differences	Additions	Depreciation	As at October 31, 2020
	\$	\$	\$	\$	\$
ROU assets	1,682,655	7,535	242,098	445,967	1,486,321

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**14. Leasing arrangements**

The Company leases certain of its safety monitoring equipment to customers through the Company's 'G7 Lease' program with monthly payments. The terms of the lease determine whether the G7 Lease is accounted for as an operating or finance lease within the meaning of IFRS 16 *Leases*.

The total payments under non-cancellable operating lease contracts not recognized in the financial statements as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Within one year	2,762,809	3,801,357
Later than one year but not later than five years	1,245,641	2,947,312
Later than five years	-	-
	<u>4,008,450</u>	<u>6,748,669</u>

The total undiscounted payments under non-cancellable finance lease contracts for the right to use the equipment and safety monitoring services are as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Within one year	2,274,909	374,971
Later than one year but not later than five years	4,881,707	1,044,645
Later than five years	-	-
	<u>7,156,616</u>	<u>1,419,616</u>

**15. Accounts payable and accrued liabilities**

	October 31, 2020	October 31, 2019
	\$	\$
Trade accounts payable	3,453,992	3,635,092
Accrued liabilities	3,857,483	3,732,261
	<u>7,311,475</u>	<u>7,367,353</u>

**16. Bank indebtedness**

The Company has a demand operating revolving loan facility ('loan facility') of up to \$1,500,000 with a Canadian chartered bank. The loan facility bears interest at the bank's annual prime rate plus 1% (October 31, 2019: 1.00%) and is repayable on demand. In the event that the total indebtedness of the Company to the bank exceeds \$500,000 the Company shall ensure that the amount advanced and loan outstanding shall at no time exceed the margin requirements of the loan facility. The loan facility is secured, including by a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company.

The loan facility was not drawn against as at October 31, 2020 and October 31, 2019.

**17. Government assistance**

a) TECTERRA Inc. funding

The Company has a compensation and funding agreement with TECTERRA Inc. (“Tecterra”), an Alberta provincial technology organization which supports the development and commercialization of geomatics solutions. Under the terms of the agreement, the Company receives funding for the development of a certain geomatic product. The agreement contains security in the form of a first security interest (subject only to any security interest and charge granted by the Company to its principal bank) on all present and after acquired property of the Company for the performance of its agreement obligations. The funding received is repayable by the Company on a quarterly basis with the amounts of each quarterly payment based on the lesser of a percentage of sales of that product or 20% of the funding amount. The agreement states that the Company shall commence repayment at the end of the calendar quarter in which the first sale of the product for which funding has been provided occurs.

On June 16, 2017, the Company entered into a funding and compensation agreement with Tecterra whereby up to \$500,000 in funding was made available to the Company, interest free, for the creation and development of a new product. The Company has received all \$500,000 of the available funding under this agreement (October 31, 2019: \$500,000). As at October 31, 2020, the Company has fully repaid (October 31, 2019: \$211,207) the amount received.

b) Canada Emergency Wage Subsidy

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy (“CEWS”) that is available to any employer, subject to eligibility criteria, whose business has been adversely affected by COVID-19.

The Company received wage subsidy funding of \$2,873,770 for the year ended October 31, 2020 (October 31, 2019: \$nil) which has been recorded as a reduction in related payroll expenses in the consolidated statement of loss.

As at October 31, 2020, \$973,614 (October 31, 2019: \$nil) is included in trade and other receivables on the consolidated statement of financial position.

c) SR&ED program

During the year, the Company recorded \$65,989 (October 31, 2019: \$89,506) in refundable SR&ED tax credits for the 2019 tax year which were credited as a reduction of product development costs.

**18. Lease arrangements**

The follow table details the movement in the Company’s lease obligations for the year ended October 31, 2020.

<i>Lease liability</i>	\$
Balance as at November 1, 2019	1,682,655
Foreign exchange differences	7,903
Additions	242,098
Repayments	(372,232)
Balance as at October 31, 2020	1,560,424
Lease obligations due within 12 months	496,539
Lease obligations due later than 12 months	1,063,885

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

Payments relating to short-term leases and leases of low-value assets were \$62,000 for the year ended October 31, 2020. The Company incurred \$72,968 (October 31, 2019: \$nil) in interest charges related to its lease obligations.

**19. Share capital**

a) Authorized

The Company is authorized to issue an unlimited number of common voting shares without nominal or par value and an unlimited number of preferred shares without nominal or par value.

b) Issued

	Number of shares	Amount \$
<u>Common Shares</u>		
As at November 1, 2018	47,147,538	90,791,496
Options exercised	636,362	1,694,259
Issued through stock-based compensation plan	51,943	295,525
As at October 31, 2019	47,835,843	92,781,280
Options exercised	390,876	1,328,965
Issued through stock-based compensation plan	68,996	410,262
Issued for cash through private placement	6,000,000	36,000,000
Share issue costs	-	(2,361,503)
As at October 31, 2020	54,295,715	128,159,004

During the year ended October 31, 2020, 390,876 common share options were exercised for cash proceeds net of income tax withholdings of \$905,415. On exercise of these common share options, \$423,550 was credited to share capital from contributed surplus.

During the year ended October 31, 2019, 636,362 common share options were exercised for cash proceeds net of income tax withholdings of \$1,180,970. On exercise of these common share options, \$513,289 was credited to share capital from contributed surplus.

On September 2, 2020, the Company completed a brokered private placement for an aggregate of 6,000,000 common shares at an issue price of \$6.00 per common share for gross proceeds of \$36,000,000 and share issuance costs of \$2,361,503. All common shares issued pursuant to the brokered private placement were subject to a four month plus one day hold period.

c) Employee Share Ownership Plan

The Company has a custody and administration vehicle to facilitate its employee share ownership program and hold shares of the Company allocated to individual directors and employees. The Company has concluded that it in substance controls the above-noted vehicle and as such it has been consolidated by the Company. Included in the outstanding common shares of the Company as of October 31, 2020, are 27,582 (October 31, 2019: 17,771) unvested common shares and 730,925 (October 31, 2019: 631,993) vested common shares which are held by the above-noted vehicle.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**20. Revenue from contracts with customers**

	Year ended October 31, 2020	Year ended October 31, 2019
	\$	\$
<i>Revenue</i>		
Revenue from contracts with customers – Product	12,859,937	15,288,315
Revenue from contracts with customers – Service	21,286,560	13,625,576
Revenue from operating leases	4,230,620	4,357,559
<b>Total</b>	<b>38,377,117</b>	<b>33,271,450</b>
<i>Timing of revenue recognition</i>		
At a point in time	12,859,937	15,288,315
Over time	25,517,180	17,983,135
<b>Total</b>	<b>38,377,117</b>	<b>33,271,450</b>

**21. Segment information**

The Chief Executive Officer is the Company's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Chief Executive Officer for the purposes of allocating resources and assessing performance.

The Chief Executive Officer considers the business performance from a product and service perspective. The product revenues are driven by sales of the Company's suite of safety products with the service revenue generated by the monitoring and the support of those products. There are no sales between segments and revenue from external parties is measured in a manner consistent with that in the consolidated statement of loss.

The Chief Executive Officer regularly reviews the following for each reportable segment:

	Product		Service	
	Year ended October 31, 2020	Year ended October 31, 2019	Year ended October 31, 2020	Year ended October 31, 2019
	\$	\$	\$	\$
Revenue	12,859,937	15,288,315	25,517,180	17,983,135
Cost of sales	10,288,548	11,678,174	7,900,507	6,091,264
Gross margin	2,571,389	3,610,141	17,616,673	11,891,871

The Company's expenses, finance income and costs, assets and liabilities are not allocated to reportable segments.

In the year ended October 31, 2020, there were no customers representing 10% or more of the Company's revenue (October 31, 2019: no one customer represented greater than 10%).

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

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

	Year ended October 31, 2020	Year ended October 31, 2019
	\$	\$
Canada	12,660,981	12,130,392
United States	16,050,654	12,829,094
Europe	8,337,031	7,111,438
Australia & New Zealand	766,814	692,482
Other international	561,637	508,044
<b>Total</b>	<b>38,377,117</b>	<b>33,271,450</b>

All property and equipment and intangible assets are located in Canada with the exception of property and equipment with a net book value of \$173,140 (October 31, 2019: \$202,912) that is located in Europe.

**22. Expenses by nature**

	Year ended October 31, 2020	Year ended October 31, 2019
	\$	\$
Employee compensation and benefit expenses	20,002,096	17,570,148
Operational expenses	11,569,968	10,941,205
Services and materials	12,124,440	12,819,931
Royalties	84,474	105,984
Depreciation and amortization	4,159,385	2,575,124
Foreign exchange (gain)/loss	(1,215,649)	(15,419)
<b>Total costs of sales and expenses</b>	<b>46,724,714</b>	<b>43,996,973</b>

**23. Employee compensation and benefit expenses**

	Year ended October 31, 2020	Year ended October 31, 2019
	\$	\$
Salaries, wages, employment and termination benefits	18,704,455	15,944,487
ESOP and stock options granted to directors and employees	1,297,641	1,625,661
<b>Total employee compensation and benefit expenses</b>	<b>20,002,096</b>	<b>17,570,148</b>

**24. Finance income and costs**

	Year ended October 31, 2020	Year ended October 31, 2019
	\$	\$
<i>Finance income</i>		
Interest received/receivable from finance leases and financial assets held for cash management purposes	400,351	802,466
<i>Finance costs</i>		
Interest and finance charges paid/payable for financial liabilities	73,492	1,402
<b>Finance income, net</b>	<b>326,859</b>	<b>801,064</b>

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**25. Income taxes**

Income tax expense (recovery) is calculated using the combined federal and provincial statutory income tax rates which reflect a reduction in the Alberta tax rate enacted during the fiscal year. The combined provision for taxes in the consolidated statement of loss reflects an effective tax rate which differs from the expected statutory rate as follows:

	Year ended October 31, 2020 \$	Year ended October 31, 2019 \$
Loss before income taxes	(8,020,738)	(9,924,459)
Combined federal and provincial income tax rate	24.49%	26.67%
Tax calculated at applicable statutory rates applicable to profits	(1,964,680)	(2,646,853)
Tax losses and other items for which no deferred income tax asset was recognized	1,715,835	2,342,045
Stock-based compensation expense not deductible for tax purposes	317,857	354,201
Non-deductible expenses	35,641	12,692
Income tax expense (recovery)	104,653	62,085

Income tax expense is included in 'general and administrative expenses' in the consolidated statement of loss during the year ended October 31, 2020 and October 31, 2019.

The significant components of the Company's net future income tax deductions are summarized as follows:

	October 31, 2020 \$	October 31, 2019 \$
Non-capital loss carry forwards	50,227,074	46,024,673
Undepreciated capital cost	7,437,855	4,071,842
Reserves	1,288,654	1,397,828
Share issuance costs	2,960,903	1,815,496
SR&ED expenditure pool	6,909,106	7,105,289
Other	-	171,725
Total future tax deductions	68,823,592	60,586,853

In addition to the temporary differences listed above, the Company has \$1,834,313 of investment tax credits available as of October 31, 2020 which will be included in the taxable income of the Company in the tax year following their use.

The Company has \$50,227,074 of non-capital loss carry forwards which begin to expire in 2026.

**26. Interests in subsidiaries**

The Company's interest in subsidiaries as at October 31, 2020 is set out below. Unless otherwise stated, they have share capital consisting solely of common shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

Name of entity	Place of business / Country of incorporation	Ownership interest held by the Company		Ownership interest held by non-controlling interests		Principal activities
		2020 %	2019 %	2020 %	2019 %	
Blackline Safety Europe Ltd.	United Kingdom	100	100	-	-	Sale of safety monitoring products and services in Europe
Blackline Safety USA Corp.	U.S.A.	100	100	-	-	Facilitation of sale of safety monitoring products and services in the United States
Blackline Safety Australia Pty. Ltd.	Australia	100	100	-	-	Facilitation of sale of safety monitoring products and services in Australia & New Zealand

**27. Commitments**

The Company has various commitments to minimum inventory purchases and has contracted for the services of certain third parties. The Company has leases and other miscellaneous contracts to which there are minimum required payments.

The future aggregate minimum lease payments and remaining commitments under the above contracts, including estimated operating costs for the office space leases, are as follows:

	Year ended October 31, 2020 \$	Year ended October 31, 2019 \$
Within one year	1,496,333	1,937,288
Later than one year but not later than five years	1,135,154	3,684,934
Later than five years	-	-
<b>Total</b>	<b>2,631,487</b>	<b>5,622,222</b>

Upon prospective application of IFRS 16, certain finance lease commitments which are included in the comparative year figures are no longer included in the current year commitments above.

**28. Related party transactions**

**a) Purchases of services**

The Company purchased consulting services from an entity controlled by a related party of a member of key management personnel on normal credit terms and conditions in the amounts of \$nil for the year ended October 31, 2020 (October 31, 2019: \$40,500). As at October 31, 2020, the amount of \$nil (October 31, 2019: \$15,356) was outstanding in accounts payable and accrued liabilities in relation to transactions with that related party.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**b) Key management personnel compensation**

Key management includes the Company's directors and executive officers. The Company's directors can receive compensation in the form of stock options and/or participate in the Company's ESOP. The compensation paid or payable to key management for employee and director services is shown below:

	Year ended October 31, 2020 \$	Year ended October 31, 2019 \$
Salaries, compensation and employment benefits	1,072,000	1,072,000
ESOP and stock options granted	635,313	957,636
<b>Total</b>	<b>1,707,313</b>	<b>2,029,636</b>

**29. Stock-based compensation**

The Company has established a stock-based compensation plan ("stock option plan" or the "plan") which was reapproved by shareholders at the prior year annual general meeting. The purpose of the stock option plan is to provide long-term incentives for directors, officers, employees and consultants of the Company to deliver long-term shareholder returns.

Participation in the plan is at the Board of Directors' discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The plan allows for the purchase of one common share for each option granted, at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions being met.

The number of options that may be exercised depends on the Company's share price as listed on the TSXV. Options granted under the plan vest over an immediate to three-year period. For those options which vest immediately, they remain exercisable for a period of five years and for those options which are fully vested after three years, the options remain exercisable for a period of two years after vesting.

Options granted under the plan are for no consideration and carry no dividend or voting rights. When exercised, each option converts into one common share.

	Number of options	Weighted average exercise price per stock option \$
As at October 31, 2018	2,680,652	3.61
Vested and exercisable at October 31, 2018	2,171,435	3.33
Granted during the period	812,000	5.27
Exercised during the period	(636,362)	1.85
Forfeited during the period	(97,486)	4.80
Expired during the period	(7,000)	1.31
As at October 31, 2019	2,751,804	4.46
Vested and exercisable at October 31, 2019	2,368,112	4.36
Granted during the period	874,000	4.25
Exercised during the period	(390,876)	2.31
Forfeited during the period	(18,333)	4.22
Expired during the period	(3,000)	1.80
As at October 31, 2020	3,213,595	4.67
Vested and exercisable at October 31, 2020	2,784,461	4.68

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

The weighted average share price at the date of exercise of options exercised during the year ended October 31, 2020 was \$5.58 (October 31, 2019: \$4.46).

Stock options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date – Year ended	Exercise price \$ per share	Stock options October 31, 2020	Stock options October 31, 2019
October 31, 2021	1.60 – 2.15	-	263,167
October 31, 2022	2.85 – 4.40	853,837	982,004
October 31, 2023	4.85 – 5.50	699,175	715,883
October 31, 2024	5.26 – 5.84	786,583	790,750
October 31, 2025	4.25	874,000	-
		3,213,595	2,751,804

The weighted average remaining contractual life of the options outstanding as at October 31, 2020 is 3.01 years (October 31, 2019: 3.15 years).

The Company uses the Black-Scholes model and a forfeiture rate of 13% (October 31, 2019: 11%), based on historical data, to calculate the stock-based compensation expense during the year. The weighted average assessed fair value at grant date of options granted during the year ended October 31, 2019 was \$4.25 per option (October 31, 2019: \$5.27). The valuation at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share and the expected dividend yield.

The model inputs for the option tranches granted during the year ended October 31, 2020 and 2019 included:

	Year end October 31, 2020	Year ended October 31, 2019
Risk-free interest rate	0.52% - 0.58%	1.41% - 1.65%
Expected life of the option – employees	3 years	3 years
Expected life of the option – directors and officers	4 years	4 years
Expected dividend per share	\$nil per share	\$nil per share
Expected volatility of the Company's shares	32% - 36%	33% - 41%

The expected price volatility is based on the historical volatility.

### 30. Loss per common share

The effects of potentially dilutive instruments such as stock options on loss per common share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per common share.

	Year end October 31, 2020	Year ended October 31, 2019
Weighted average common shares outstanding – basic and diluted	49,055,489	47,433,795
Loss for the year	(8,020,738)	(9,924,459)
Basic and diluted loss per common share	(0.16)	(0.21)

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**31. Supplementary cash flow information**

The net change in non-cash working capital items increases (decreases) cash flows as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Trade and other receivables	(1,515,209)	(5,659,927)
Inventory	(4,903,365)	401,925
Prepaid expenses and advances	(645,578)	(281,942)
Contract assets	16,147	(128,153)
Contract assets – long-term	237,033	15,282
Other receivables – long-term	(1,175,225)	(564,816)
Accounts payable and accrued liabilities	(296,767)	3,255,415
Deferred revenue	2,161,120	2,399,548
Contract liabilities	21,008	348,514
Deferred lease incentives	-	(60,043)
Deferred revenue – long-term	(361,102)	1,713,164
Contract liabilities – long-term	8,592	37,730
Deferred lease incentives – long-term	-	153,402
	<u>(6,453,346)</u>	<u>1,630,099</u>

The analysis of net debt and the movements in net debt for the years presented is as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Gross debt – fixed interest rates	-	-
Gross debt – variable interest rates	-	-
Gross debt – interest free	-	(288,793)
Net debt	-	<u>(288,793)</u>

	Debt due within one year	Debt due after one year	Total
	\$	\$	\$
Net debt as at November 1, 2019	(288,793)	-	(288,793)
Cash flows	(288,793)	-	(288,793)
Other non-cash movements	-	-	-
Net debt as at October 31, 2020	<u>-</u>	<u>-</u>	<u>-</u>

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

**32. Subsequent event**

On November 10, 2020, the Company granted a total of 115,000 stock options. Each option is exercisable for one common share of the Company at a price of \$6.55 per share until expiry on November 10, 2025. Two individuals were granted 50,000 options each in connection with their appointments as a director and an advisor to the Board of Directors of the Company. These options vested immediately. 15,000 options were granted to new employees recently hired by the Company, with these options vesting over a three-year period.

**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

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**Blackline Safety Corp.**  
**Notes to the Consolidated Financial Statements**  
For the years ended October 31, 2020 and 2019

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