
Condensed interim consolidated
financial statements of
Plurilock Security Inc.

For the three and six months ended June 30, 2023 and 2022 (unaudited)

| | |
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| Condensed Interim Consolidated Statements of Financial Position | 1 |
| Condensed Interim Consolidated Statements of Loss and Comprehensive Loss | 2 |
| Condensed Interim Consolidated Statements of Changes in Equity | 3 |
| Condensed Interim Consolidated Statements of Cash Flows | 4-5 |
| Notes to the Condensed Interim Consolidated Financial Statements | 6-46 |

Plurilock Security Inc.**Condensed Interim Consolidated Statements of Financial Position (unaudited)**

(Expressed in Canadian dollars)

| | | June 30, | December 31, |
|--|-------|---------------------|--------------|
| | | 2023 | 2022 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 3,034,374 | 2,712,684 |
| Restricted cash | 5 | 140,423 | 140,423 |
| Trade and other receivables | 6 | 7,969,210 | 12,019,731 |
| Tax credits receivable | 7 | 195,356 | 219,004 |
| Inventory | 8 | 367,790 | 316,233 |
| Prepaid expenses and deposits | 9 | 1,020,169 | 652,798 |
| Total current assets | | 12,727,322 | 16,060,873 |
| Non-current assets | | | |
| Property and equipment | 10 | 108,698 | 138,886 |
| Right-of-use asset | 11 | 77,230 | 211,050 |
| Net investment in sublease | 12 | 66,212 | — |
| Intangible assets | 13 | 2,133,766 | 3,962,688 |
| Goodwill | 4,13 | 4,130,939 | 3,113,168 |
| Other non-current assets | | 15,632 | 121,401 |
| Total assets | | 19,259,799 | 23,608,066 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 13,338,651 | 13,090,663 |
| Unearned revenue | 15 | 860,858 | 739,858 |
| Short-term loans | 16 | 2,680,605 | 5,262,320 |
| Lease liability | 12 | 102,841 | 89,522 |
| Total current liabilities | | 16,982,955 | 19,182,363 |
| Non-current liabilities | | | |
| Lease liability - non-current | 12 | 68,945 | 137,372 |
| Deferred tax liability | | 15,541 | 15,970 |
| Convertible debenture | 17 | 1,217,849 | 1,191,366 |
| Other non-current liabilities | 18 | 240,703 | 279,784 |
| Total liabilities | | 18,525,993 | 20,806,855 |
| Shareholders' equity | | | |
| Share capital | 19(b) | 25,356,610 | 23,507,501 |
| Equity reserve | | 675,879 | 870,871 |
| Foreign currency translation (deficit) reserve | | (55,319) | 133,441 |
| Contributed and other surplus | | 2,822,513 | 2,413,046 |
| Accumulated deficit | | (28,065,877) | (24,123,648) |
| Total equity | | 733,806 | 2,801,211 |
| Total equity and liabilities | | 19,259,799 | 23,608,066 |
| Subsequent events | 26 | | |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved by the Board

"Robert Kiesman"

Robert Kiesman, Director

"Jennifer Swindell"

Jennifer Swindell, Director

Plurilock Security Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

(Expressed in Canadian dollars)

| | Notes | Three months ended June 30, | | Six months ended June 30, | |
|---|-------|-----------------------------|--------------------|---------------------------|--------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Revenue | 22 | 12,251,143 | 9,106,547 | 28,018,471 | 16,059,599 |
| Cost of sales | | (10,884,949) | (8,194,102) | (24,505,689) | (14,686,052) |
| Gross profit | | 1,366,194 | 912,445 | 3,512,782 | 1,373,547 |
| Operating expenses | | | | | |
| Research and development | 23 | 494,774 | 742,002 | 1,005,654 | 1,289,415 |
| Sales and marketing | 23 | 694,750 | 826,318 | 1,472,342 | 1,613,660 |
| General and administrative | 23 | 2,224,210 | 1,203,576 | 4,151,846 | 2,257,315 |
| Stock-based compensation | 19(d) | 54,782 | 224,252 | 220,092 | 475,601 |
| Total operating expenses | | 3,468,516 | 2,996,148 | 6,849,934 | 5,635,991 |
| Operating loss | | (2,102,322) | (2,083,703) | (3,337,152) | (4,262,444) |
| Other income (expenses) | | | | | |
| Foreign exchange translation gain (loss) | | 155,731 | (54,042) | 306,415 | (157,311) |
| Other expenses | | (9,491) | — | (9,491) | — |
| Acquisition-related expenses | | (348,438) | (134,014) | (363,162) | (216,366) |
| Financing expenses | | (22,150) | — | (131,944) | — |
| Impairment on assets | | (7,897) | — | (7,897) | — |
| Loss on disposal of assets | | (8,980) | — | (12,319) | — |
| Interest expenses | | (239,622) | (27,706) | (383,167) | (42,480) |
| Total other expenses | | (480,847) | (215,762) | (601,565) | (416,157) |
| Net loss for the period before tax | | (2,583,169) | (2,299,465) | (3,938,717) | (4,678,601) |
| Income tax expense | | (1,073) | (5,053) | (3,512) | (5,053) |
| Net loss for the period | | (2,584,242) | (2,304,518) | (3,942,229) | (4,683,654) |
| Other comprehensive gain (loss) | | | | | |
| Items that may be subsequently reclassified to net gain (loss) | | | | | |
| Foreign exchange translation difference | | (34,906) | 69,154 | (188,760) | 120,341 |
| Other comprehensive gain (loss) | | (34,906) | 69,154 | (188,760) | 120,341 |
| Comprehensive loss for the period | | (2,619,148) | (2,235,364) | (4,130,989) | (4,563,313) |
| Basic and diluted loss per share | 24 | (0.03) | (0.03) | (0.04) | (0.07) |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Plurilock Security Inc.

Condensed Interim Consolidated Statements of Changes in Equity (unaudited)

(Expressed in Canadian dollars)

| | Notes | Share capital | | Contributed | Equity | Foreign currency | Accumulated | Total |
|--|-------|--------------------|-------------------|----------------------|----------------|----------------------------------|---------------------|------------------|
| | | # | \$ | and other surplus | reserve | translation (deficit) reserve | deficit | |
| | | | | | | | | |
| Balance, January 1, 2022 | | 69,687,572 | 20,496,808 | 1,681,011 | 522,281 | (93,174) | (15,677,127) | 6,929,799 |
| Shares issued for services | | 123,347 | 45,200 | - | - | - | - | 45,200 |
| Shares issued as part of acquisition consideration | | 1,630,866 | 517,270 | - | - | - | - | 517,270 |
| Shares issued pursuant to acquisition broker fee | | 42,647 | 14,500 | - | - | - | - | 14,500 |
| Recognition of stock-based compensation | | - | - | 475,601 | - | - | - | 475,601 |
| Exercise of warrants | | 12,808 | 7,685 | - | (3,843) | - | - | 3,842 |
| Net loss for the period | | - | - | - | - | - | (4,683,654) | (4,683,654) |
| Other comprehensive gain | | - | - | - | - | 120,341 | - | 120,341 |
| Balance, June 30, 2022 | | 71,497,240 | 21,081,463 | 2,156,612 | 518,438 | 27,167 | (20,360,781) | 3,422,899 |
| Units issued for cash | | 11,115,145 | 1,556,120 | - | - | - | - | 1,556,120 |
| Share issuance costs | | - | (71,288) | - | - | - | - | (71,288) |
| Shares issued for services | | 237,895 | 45,200 | - | - | - | - | 45,200 |
| Shares issued as part of acquisition consideration | | 2,278,455 | 904,862 | - | - | - | - | 904,862 |
| Shares issued pursuant to acquisition broker fee | | 231,990 | 50,200 | - | - | - | - | 50,200 |
| Share issuance costs for convertible debt | | - | (18,320) | - | - | - | - | (18,320) |
| Equity component of convertible debt | | - | - | - | 275,639 | - | - | 275,639 |
| Warrants issued as part of financing | | - | - | - | 87,695 | - | - | 87,695 |
| Recognition of stock-based compensation | | - | - | 196,203 | - | - | - | 196,203 |
| Warrants issued as private placement and convertible debt broker fee | | - | (40,736) | - | 49,330 | - | - | 8,594 |
| Expiry of warrants | | - | - | 60,231 | (60,231) | - | - | - |
| Net loss for the period | | - | - | - | - | - | (3,762,867) | (3,762,867) |
| Other comprehensive gain | | - | - | - | - | 106,274 | - | 106,274 |
| Balance, December 31, 2022 | | 85,360,725 | 23,507,501 | 2,413,046 | 870,871 | 133,441 | (24,123,648) | 2,801,211 |
| Units issued for cash | 19(b) | 12,778,669 | 1,845,800 | - | - | - | - | 1,845,800 |
| Share issuance costs | 19(b) | - | (67,516) | - | - | - | - | (67,516) |
| Shares issued as part of acquisition consideration | 4 | 2,352,941 | 400,000 | - | - | - | - | 400,000 |
| Shares issued as part of acquisition consideration - FMV adjustment | 4 | - | (493,284) | - | - | - | - | (493,284) |
| Shares issued for convertible debenture interest | 17 | 983,124 | 131,036 | - | - | - | - | 131,036 |
| Share issuance costs of convertible debt | 17 | - | 7,398 | - | 2,457 | - | - | 9,855 |
| Shares issued for convertible debenture conversion | 17 | 35,087 | 10,000 | - | - | - | - | 10,000 |
| Equity component of convertible debenture | 17 | - | - | - | (2,427) | - | - | (2,427) |
| Warrants issued as part of financing on convertible debt | | - | - | - | 53 | - | - | 53 |
| Recognition of stock-based compensation | 19(d) | - | - | 220,092 | - | - | - | 220,092 |
| Exercise of warrants | | 71,250 | 15,675 | - | (5,700) | - | - | 9,975 |
| Expiry of warrants | | - | - | 189,375 | (189,375) | - | - | - |
| Net loss for the period | | - | - | - | - | - | (3,942,229) | (3,942,229) |
| Other comprehensive loss | | - | - | - | - | (188,760) | - | (188,760) |
| Balance, June 30, 2023 | | 101,581,796 | 25,356,610 | 2,822,513 | 675,879 | (55,319) | (28,065,877) | 733,806 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Plurilock Security Inc.
Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in Canadian dollars)

| | Notes | Three months ended June 30, | | Six months ended June 30, | |
|--|-------|-----------------------------|--------------------|---------------------------|--------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Net loss for the period | | (2,584,242) | (2,304,518) | (3,942,229) | (4,683,654) |
| Operating activities | | | | | |
| Adjustments for | | | | | |
| Amortization | 23 | 194,874 | 68,043 | 292,428 | 109,420 |
| Stock-based compensation | 19(d) | 54,782 | 224,252 | 220,092 | 475,601 |
| Loss on disposal of assets | | 8,980 | — | 12,319 | — |
| Impairment of assets | | 7,897 | — | 7,897 | — |
| Interest expense - short term loans | | — | — | — | 11,209 |
| Interest expense - long term loans | | — | 1,894 | — | 3,768 |
| Interest accretion on convertible debenture | 17 | 34,109 | — | 34,109 | — |
| Interest expense - lease liability | 12 | 5,817 | 3,000 | 14,770 | 4,050 |
| Non-cash operating expenses | | — | 20,000 | — | 40,000 |
| Non-cash deferred rent | | 6,703 | — | 6,703 | — |
| Acquisition-related costs | 4 | 226,181 | — | 226,181 | 14,500 |
| Unrealized foreign exchange loss (gain) | | (155,731) | 54,042 | (306,415) | 157,311 |
| Changes in working capital and other items | | | | | |
| Trade and other receivables | | 4,161,688 | (654,864) | 4,050,521 | 2,291,193 |
| Tax credits receivable | | (51,538) | 121,119 | 23,648 | 103,270 |
| Inventory | | 256,843 | 621,527 | (51,557) | (35,540) |
| Prepaid expenses and deposits | | (399,551) | 88,831 | (367,371) | 22,626 |
| Other non current assets | | 106,339 | — | 104,404 | — |
| Trade and other payables | | (2,773,040) | 137,959 | 421,807 | (4,614,661) |
| Other non current liabilities | | (57,739) | — | (39,081) | — |
| Unearned revenue | | 86,894 | (9,898) | 121,000 | (29,305) |
| Net cash flows provided by (used in) operating activities | | (870,734) | (1,628,613) | 829,226 | (6,130,212) |
| Investing activities | | | | | |
| Acquisition of equipment | 10 | (2,260) | (11,225) | (2,984) | 13,992 |
| Net cash paid for business acquisition | 4 | — | — | — | (871,838) |
| Net cash flows used in investing activities | | (2,260) | (11,225) | (2,984) | (857,846) |
| Financing activities | | | | | |
| Proceeds from issuance of shares, net of issuance costs | 19(b) | 1,586,699 | — | 1,778,284 | — |
| Proceeds from warrant exercise | | — | — | 9,975 | 3,843 |
| Shares issued for convertible debt interest payment | 17 | 76,000 | — | 131,036 | — |
| Shares issuance costs of convertible debt | | — | — | 9,855 | — |
| Proceeds from short-term loans | | 771,485 | — | — | 718,316 |
| Repayment of short-term loans | | — | (1,148,412) | (2,619,972) | — |
| Lease payments | 12 | (26,965) | (12,849) | (69,878) | (16,352) |
| Net cash flows provided by (used in) financing activities | | 2,407,219 | (1,161,261) | (760,700) | 705,807 |
| Foreign exchange effect on cash and cash equivalents and restricted cash | | 210,297 | (1,642) | 256,148 | 9,019 |
| Net increase (decrease) in cash and cash equivalents and restricted cash | | 1,534,225 | (2,801,099) | 65,542 | (6,282,251) |
| Cash and cash equivalents and restricted cash, beginning of period | | 1,430,275 | 5,997,613 | 2,853,107 | 9,468,104 |
| Cash and cash equivalents and restricted cash, end of period | | 3,174,797 | 3,194,872 | 3,174,797 | 3,194,872 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Plurilock Security Inc.**Condensed Interim Consolidated Statements of Cash Flows (unaudited)**

(Expressed in Canadian dollars)

Supplemental cash flow information

Non-cash financing and investing activities

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---------|------------------------------------|----------|----------------------------------|---------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Shares issued as part of acquisition - FMV adjustment | Notes 4 | (493,284) | (58,000) | - | 142,000 |
| Shares issued as part of earn out achieved | 4 | 400,000 | 375,270 | 400,000 | 375,270 |

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

1. Nature of operations and continuance of business

Plurilock Security Inc. ("**Plurilock**", "**PSI**" or the "**Company**"), formerly Libby K Industries Inc. ("**Libby K**"), was incorporated under the BC Business Corporations Act on July 5, 2018. The Company's head office and principal place of business is located at 1021 West Hastings Street, MNP Tower, 9th Floor, Vancouver, BC, V6E 0C3, Canada.

The Company's common shares trade on the TSX-V as a Tier 1 technology issuer under the ticker symbol "TSX-V: PLUR" and on the OTCQB under the ticker symbol "OTCQB: PLCKF".

Plurilock is an identity-centric cybersecurity company offering IT and cybersecurity solutions through its Solutions Division, paired with proprietary AI-driven and cloud-friendly security products through its Technology Division.

As at the condensed interim consolidated financial statement June 30, 2023 date, Plurilock had two wholly owned subsidiaries - Plurilock Security Solutions Inc. ("**PL**") and Integra Network Corporation ("**INC**"). PL was formed following the amalgamation of PL and 1243540 B.C. Ltd. on September 17, 2020 pursuant to a Qualifying Transaction ("**QT**"). INC was acquired on March 4, 2022. PL in turn has one wholly owned subsidiary, Plurilock Security Corp. ("**PLUS**"). PLUS was incorporated on November 15, 2017 in the State of Delaware, USA. On March 31, 2021, PLUS acquired Aurora Systems Consulting Inc. ("**ASC**"), a provider of advanced cybersecurity technology and services based in the State of California, USA. PLUS acquired all of the outstanding securities of ASC. On July 22, 2021, Plurilock incorporated an Indian subsidiary, Plurilock Security Private Limited ("**PSP**"). PSP is owned 99.9% by PSI and 0.01% by PL.

These condensed interim consolidated financial statements report that the Company has a net loss of \$2,584,242 and \$3,942,229 for the three and six months ended June 30, 2023, and \$2,304,518 and \$4,683,654 for the three and six months ended June 30, 2022, respectively and an accumulated deficit of \$28,065,877 and \$24,123,648 as at June 30, 2023 and December 31, 2022, respectively. The Company has financed its operating cash requirements primarily through the issuance of share capital. The Company's ability to realize the carrying value of its assets and to continue as a going concern is dependent upon the successful execution of the Company's strategic plan to improve the scale and profitability of its business to achieve future profitable operations. It will be necessary for the Company to raise additional funds from time to time for the continued execution of its strategic plan. These funds may come from sources which include the issuance of shares, the issuance of debt or alternative sources of financing. The ability of the Company to continue as a going concern is dependent upon the continued support from the Company's shareholders, lenders, and the Company's ability to attain profitable operations in the near future. There can be no assurance that the Company will successfully generate sufficient operating cash flows or raise sufficient funds to continue the execution of its strategic plan and to operate as a going concern. As a result of the above, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at the amounts different from those reflected in the accompanying condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 25, 2023.

2. Basis of presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the accounting policies consistent with International Financial Reporting Standards ("IFRS").

These condensed interim consolidated financial statements should be read in conjunction with the most recently issued annual consolidated financial statements of the Company, which include information necessary or useful to understanding the Company's operations, financial performance, and financial statement presentation. In particular, the Company's significant accounting policies were presented as Note 3 in the annual consolidated financial statements for the year ended December 31, 2022 and have been consistently applied in the preparation of these condensed interim consolidated financial statements.

Basis of presentation

These condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for certain items not carried at historical cost as noted below. These condensed interim consolidated financial statements are presented in Canadian dollars.

3. Significant accounting policies

Principles of consolidation

These condensed interim consolidated financial statements include the financial statements of the Company and its subsidiaries (Note 1).

Plurilock consolidates subsidiaries controlled by the Company. Control exists when the Company is exposed, or has the rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. The financial results of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances, transactions, revenues, and expenses are eliminated.

Foreign currency translation

The presentation currency for the condensed interim consolidated financial statements is the Canadian dollars. Items included in these condensed interim consolidated financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates (the "**functional currency**"). The functional currency of the Company is the Canadian dollar and the functional currency of the Company's subsidiaries is as follows: PL- Canadian dollar; INC - Canadian dollar; PLUS - U.S. dollar; ASC - U.S. dollar and PSP - Indian Rupee.

For the purpose of presenting the condensed interim consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in a foreign exchange translation reserve. Accumulated amounts in the foreign currency translation reserve will be recognized in profit or loss in the period in which the foreign operation is disposed of.

3. Significant accounting policies (continued)

Foreign currency translation (continued)

Transactions in currencies which are not the entity's functional currency are translated at the exchange rate in effect at the time of the transaction. At each financial position reporting date, the foreign currency denominated monetary assets and liabilities are translated to the functional currency at the exchange rate in effect at the date of the financial position. Foreign currency denominated non-monetary assets and liabilities are translated to the functional currency at the historical exchange rates in effect on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Financial instruments

The Company classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss ("**FVTPL**"): Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the condensed interim consolidated statement of comprehensive loss in the period in which they arise.
- Financial assets at fair value through other comprehensive income ("**FVTOCI**"): Financial assets are recognized as FVTOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Financial assets at amortized cost: All other financial assets not categorized as FVTPL or FVTOCI are considered financial assets at amortized cost. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after reducing all its liabilities. Equity instruments issued by the Company are recognized as proceeds are received, net of direct issue costs.

Equity instruments that are not held for trading may be irrevocably designated as FVTOCI on initial recognition, on an investment-by-investment basis, and any subsequent changes in the instrument's fair value are recognized in other comprehensive income. Debt instruments that are not designated as FVTPL can be recognized as FVTOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.

The component parts of convertible financial liabilities issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. The fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)*Financial instruments (continued)*

the effective interest method until extinguished upon conversion or at the instrument's maturity date. Transaction costs are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital.

Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognized in equity will be transferred to deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

The Company's classification and measurement basis of its financial instruments are as follows:

| Financial instruments | Classification and measurement basis |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Restricted cash | Amortized cost |
| Trade and other receivables | Amortized cost |
| Trade receivables as collateral for loans | FVTOCI |
| Trade payables and accruals | Amortized cost |
| Short term loans | Amortized cost |
| Lease liability | Amortized cost |
| Convertible debenture | Amortized cost |

Estimated fair values for financial instruments are designed to approximate amounts at which the instruments could be exchanged in a current arm's-length transaction between knowledgeable willing parties.

The Company classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid, low risk investments with a maturity of three months or less from the date of acquisition.

3. Significant accounting policies (continued)

Restricted cash

The Company considers restricted cash as amounts with maturity of more than three months and classifies the amounts into current restricted cash within twelve months of maturity and non-current restricted cash beyond twelve months of maturity.

Trade and other receivables

Trade and other receivables are recognized initially at the amount determined under IFRS 15 and subsequently measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established based on a forward-looking "expected loss" impairment model. The carrying amount of the trade receivables is reduced using the provision for impairment account, and the amount of any increase in the provision for impairment is recognized in the condensed interim consolidated statement of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the condensed interim consolidated statement of loss and comprehensive loss.

Trade receivables as collateral for loans

Trade and other receivables as collateral for loans are recognized initially at the amount determined under IFRS 15 and subsequently measured at FVTOCI.

Convertible debenture

The liability portion of the convertible debenture is recorded at amortized cost. The equity portion of the convertible debenture is assessed with the Black-Scholes model initially with no subsequent revaluation.

Property and equipment

Equipment is recorded at cost, less accumulated depreciation, and any impairment charges. When the cost of replacing part of an item of equipment is capitalized, the carrying amount of the replaced part is derecognized. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred. On an annual basis, the assets' residual values and useful lives are reviewed, and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates. The Company amortizes the equipment over their estimated useful lives using the straight-line method and the following duration:

| | |
|------------------------|---------|
| Computer equipment | 3 years |
| Computer applications | 3 years |
| Electronical equipment | 5 years |
| Furniture & fixtures | 7 years |

Intangible assets

Intangible assets consist of patents, a procurement contract, customer relationships, intellectual properties, and a brand name.

Patents cover certain aspects of the Company's behavioral biometric algorithms. Patents acquired from third parties are recorded at cost. Their finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

The procurement contract is a U.S. government wide procurement contract the Company acquired as part of a business acquisition.

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Intangible assets (continued)

The brand name, customer relationships and intellectual properties were also acquired as part of a business acquisition.

Research costs are charged to operations when they are incurred. Development costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. At June 30, 2023, the Company has not capitalized any development costs.

The Company amortizes its intangible assets over their estimated useful lives using the straight-line method and the following durations:

| | |
|------------------------|--|
| Patents | 20 years |
| Procurement Contract | 69 months |
| Brand Name | Indefinite (Brand is recognized as part of a business combinations and does not have an identifiable finite number of useful life) |
| Customer Relationships | 5-7 years |

Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Goodwill and goodwill impairment are discussed separately below.

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract due to a modification that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset, which is included in equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Impairment assessment for leases follows the same process as discussed above under Impairment of assets.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to loss in the period incurred.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

Share capital

Share capital is presented at the value of the shares issued. Costs related to issuing the Company's common shares, share options or warrants are reported net of tax as a deduction from the proceeds from the issue.

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Revenue recognition

Revenue is recognized when control of a good or service transfers to a customer in accordance with a five-step model:

1. Identify the contracts with customers
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the entity satisfies a performance obligation

The Company accounts for a contract with a customer when it has approval and commitment from all parties, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Revenue is recognized when control of the promised services or goods (the performance obligation) is transferred to customers, and in an amount that reflects the consideration the Company expects to receive in exchange for those services or goods (the transaction price). The Company measures revenue by estimating the transaction price based on the consideration specified in the customer arrangement. Revenue is recognized as the performance obligations are satisfied.

The Company derives revenues from three main sources: (1) hardware and systems sales, (2) software, license, and maintenance sales and (3) professional services.

1) Hardware and systems sales

The Company provides physical computer hardware to customers upon submission of an approved purchase order or a signed Company quote. The Company's sales of hardware, which are made in the capacity of principal, are generally distinct goods because the customer can usually benefit from the hardware either on its own or with other resources. Hardware sales performance obligations are fully satisfied at the point the hardware is delivered to the customer and the control of the hardware passes to the customer. As such, revenue is recognized upon delivery of the hardware to the customer.

2) Software, license, and maintenance sales

Software, license, and maintenance sales revenue are comprised of fees that provide customers access to third-party software licenses, subscriptions and related support and updates during the terms of arrangements. Software, license, and maintenance sales are recognized on a point in time basis because the Company's performance obligations are fully satisfied at the point the licenses and maintenance contracts with the software vendors are delivered. Software, license, and maintenance sales are either recognized upon delivery to customers or on a straight-line basis for subscriptions, or in the case of a software renewal, at the start of the renewal term.

3) Professional services

Professional services are generally on either a fixed fee, milestone based, or time & material based. These services are generally distinct from other goods or services that the Company might provide to the same customer under the same or separate contracts. This is because the customer can benefit from the services from other resources. In addition, the services are not generally integrated with or dependent on other services that might be provided to the customer. The customer receives and consumes the benefits of the services as the Company performs and therefore, these revenues are recognized on a milestone basis or on a proportional performance basis.

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Revenue recognition (continued)

The Company's arrangements with its customers generally do not include variable consideration. The transaction price for the Company's products and services is usually fixed at the amount specified in the contract. When selling products or services under the same or linked contracts and those products or services represent one performance obligation, the Company allocates the total transaction price by reference to the prices it charges for those products and services when sold separately, i.e., their stand-alone selling prices.

The Company has determined that it acts as principal in all its performance obligations and therefore, the revenue is recognized at the gross amount of consideration to which it expects to be entitled. The Company determines it is a principal because it obtains control over products and services in advance of transferring those products and services to the customer, and also typically has responsibility for acceptability of the specified products or services.

In addition, the Company has primary responsibility for fulfilling the contractual promises to the customer, assumes inventory risk in the event of cancellation of the sale for any reason and has discretion in establishing prices of the products and services provided.

Revenue recognition – Right of return

The Company does not normally provide a guaranteed right of return to its customers except where required by law. The level of returns experienced by the Company is not material; therefore, no right of return asset or liability is recognized. Revenue is recognized at the full value of the consideration received. This is assessed on an ongoing basis.

Cost of sales

The primary components of cost of sales are the purchase price for all computer hardware, software, and related support, as well as an allocation of the related employee compensation and benefits, costs related to the operation of the Company's SaaS-hosted infrastructure, services and any operating supplies.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interest issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests (if any) in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

3. Significant accounting policies (continued)

Business combinations (continued)

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

Goodwill

Goodwill is initially recognized and measured as set out above.

Goodwill is not amortized but is reviewed for impairment at least annually at the same time each year. Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units ("**CGUs**"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized under profit and loss and not reversed in a subsequent period. On disposal of a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase and costs incurred in bringing the inventory to their present location and condition. Net realizable value is the estimated selling price less estimated costs to complete and sell.

Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. For government grants that are provided for with no specific purposes and is to be used at the Company's management's discretion, the government grant is recognized under other income.

Stock-based compensation plans

The Company has a stock option plan and accounts for share options using the fair value-based method. Under the fair value-based method, stock-based compensation cost is measured at fair value at the grant date and is expensed over the award's vesting period. The fair value of stock options is measured using the Black-Scholes option pricing model. A corresponding increase in stock-based payment reserve is recorded when stock options are expensed.

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Stock-based compensation plans (continued)

When stock options are exercised, share capital is credited by the sum of the consideration received and the related portion previously recorded in stock-based payment reserve.

Warrants

The Company issues warrants for services and warrants as part of financing transactions. The Company considers these warrants as equity-based instruments and follows guidelines under IFRS 2 Stock Based Compensation and uses the Black-Scholes model to value these warrants. For warrants issued fulfilling contractual obligations for the Company to deliver a variable number of its own equity instruments, the Company treats these warrants under IFRS 9 and IAS 32 Financial Instruments.

Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted income per share is calculated using the treasury stock method, which assumes that cash that would be received on the exercise of stock options is applied to purchase shares at the average price during the period. The difference between the shares issued on the exercise of the stock options and the number of shares purchased under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive stock options are not considered in computing diluted income per share. Stock options are typically dilutive when the Company has income for the year and the average market price of the common shares during the year exceeds the exercise price of the options.

Main sources of estimation uncertainty and critical judgements by management

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, and disclosures of contingent assets and liabilities as at the date of the condensed interim consolidated financial statements, and the recorded amount of revenues and expenses for the reporting period.

These estimates are changed periodically, and as adjustments become necessary, they are reported in profit or loss in the period in which they become known.

The significant accounting policies subject to such estimates that, in the Company's opinion, could significantly affect the reported results or financial position, are as follows:

➤ *Going concern considerations*

The Company has financed its operating cash requirements primarily through the issuance of share capital. The Company's ability to realize the carrying value of its assets and to continue as a going concern is based upon the continued support from the Company's shareholders and the successful execution of the Company's strategic plan to improve the scale and profitability of its business to achieve future profitable operations. It will be necessary for the Company to raise additional funds from time to time for the continued execution of its strategic plan. These funds may come from sources which include the issuance of shares, the issuance of debt or alternative sources of financing. There can be no assurance that the Company will successfully generate sufficient operating cash flows or raise sufficient funds to continue the execution of its strategic plan and to operate as a going concern. As a result of the above, there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

During the six months ended June 30, 2023, the Company obtained a Line of Credit ("**LOC**") (Note 16) increase of \$500,000 CAD to the INC LOC for an aggregate ASC LOC and INC LOC availability up to \$7.30 million.

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Main sources of estimation uncertainty and critical judgements by management (continued)

➤ *Going concern considerations (continued)*

On January 17, 2023, the Company closed the third and final tranche of the Units Financing for aggregate gross proceeds to the Company of \$198,995 consisting of 1,421,393 units at a price of \$0.14 per unit and share issuance costs of \$7,410 (Note 19(b)).

On June 21, 2023 and June 28, 2023, the Company closed the first and second tranche respectively of the Units Financing, together for aggregate gross proceeds of \$1,646,805 consisting of 11,357,276 units at a price of \$0.145 per unit and share issuance costs of \$60,106 (Note 19(b)).

The estimates used by the Company in reaching the above conclusion are based on information available as of the date of the condensed interim consolidated statement of financial position was authorized for issuance and included internally generated cash flow forecasts. Accordingly, actual results could differ from these estimates and resulting variances may be material to management's assessment.

➤ *Impairment of intangible assets including goodwill and other intangible assets*

The Company assesses whether there are any indicators of impairment as at the reporting date for all intangible assets. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicators exist. Other intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, the Company must estimate the expected future cash flows from the cash-generating units (CGUs) and choose a suitable discount rate in order to calculate the present value of those cash flows. The key sources of estimation uncertainty are the future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied.

➤ *Valuation of stock-based compensation*

The Company uses the Black-Scholes model to value share options issued to directors, employees, and consultants. The model's estimates include inputs that require management estimates and judgement, such as volatility of the underlying equity instruments, forfeiture rate and expected life of stock options.

➤ *Valuation of warrants issued for services*

For warrants issued for services and as part of financing, the Company follows guidelines under IFRS 2 and uses the Black-Scholes model to assess these warrants. The model's estimates include inputs that require management estimates and judgement, such as volatility of the underlying equity instruments, forfeiture rate and expected life of warrants.

➤ *Carrying values of allowances for unrecoverable trade and other receivables*

The Company recognizes an allowance for expected credit loss on accounts receivable that are measured at amortized cost. The amount of expected credit loss ("ECL") is updated at each reporting date to reflect changes in credit risk since the initial recognition of the trade and other receivables. The Company recognizes lifetime ECL for its trade and other receivables. The expected credit losses on these financial assets are estimated using the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

3. Significant accounting policies (continued)

Main sources of estimation uncertainty and critical judgements by management (continued)

➤ *Fair value measurement and valuation processes*

Some of the Company's assets are measured at fair value for financial reporting purposes. The Company hires external valuation professionals to determine the appropriate valuation techniques and inputs for fair value measurements. The Company works closely with the external valuation professionals to establish the appropriate valuation techniques and inputs to the model.

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimates above, that has the most significant effect on the amounts in the Company's condensed interim consolidated financial statements, are related to the determination of the functional currency of the Company and its subsidiaries.

4. Business acquisitions

Integra Acquisition

On March 4, 2022, PSI acquired 100% of the issued and outstanding shares of INC, a leading Canadian enterprise IT and cybersecurity solutions provider (the "**INC Acquisition**"). Pursuant to the terms of the Share Purchase Agreement, the consideration paid by PSI to the Vendor is as follows: (i) \$1,090,996 in cash; (ii) \$78,786 paid in cash as part of the final working capital adjustment; (iii) 476,190 common shares of Plurilock (the "**INC Consideration Shares**"), issued at \$0.42 per Consideration Share. \$75,000 in cash and 178,571 INC Consideration Shares were placed in escrow for 12 months to satisfy any indemnification obligations to the Company; and (iv) future performance-based earnout provisions, whereby up to \$400,000 in common shares of Plurilock (the "**INC Earnout Shares**") may be issued to the Vendor. The INC Earnout Shares will be issued at a deemed price equal to the closing trading price of the common shares of Plurilock on the TSXV on the date prior to announcement of the issuance of the INC Earnout Shares. The INC Consideration Shares are subject to certain contractual restrictions on trading for a period of 36 months from the date of issuance.

The Company incurred total transaction fees of \$120,383 related to the Integra acquisition including legal, filing fees, success fees and consultancy expenses. The success fee included 42,647 common shares of the Company at a price of \$0.34 per share issued to an arm's length third party consultant.

These expenses have been included under Acquisition-related expenses on the condensed interim consolidated statement of loss and comprehensive loss.

During the six months ended June 30, 2023, the performance-based earnout was achieved by the vendor and was issued 2,352,941 common shares of Plurilock at \$0.17 per share for an aggregate of \$400,000 of which \$173,819 was recorded as a reduction of accrued liabilities which had previously been recorded as contingent consideration and the remaining was expensed through the statement of loss and comprehensive loss.

All assets and liabilities from INC's statement of financial position have been consolidated as part of Company's condensed interim consolidated statement of financial position as of June 30, 2023.

Revenue and net income from INC's statement of income and comprehensive income were included in the Company's condensed interim consolidated statement of loss and comprehensive loss for the period ended June 30, 2023.

The impact of the INC acquisition on revenue and net income for the period ended June 30, 2023, is presented below:

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

4. Business acquisitions (continued)*Integra Acquisition (continued)*

| | For the three months ended June 30, 2023 | For the six months ended June 30, 2023 |
|-------------------|---|---|
| | \$ | \$ |
| Revenue | 657,855 | 5,041,015 |
| Net income (loss) | (188,189) | 162,150 |

The table below shows the impact of the INC Acquisition on revenue and net loss for the year ended December 31, 2022 as if the INC Acquisition took place on January 1, 2022:

| | For the year ended December 31, 2022 |
|----------|---|
| | (Pro forma) |
| | \$ |
| Revenue | 4,184,250 |
| Net loss | (428,712) |

This supplementary pro forma information is not necessarily representative of the Company's future consolidated net income.

The INC acquisition qualifies as a business combination under IFRS 3. The fair value of the purchase price consideration and amounts recognized in respect of the identifiable assets acquired and liabilities assumed related to the INC Acquisition are as set out in the table below ("**INC Purchase Price Allocation**"). Goodwill calculated in the below table represents the expected synergies from combining the operations of INC with the Company, revenue growth and future market development. These benefits are not recognized separately from goodwill since the resulting future economic benefits cannot be measured reliably. Goodwill is non-deductible for tax purposes.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

4. Business acquisitions (continued)

Integra Acquisition (continued)

| Fair value of purchase consideration | \$ |
|---|------------------|
| Cash paid at closing of business acquisition | 1,015,996 |
| Cash paid in escrow at closing of business acquisition | 75,000 |
| Cash payable in relation to working capital adjustments | 78,786 |
| Shares issued | 142,000 |
| Contingent consideration/Earnout shares | 173,819 |
| Total | 1,485,601 |

| Fair values of INC's assets and liabilities acquired | \$ |
|---|----------------|
| Cash and cash equivalents | 219,158 |
| Trade and other receivables | 1,132,366 |
| Inventory | 28,123 |
| Prepays | 30,301 |
| Furniture and equipment | 7,329 |
| Right-of-use assets | 129,476 |
| Trade and other payables | (730,166) |
| Lease liability - current | (39,436) |
| Lease liability - non-current | (99,433) |
| Net book value of INC | 677,718 |

| Values attributable to following booked under Plurilock | \$ |
|--|------------------|
| Goodwill | 393,632 |
| Customer relationships | 414,251 |
| Total | 1,485,601 |

CloudCodes Acquisition

On August 26, 2022, the Company completed the acquisition of certain assets of CloudCodes Software Private Limited ("**CloudCodes**" or "**CC**"), an award-winning cloud access security broker ("**CASB**") based in India. Assets acquired include sales contracts, customer lists, domain names, online accounts, intellectual property as well as CloudCode's employees. The aggregate consideration of \$1,465,595 is as follows: (i) \$908,810 paid on closing; (ii) a promissory note of \$389,490 on closing date and paid in full on November 8, 2022 ("**Promissory Note**"); and (iii) \$167,295 made up of 992,755 common shares of Plurilock (the "**CC Consideration Shares**") at \$0.23 per share. The Consideration Shares were placed in escrow for 18 months to satisfy any indemnification obligations to the Company.

The Company incurred \$291,883 of transaction fees in relation to the CloudCodes acquisition including legal and consulting fees for the year which have been included under Acquisition-related expenses on the condensed interim consolidated statement of loss and comprehensive loss.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

4. Business acquisitions (continued)

CloudCodes Acquisition (continued)

The acquisition qualifies as a business combination under IFRS 3. As of the issuance date of these condensed interim consolidated financial statements, the Company is in the process of determining the fair values of assets acquired. The Company does not have all the necessary information to assess the fair values of assets acquired as of the date of these condensed interim consolidated financial statements. As a result, as management's best estimates as of the date of these consolidated interim financial statements, the Company used each asset's component price agreed with the owner of CloudCodes as per the Asset Purchase Agreement to allocate the purchase consideration as below. The Company will finalize the accounting for the business combination including the fair value assessment for CloudCodes' assets as well as the calculation of goodwill or gain from bargain purchase no later than twelve months from the date of acquisition or once the Company has all the necessary information to do so.

| | |
|---|------------------|
| | (preliminary) |
| Fair value of purchase consideration | \$ |
| Cash paid at closing of business acquisition | 908,810 |
| Cash paid through promissory note | 389,490 |
| common shares issued at closing of business acquisition | 167,295 |
| Total purchase consideration | 1,465,595 |
| | (preliminary) |
| Fair values of CloudCodes' assets and liabilities acquired | \$ |
| Customer relationships | 109,057 |
| Intellectual properties | 181,762 |
| Unearned revenue | (266,576) |
| Total assets and liabilities acquired | 24,243 |
| | (preliminary) |
| Values attributable to following booked under Plurilock | \$ |
| Goodwill | 1,441,352 |
| Total | 1,465,595 |

The impact of the CloudCodes acquisition on revenue and net loss for the period ended June 30, 2023 is presented below:

| | For the three months ended June 30, 2023 | For the six months ended June 30, 2023 |
|----------|--|--|
| | \$ | \$ |
| Revenue | 193,660 | 366,950 |
| Net loss | (46,347) | (61,650) |

4. Business acquisitions (continued)

CloudCodes Acquisition (continued)

The table below shows the impact of the CC acquisition on revenue and net loss for the year ended December 31, 2022 as if the CC acquisition took place on January 1, 2022:

| | For the year ended December 31, 2022 |
|----------|---|
| | (pro forma) |
| | \$ |
| Revenue | 619,550 |
| Net loss | (299,899) |

This supplementary pro forma information is not necessarily representative of the Company's future consolidated net income.

Atrion Acquisition

On September 26, 2022, ASC, acquired certain assets and liabilities of Atrion Communications Inc. ("**Atrion**"). Atrion is a veteran-owned leading provider of consulting, professional services and technology solutions. The acquisition provides the Company with additional network infrastructure and security solutions such as procurement services, professional services and solutions integrations, managed services, and cybersecurity consulting.

The Company has increased its existing line of credit ("**LOC**") from Pathward National Association (the "**Lender**" or "**Pathward**"), previously known as Crestmark, a division of MetaBank Association from up to US\$2 million to US\$4 million. The increased amount under the LOC is used by ASC to finance the Atrion acquisition. Upon closing the acquisition, ASC paid Atrion \$2,474,688 (US \$1,924,779) and issued 1,285,700 common shares of Plurilock ("**Plurilock Shares**") at \$0.19 per share. Pursuant to the terms of the Purchase Agreement, the Company paid Atrion \$509,916 (US\$396,606) in cash on the date that is 90 days following closing and will issue to Atrion 1,285,700 Plurilock Shares on the date that is one year following the closing.

The Plurilock Shares issued or issuable under the terms of the Purchase Agreement are subject to a statutory hold period commencing on the date of issuance and shall expire on the date that is four months following the date of issuance. The amount of US\$410,000 will be held in escrow for 18 months, subject to early release in certain circumstances, to stand as security for any claims of the Company with respect to the representations and warranties of Atrion contained in the Purchase Agreement. Furthermore, the Purchase Agreement includes future performance-based earnout payments ("**Atrion Earnouts**"), whereby up to US\$600,000 in cash may be paid to Atrion. The Earnouts are divided into three equal annual payments following the closing.

Total transaction fees related to the Atrion acquisition including success fee, legal and financing facilitation fee totals \$215,217 including \$15,000 in the form of the Company's common shares at \$0.19 per share for a total of 78,947 shares. These expenses have been included under Acquisition-related expenses on the condensed interim consolidated statement of loss and comprehensive loss.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

4. Business acquisitions (continued)

Atrion Acquisition (continued)

The impact of the Atrion acquisition on revenue and net loss for the period ended June 30, 2023 is presented below:

| | For the three months ended June 30, 2023 | For the six months ended June 30, 2023 |
|----------|---|---|
| | \$ | \$ |
| Revenue | 2,791,568 | 10,443,888 |
| Net loss | (512,348) | (637,463) |

The table below shows the impact of the Atrion acquisition on revenue and net loss for the year ended December 31, 2022 as if the Atrion acquisition took place on January 1, 2022:

| | For the year ended December 31, 2022 |
|----------|---|
| | (pro forma) |
| | \$ |
| Revenue | 16,463,200 |
| Net loss | (900,804) |

This supplementary pro forma information is not necessarily representative of the Company's future consolidated net income.

The acquisition qualifies as a business combination under IFRS 3. The fair value of the purchase price consideration and amounts recognized in respect of the identifiable assets acquired and liabilities assumed related to the Atrion acquisition are as set out in the table below ("**Atrion Purchase Price Allocation**"). All assets acquired and liabilities assumed have been consolidated as part of the Company's condensed interim consolidated statement of financial position as of June 30, 2023. Atrion's revenues and expenses for the period ended June 30, 2023 have been included in the Company's condensed interim consolidated statement of loss and comprehensive loss for the period ended June 30, 2023.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

4. Business acquisitions (continued)

Atrion Acquisition (continued)

| Fair value of purchase consideration | \$ |
|---|------------------|
| Cash paid at closing of business acquisition | 2,474,688 |
| Common shares issued at closing of business acquisition | 228,984 |
| Cash paid 90 days after closing | 509,916 |
| Common shares to be issued one year after closing | 180,762 |
| Performance based payout payable | 233,595 |
| Total | 3,627,945 |

| Fair values of Atrion's assets and liabilities acquired | \$ |
|--|------------------|
| Cash | 518,270 |
| Trade and other receivables | 4,010,440 |
| Prepays and deposits | 95,173 |
| Furniture, vehicle and equipment | 37,760 |
| Leasehold improvement | 37,316 |
| Right-of-use asset | 111,372 |
| Trade and other payables | (3,393,682) |
| Unearned revenue | (138,021) |
| Sales tax payable | (45,516) |
| Lease liability | (114,623) |
| Net book value of Atrion | 1,118,489 |

| Values attributable to following booked under ASC | \$ |
|--|------------------|
| Goodwill | 1,371,611 |
| Customer relationships | 1,137,845 |
| Total | 3,627,945 |

Goodwill from acquisitions

The below table summarizes goodwill the Company has acquired from all acquisitions to date:

| Goodwill | \$ |
|---------------------------------------|------------------|
| Balance January 1, 2022 | 852,032 |
| Additions through acquisition | 2,201,056 |
| Change in foreign exchange evaluation | 60,080 |
| Balance December 31, 2022 | 3,113,168 |
| Additions through acquisition | 1,005,539 |
| Change in foreign exchange evaluation | 12,232 |
| Balance June 30, 2023 | 4,130,939 |

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

5. Restricted cash

Restricted cash contains deposits held as securities against the Company's business credit cards. The renewal terms on these deposits are twelve months. We have no ability to draw on such funds as long as they remain restricted under the applicable arrangements.

6. Trade and other receivables

The Company's trade receivables and other receivables are comprised of the following:

| | June 30, 2023 | December 31, 2022 |
|-------------------|--------------------------|----------------------|
| | \$ | \$ |
| Trade receivables | 7,956,235 | 11,707,707 |
| Other receivables | 12,975 | 312,024 |
| | 7,969,210 | 12,019,731 |

As at June 30, 2023, \$1,920,059 or 24.133% of the trade receivables balance is over 90 days past due compared to \$685,219 or 5.853% as at December 31, 2022 and 47.2% of the trade receivable balances are owing from 5 customers as at June 30, 2023 compared to 45.0% owing from 5 customers as at December 31, 2022. The Company evaluates credit losses on a regular basis based on the aging and collectability of its receivables. On June 30, 2023, the Company had no expected credit loss (\$Nil expected credit loss on December 31, 2022).

7. Tax credits receivable

The Company's tax credits receivable are comprised of the following:

| | June 30, 2023 | December 31, 2022 |
|------------------------|--------------------------|----------------------|
| | \$ | \$ |
| Tax credits receivable | 195,356 | 219,004 |
| | 195,356 | 219,004 |

Tax credits receivable balance as at June 30, 2023 of \$195,356 is related to goods and services tax ("GST") receivable compared to \$219,004 as at December 31, 2022.

8. Inventory

| | June 30, 2023 | December 31, 2022 |
|----------------|--------------------------|----------------------|
| | \$ | \$ |
| Finished goods | 367,790 | 316,233 |
| | 367,790 | 316,233 |

Inventory balance as at June 30, 2023 of \$367,790 (\$316,233 as at December 31, 2022) is related to products under the Company's possession but not yet delivered to customers.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

8. Inventory (continued)

Amounts of \$9,576,650 and \$20,369,182 of inventories was expensed during the three and six months ended June 30, 2023 as cost of sales (\$7,601,088 and \$13,774,376 during the three and six months ended June 30, 2022).

9. Prepaid expenses and deposits

| | June 30, 2023 | December 31, 2022 |
|---------------------------|--------------------------|----------------------|
| | \$ | \$ |
| Prepaid service contracts | 1,019,635 | 645,870 |
| Deposits | 534 | 6,928 |
| | 1,020,169 | 652,798 |

Prepaid service contracts consist of various prepaid agreements including online subscriptions, insurance, membership fees, marketing and consulting services for mainly corporate finance and investor relations purposes.

10. Property and equipment

Property and equipment consist of furniture, computer equipment and a vehicle and are broken down as follows:

| Property and equipment - cost | \$ |
|--------------------------------------|----------------|
| Balance January 1, 2022 | 111,151 |
| Additions | 33,585 |
| Additions through acquisition | 82,405 |
| Foreign exchange gain | 9,905 |
| Balance December 31, 2022 | 237,046 |
| Additions | 7,054 |
| Disposals | (8,281) |
| Foreign exchange gain | (1,647) |
| Balance June 30, 2023 | 234,172 |

| Property and equipment - accumulated amortization | \$ |
|--|----------------|
| Balance January 1, 2022 | 46,290 |
| Amortization for the year | 51,870 |
| Balance December 31, 2022 | 98,160 |
| Amortization for the period | 30,191 |
| Disposals | (2,877) |
| Balance June 30, 2023 | 125,474 |

| Property and equipment net book value | \$ |
|--|----------------|
| At December 31, 2022 | 138,886 |
| At June 30, 2023 | 108,698 |

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

11. Right-of-use asset

Right-of-use asset relates to an office space lease acquired as part of the business acquisition (Note 4). The following table provides a reconciliation of this right-of-use asset:

| Right-of-use asset | \$ |
|----------------------------------|----------------|
| Balance January 1, 2022 | - |
| Additions through acquisition | 247,020 |
| Amortization | (35,970) |
| Balance December 31, 2022 | 211,050 |
| Derecognition of ROU asset | (82,715) |
| Amortization | (51,105) |
| Balance June 30, 2023 | 77,230 |

12. Lease liability

Lease liability relates to the lease of office spaces acquired as part of business acquisitions (Note 4), for which the lease term ends on January 31, 2025, and February 28, 2025 respectively, and were discounted using an interest rate of 10%. During the period ended June 30, 2023, the Company recognized \$14,770 (June 30, 2022 - \$4,050) in interest expense on lease liability.

On April 1, 2023, the Company subleased the above discussed office space for which the lease term ends on February 28, 2025. The Company is an intermediate lessor and subleased its whole office space (head lease). The Company has assessed the classification of its sublease arrangements in accordance with IFRS 16 and has determined that they qualify as finance leases. Accordingly, the recognition of lease income and expense is consistent with the finance lease accounting principles outlined in the accounting policies note. The sub-lease of office space is for 23 months. The sublease payments are fixed, the difference between payments from sublease and payments to the head lease has been recorded under 'Impairment on Assets' on condensed interim consolidated statements of loss or comprehensive loss.

| Lease liability | \$ |
|----------------------------------|-----------------|
| Balance January 1, 2022 | - |
| Additions through acquisition | 259,844 |
| Add: interest during the year | 9,358 |
| Less: payment during the year | (42,308) |
| Balance December 31, 2022 | 226,894 |
| Add: interest during the period | 14,770 |
| Less: payment during the period | (69,878) |
| Balance June 30, 2023 | 171,786 |
| Due within twelve months | 102,841 |
| Due after twelve months | 68,945 |

13. Intangible assets and goodwill

Intangible assets consist of (i) patent costs incurred in 2015 related to three (3) 20-year patents ("Patents") covering certain aspects of our behavioral biometric algorithms, (ii) a U.S. government wide procurement contract ("Procurement Contract"), (iii) a brand name ("Brand name"), (iv) customer relationships ("Customer Relationships") and (v) ("Intellectual Properties") acquired as a part of business acquisitions (Note 4).

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

13. Intangible assets and goodwill (continued)

The changes in the Company's intangible assets for the six months ended June 30, 2023 and year ended December 31, 2022 are as follows:

| | Patent | Procurement Contract | Customer Relationships | Intellectual Properties | Brand | Total |
|--------------------------|------------------|----------------------|------------------------|-------------------------|------------------|--------------------|
| Cost | | | | | | |
| January 1, 2022 | \$100,000 | \$271,771 | \$ - | \$ - | \$352,670 | \$724,441 |
| Additions | - | - | 1,925,213 | 1,416,524 | - | 3,341,737 |
| Foreign exchange | - | - | 79,910 | 63,990 | 36,353 | 180,253 |
| December 31, 2022 | \$100,000 | \$271,771 | \$2,005,123 | \$1,480,514 | \$389,023 | \$4,246,431 |
| Adjustments - FMV | - | - | (264,060) | (1,234,762) | - | (1,498,822) |
| Foreign exchange | - | 3,754 | (43,051) | (60,276) | (19,395) | (118,968) |
| June 30, 2023 | \$100,000 | \$275,525 | \$1,698,012 | \$185,476 | \$369,628 | \$2,628,641 |
| Amortization | | | | | | |
| January 1, 2022 | \$35,000 | \$66,684 | \$ - | \$ - | \$ - | \$101,684 |
| Additions | 5,000 | 96,218 | 80,841 | - | - | 182,059 |
| December 31, 2022 | \$40,000 | \$162,902 | \$80,841 | \$ - | \$ - | \$283,743 |
| Additions | 2,500 | 41,586 | 167,046 | - | - | 211,132 |
| June 30, 2023 | \$42,500 | \$204,488 | \$247,887 | \$ - | \$ - | \$494,875 |
| Net Book Value | | | | | | |
| December 31, 2022 | \$60,000 | \$108,869 | \$1,924,282 | \$1,480,514 | \$389,023 | \$3,962,688 |
| June 30, 2023 | \$57,500 | \$71,037 | \$1,450,125 | \$185,476 | \$369,628 | \$2,133,766 |

| Goodwill | \$ |
|---------------------------------------|------------------|
| Balance January 1, 2022 | 852,032 |
| Additions through acquisition | 2,201,056 |
| Change in foreign exchange evaluation | 60,080 |
| Balance December 31, 2022 | 3,113,168 |
| Additions through acquisition | 1,005,539 |
| Change in foreign exchange evaluation | 12,232 |
| Balance June 30, 2023 | 4,130,939 |

Under IAS 36 "Impairment of Assets", the Company is required to: (1) review its intangible assets in the event of a significant change in circumstances that would indicate potential impairment; and (2) review and test its goodwill and indefinite-life intangible assets annually or in the event of a significant change in circumstances. As part of the annual impairment review, the carrying value of the assets or, if they do not generate independent cash flows individually, the carrying value of the cash-generating unit (CGU) that they belong to is compared to their recoverable amount. CGUs represent the smallest identifiable group of assets that generate cash flows that are largely independent of cash flows from other groups of assets. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use (VIU).

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

13. Intangible assets and goodwill (continued)

The recoverable amount has been determined based on VIU. Where the recoverable amount is less than the carrying value, an impairment results.

Goodwill acquired from business acquisitions is allocated to each acquirer of its CGUs according to the level at which the Company monitors that goodwill.

During the year ended December 31, 2022, the Company performed goodwill impairment analysis for goodwill obtained from the ASC acquisition in 2021 and no impairment was booked. The key assumptions on which the VIU calculations are related to future business performance over the forecast period (five years), projected growth rates and the discount rates applied.

The financial forecast used in the VIU calculation includes the latest estimates on future revenue growth, pricing, cost of goods sold and operating expenses of ASC, which underlie ASC's EBITDA. Management has reviewed and approved the assumptions applied in the financial forecast using historical experience, industry knowledge and considering economic and business risks. In assessing ASC's VIU a pre-tax discount rate of 35.8% and Weighted Average Cost of Capital (WACC) rate of 27.6% were used. In assessing future EBITDA growth, management modelled the underlying movements in the constituents of EBITDA and has used annual growth rates ranging from (15.0) % to 12.9% for revenues including 2.6% revenue growth for the terminal value, and increases ranging from 8% to 13% for cost of goods sold, and 4% for operating expenses. EBITDA % conversion of sales to profit is projected to grow with the continuation of the price architecture and the focus on growing higher margin product sales. Management has also considered reasonable possible changes in the key assumptions underpinning EBITDA including revenue growth, WACC and EBITDA as a percentage of revenue and noticed that there is still available headroom under different scenarios before an impairment needs to be considered.

14. Trade and other payables

The Company's trade and other payables are comprised of the following:

| | June 30, 2023 | December 31, 2022 |
|---------------------|--------------------------|------------------------------|
| | \$ | \$ |
| Trade payables | 9,517,705 | 8,465,364 |
| Accrued liabilities | 2,498,848 | 3,208,596 |
| Payroll liabilities | 996,315 | 996,019 |
| Other payables | 325,783 | 420,684 |
| | 13,338,651 | 13,090,663 |

Accrued liabilities as at June 30, 2023 included contingent considerations of \$186,263 (\$396,874 as at December 31, 2022) including performance-based earnout shares to be paid to the vendors as part of business acquisitions (Note 4).

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

15. Unearned revenue

| | |
|----------------------------------|----------------|
| Balance January 1, 2022 | 327,763 |
| Acquired through acquisition | 404,597 |
| Revenue recognized | (550,020) |
| Amounts received | 557,968 |
| Foreign exchange | (450) |
| Balance December 31, 2022 | 739,858 |
| Revenue recognized | (1,132,668) |
| Amounts received | 1,258,997 |
| Foreign exchange | (5,329) |
| Balance June 30, 2023 | 860,858 |

Unearned revenue as at June 30, 2023 and December 31, 2022 consisted of cash collected under customer contracts with goods or services that had not yet been delivered.

16. Short-term loans

On March 8, 2022, the Company obtained a revolving LOC from Pathward for up to US\$2 million with an interest rate of 1% monthly interest rate and a minimum average loan balance of US\$500,000. The proceeds of the LOC have been used for working capital purposes for ASC. The LOC is secured against all of ASC's accounts receivables and inventory. On September 26, 2022, the revolving line of credit from Pathward was increased to up to US\$4 million (Note 4). As at June 30, 2023, ASC's accounts receivable was \$7,489,706 and ASC's inventory was \$367,790.

On August 16, 2022, a promissory note of \$407,085 (US\$300,000) was issued as part of the aggregate consideration of the CloudCodes acquisition (Note 4). During the year ended December 31, 2022, the Company repaid in full the US\$300,000 promissory note.

On September 6, 2022, the Company obtained an additional revolving LOC from Pathward for INC for up to \$1.5 million. The proceeds of the LOC have been used for working capital purposes for INC. The LOC is secured against all of INC's assets. As at June 30, 2023, INC's total assets were \$1,786,184.

On March 22, 2023, the Company was approved for an increase to its existing INC \$1.5 million LOC for up to \$2.0 million effective March 8, 2023.

| | June 30, 2023 | December 31, 2022 |
|----------------------|--------------------------|----------------------|
| | \$ | \$ |
| Line of credit (LOC) | 2,680,605 | 5,262,320 |
| | 2,680,605 | 5,262,320 |

17. Convertible debenture

The Company completed two rounds of financing on August 15, 2022, and September 20, 2022 in the form of convertible debenture. On August 15, 2022, the Company completed the first tranche (the "**First Tranche**") of the financing for aggregate gross proceeds of \$1,245,000 through non-brokered private placement of convertible debenture units ("**Debenture Units**") at \$1,000 per debenture unit ("**Financing**").

Plurilock Security Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

June 30, 2023 and 2022

(Expressed in Canadian dollars)

17. Convertible debenture (continued)

Each debenture consists of \$1,000 principal amount of 10% unsecured convertible debenture of the Company with a maturity date of 48 months from the date of issuance, subject any forced conversion in certain circumstances and 500 common share purchase warrants. Each warrant will entitle the holders thereof to acquire one common share of the Company at an exercise price of \$0.40 per warrant share for 24 months from the date of the issuance. The Warrants will be subject to an accelerated expiry if, anytime following the date of issuance, the weighted average daily trading price of the common shares of the Company on the TSX Venture Exchange is or exceeds C\$0.50 for any 10 consecutive trading days, in which the holder may, at the Company's election, be given notice, by way of a news release, that the Warrants will expire 30 days following the date of such notice. Subject to approval from the TSXV, the Debentures will be convertible at the holder's option into common shares (the "**Debenture Shares**") at a conversion price of \$0.285 per Debenture Share. On September 20, 2022, the Company completed the second tranche (the "Second Tranche") of the financing for aggregate gross proceeds of \$285,000 through non-brokered private placement of debenture units at \$1,000 per debenture unit. These debenture units have the same terms as the First Tranche debenture units.

According to IFRS 9 *Financial Instruments* as well as IAS 32 *Financial Instruments: Presentation*, Part of the debenture units with total value of \$1,166,666 has been classified as liabilities on the condensed interim consolidated statement of financial position. This portion of the debenture units has been valued at its amortized cost.

The convertible feature of the debenture units as well as the warrants attached with total value of \$273,212 have been classified as equity on the condensed interim consolidated statement of financial position. The fair values of the convertible feature of the debenture units and the warrants are assessed with the Black-Scholes model with no subsequent revaluation.

A total of \$38,273 broker fee and direct expenses were incurred in relation to the First and Second Tranche of the financing. An additional amount of broker warrants of \$13,800 was issued as compensation for completing the financing. The broker warrants have been classified as equity and its fair values were assessed with the Black-Scholes model with no subsequent revaluation. Broker fees paid in cash and broker warrants issued were proportionated according to the liabilities and equity portions of the convertible debenture discussed above and accounted for as transaction costs and netted against equity and liabilities accordingly. During the year ended December 31, 2022, the Company recognized \$55,036 of interest expense accrued and to be settled in shares and \$24,700 was recognized as interest accretion on the convertible debt. During the period ended June 30, 2023, the Company issued 440,277 common shares at \$0.125 related to the December 31, 2022 interest payment and recognized \$76,000 of interest expense related to the June 30, 2023 interest payment that was settled issuing 542,847 common shares at \$0.14. The Company recognized \$34,109 of interest accretion on the convertible debt and \$10,000 of convertible debt was converted for 35,087 common shares.

On June 28, 2023, the Company announced the repricing of 765,000 of convertible debenture warrants from exercise price of \$0.40 per warrant to \$0.20 per warrant subject to TSX.V approval. On July 11, 2023, the TSX.V approved the warrant reprice to \$0.20.

18. Other non-current liabilities

Other non-current liabilities consist of \$Nil (\$33,245 as at December 31, 2022) of non-current payroll liabilities as well as \$240,703 (\$246,539 as at December 31, 2022) contingent consideration pursuant to the non-current portion of the performance-based earnout payments related to the Atrion acquisition.

19. Share capital

(a) *Authorized*

Unlimited number of common shares without par value and without special rights or restrictions attached.

(b) *Issued and outstanding*

On January 12, 2022, in connection with the online marketing services provided by AGORA Internet Relations Corp. ("**AGORA**"), the Company issued 53,809 common shares at a deemed price of \$0.42 per share to AGORA as the first installment payment of \$20,000 plus applicable taxes.

On March 4, 2022, Plurilock acquired all the issued and outstanding shares of INC (Note 4). Pursuant to the terms of the Share Purchase Agreement, part of the consideration payable by the Company to the Vendor is 476,190 common shares of Plurilock (the "**INC Consideration Shares**"), issuable at \$0.42 per Consideration Share, for a total value of \$200,000 in Consideration Shares. Among the 476,190 INC Consideration Shares, 178,571 of them have been placed in escrow for 12 months to satisfy any indemnification obligations to the Company.

On March 7, 2022, the Company issued 42,647 common shares (the "**INC Consulting Fee Shares**") at a deemed price of \$0.34 to a strategic consultant (the "**INC Consultant**") of the Company for services provided by the INC Consultant to the Company in connection with the INC acquisition. The INC Consulting Fee Shares are subject to a statutory hold period of four months plus a day from the date of issuance, in accordance with applicable securities law, ending July 12, 2022.

On April 7, 2022, in connection with the online marketing services provided by AGORA, the Company issued 69,538 common shares at a deemed price of \$0.325 per share to AGORA as the second installment payment of \$20,000 plus applicable taxes.

On April 7, 2022, the Company issued 1,154,676 common shares of the Company at \$0.325 per share to the vendor of the ASC Acquisition in satisfaction of the earnout payment of US\$300,000 from achieving the performance-based earn out in accordance with the Share Purchase Agreement dated March 26, 2021 (Note 4).

On August 26, 2022, the Company issued 992,755 common shares at \$0.59 per share to the vendor as part of the CloudCodes acquisition (Note 4).

On August 29, 2022, the Company issued 153,043 common shares (the "**Consulting Fee Shares**") at a deemed price of \$0.23 to a strategic consultant (the "**Consultant**") of the Company for services provided by the Consultant to the Company in connection with the CloudCodes acquisition. The Consulting Fee Shares were issued pursuant to a consulting agreement dated April 1, 2022, between the Company and the Consultant.

On September 26, 2022, the Company issued 1,285,700 common shares at \$0.19 per share to the vendor as part of the Atrion acquisition (Note 4).

On September 28, 2022, the Company issued 78,947 common shares at a deemed price of \$0.19 to a strategic consultant (the "**Consultant**") of the Company for services provided by the Consultant to the Company in connection with the Atrion acquisition.

19. Share capital (continued)

(b) Issued and outstanding (continued)

On October 3, 2022, the Company announced it has entered into an amended and restated consulting agreement with a strategic consultant (the "**Consultant**") whereby the Company has agreed to pay the Consultant a fee (the "**Fee**") of \$30,000 for services provided by the Consultant to the Company in connection with the Atrion acquisition. The Company intends to settle the Fee part in cash and common shares of the Company, whereby the Company will issue to the Consultant 78,947 common shares of the Company (the "**Consulting Shares**") at a deemed price of \$0.19 per Consulting Share.

On October 4, 2022, in connection with the online marketing services provided by ("**AGORA**"), under the online marketing agreement entered into on December 30, 2021, the Company issued 237,895 common shares at a deemed price of \$0.19 per share to AGORA as the third and fourth (final) installment payment of \$40,000 plus applicable taxes. The parties have agreed to terminate the AGORA agreement as of September 30, 2022.

On December 22, 2022, the Company closed the first tranche of the non-brokered private placement consisting of the issuance of 8,668,123 units at a subscription price of \$0.14 per unit, for aggregate gross proceeds to the Company of \$1,213,537 and share issuance cost of \$54,827 related to this non-broker private placement. An additional amount of broker warrants of \$31,330 was issued as compensation for completing the financing.

On December 31, 2022, the Company closed the second tranche of the non-brokered private placement consisting of the issuance of 2,447,022 units at a subscription price of \$0.14 per unit, for aggregate gross proceeds to the Company of \$342,583. Share issuance costs of \$16,461 related to this non-broker private placement were incurred. An additional amount of broker warrants of \$9,406 was issued as compensation for completing the financing.

On January 3, 2023, the Company issued 440,277 of common shares at \$0.125 related to the convertible debenture December 31, 2022, interest payment of \$55,036 (Note 17).

On January 17, 2023, the Company closed the third and final tranche of the Units Financing for aggregate gross proceeds to the Company of \$198,995 consisting of 1,421,393 units at a price of \$0.14 per unit and share issuance costs of \$7,410.

On March 1, 2023, the Company issued 35,087 common shares related to the \$10,000 of convertible debenture conversion.

On March 1, 2023, the Company issued 71,250 common shares at \$0.14 related to the exercise of warrants for gross proceeds of \$9,975.

On June 21, 2023, the Company closed the first tranche of the non-brokered private placement consisting of the issuance of 4,857,588 units at a subscription price of \$0.145 per unit, for aggregate gross proceeds to the Company of \$704,350 and share issuance cost of \$31,907 related to this non-broker private placement. An additional amount of broker warrants of \$23,316 was issued as compensation for completing the financing.

On June 28, 2023, the Company closed the second tranche of the non-brokered private placement consisting of the issuance of 6,499,688 units at a subscription price of \$0.145 per unit, for aggregate gross proceeds to the Company of \$942,455. Share issuance costs of \$28,199 related to this non-broker private placement were incurred. An additional amount of broker warrants of \$23,316 was issued as compensation for completing the financing.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

19. Share capital (continued)

(b) Issued and outstanding (continued)

The following table summarizes the Company's issued and outstanding share capital:

| | Number of common shares # | \$ |
|---|------------------------------------|-------------------|
| Balance, January 1, 2022 | 69,687,572 | 20,496,808 |
| Shares issued for services | 123,347 | 45,200 |
| Shares issued as part of acquisition consideration | 1,630,866 | 517,270 |
| Shares issued pursuant to acquisition broker fee | 42,647 | 14,500 |
| Exercise of warrants | 12,808 | 7,685 |
| Balance, June 30, 2022 | 71,497,240 | 21,081,463 |
| Shares issued for cash | 11,115,145 | 1,556,120 |
| Share issuance costs | — | (71,288) |
| Shares issued for services | 237,895 | 45,200 |
| Shares issued as part of acquisition consideration | 2,278,455 | 904,862 |
| Shares issued pursuant to acquisition broker fee | 231,990 | 50,200 |
| Share issuance costs for convertible debt | — | (18,320) |
| Warrants issued pursuant to private placement | — | (40,736) |
| Balance, December 31, 2022 | 85,360,725 | 23,507,501 |
| Shares issued for cash | 12,778,669 | 1,845,800 |
| Share issuance costs | — | (67,516) |
| Shares issued as part of acquisition consideration | 2,352,941 | 400,000 |
| Shares issued as part of acquisition consideration - FMV adjustment | — | (493,288) |
| Shares issued for convertible debenture interest | 983,124 | 131,036 |
| Share issuance costs for convertible debt | — | 7,398 |
| Shares issued for convertible debenture conversion | 35,087 | 10,000 |
| Exercise of warrants | 71,250 | 15,675 |
| Balance, June 30, 2023 | 101,581,796 | 25,356,610 |

(c) Stock option plan

PL established a stock option plan ("PL Plan") in 2015 whereby eligible employees, consultants, and directors were granted stock options to purchase common shares in PL. The maximum number of non-voting shares available for issuance under the PL Plan was fixed at 5,500,000 by the PL Board of Directors in 2018. The options expired 10 years from the grant date and generally vested over a three-year period from the date of the grant. All outstanding in the money stock options of PL were converted into common shares upon the completion of the QT. All out of the money stock options were canceled upon completion of the QT. The PL Plan was terminated at the same time.

Libby K established a stock option plan ("Libby K Plan") in 2018 whereby eligible employees, consultants, and directors were granted stock options to purchase common shares in Plurilock.

The maximum number of non-voting shares available for issuance under the Libby K Plan was 10% of the issued and outstanding common shares. The options expire 10 years from the grant date and generally vested at the date of the grant.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

19. Share capital (continued)

(c) Stock option plan (continued)

Prior to the completion of the QT, Libby K had 1,110,000 stock options granted to directors, consultants, senior officers, and employees. Upon the completion of the QT, the 1,110,000 outstanding options of Libby K were converted to Plurilock 555,000 options.

On October 26, 2020, the Plurilock Board of Directors approved the replacement of the Libby K Plan with a new Plurilock stock option plan (“**Plurilock ESOP**”) for the purchase of an aggregate of 6,105,657 common shares to employees, officers, directors, and consultants of the Company, pursuant to the terms of the Plurilock ESOP. The stock options are exercisable at \$0.34 per share, expire in 10 years from the date of grant, and vest over 36 months such that one-third of the stock options will vest on the date of grant and two-thirds of the stock options will vest quarterly starting from one (1) year following the date of grant.

On March 24, 2022, the Company granted 624,400 stock options to certain directors, officers, and employees at an exercise price of \$0.37 under the Plurilock ESOP.

On April 1, 2022, the Company granted 800,000 stock options to certain officers at an exercise price of \$0.33 under the Plurilock Plan which will vest over a period of four years from the grant date.

On May 2, 2022, the Company granted 300,000 stock options to certain directors at an exercise price of \$0.26 under the Plurilock Plan which will vest over a period of three years from the grant date.

On September 26, 2022, the Company granted 150,000 stock options to a certain advisory board member at an exercise price of \$0.20 under the Plurilock Plan will vest over a period of four years from the grant date.

On January 31, 2023, the Company granted certain officers, employees, and consultants of the Company an aggregate of 3,908,667 options to purchase common shares at an exercise price of \$0.15 per share, which will vest over four years from the grant date.

On June 5, 2023, the Company granted to an officer of the Company an aggregate of 200,000 options to purchase common shares at an exercise price of \$0.14 per share, which will vest over four years from the grant date.

The following table summarizes the continuity of the Company’s Employee Stock Option Plan (“**ESOP**”):

| | Number of options # | Weighted average exercise price \$ |
|-----------------------------------|------------------------------------|---|
| Balance, January 1, 2022 | 9,761,907 | 0.37 |
| Granted | 1,874,400 | 0.32 |
| Cancelled/Expired | (1,958,168) | 0.42 |
| Balance, December 31, 2022 | 9,678,139 | 0.36 |
| Granted | 4,108,667 | 0.15 |
| Cancelled/Expired | (332,659) | 0.38 |
| Balance, June 30, 2023 | 13,454,147 | 0.29 |

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

19. Share capital (continued)

(c) Stock option plan (continued)

Additional information concerning stock options outstanding as at June 30, 2023 and December 31, 2022 is as follows:

The number of exercisable stock options as of June 30, 2023, was 7,654,990 with an average exercise price of \$0.34 per stock option as compared to 6,142,967 with an average exercise price of \$0.34 per stock option as of December 31, 2022.

The weighted average remaining contractual life and exercise prices of stock options outstanding as at June 30, 2023, and December 31, 2022 as follows:

| | June 30, 2023 | | December 31, 2022 |
|----------------------|----------------------------|--|--|
| Exercise price range | Number of stock options | Weighted average contractual life (in years) | Number of stock options |
| | | | Weighted average contractual life (in years) |
| \$0.10-\$0.20 | 4,053,667 | 9.62 | - |
| \$0.21-\$0.30 | 916,250 | 5.21 | 866,250 |
| \$0.31-\$0.40 | 7,298,057 | 7.46 | 7,554,889 |
| \$0.41-\$0.50 | 50,000 | 7.60 | 50,000 |
| \$0.51-\$0.60 | 1,136,173 | 7.87 | 1,207,000 |
| Total | 13,454,147 | 7.99 | 9,678,139 |

The estimated fair value of each option granted under the Company's SOP was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions. The volatility used is based on volatilities of peer companies:

| | June 30, 2023 | December 31, 2022 |
|--------------------------|------------------|----------------------|
| Risk-free interest rate | 2.83% | 0.27%-2.10% |
| Dividend yield | — | — |
| Expected life (in years) | 6.26 | 0.32-6.18 |
| Volatility | 126% | 100-113% |

(d) Stock-based compensation reserve

Total stock-based compensation cost recognized in income for the three and six months ended June 30, 2023, was \$54,782 and \$220,092 respectively compared to \$224,252 and \$475,601 respectively for the three and six months ended in prior year quarter and is credited to contributed surplus.

Total stock-based compensation expense for the three and six months ended June 30, 2023, is comprised of the expense pursuant to stock options issued to related parties (as discussed in note 25) of \$2,243 and \$88,327 respectively compared to \$191,490 and \$363,243 respectively for the three and six months ended in prior year quarter and to other parties of \$52,539 and \$131,765 respectively compared to \$32,762 and \$112,358 respectively for the three and six months ended in the prior year quarter.

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

19. Share capital (continued)

(e) *Warrants*

There were 24,724,058 warrants as at June 30, 2023, compared to 19,116,400 as at December 31, 2022.

The following table summarizes the continuity of the warrants:

| | Number of warrants # | Weighted average exercise price \$ |
|---|----------------------------|---|
| Balance, January 1, 2022 | 12,011,258 | 0.53 |
| Exercised | (12,808) | 0.30 |
| Balance, June 30, 2022 | 11,998,450 | 0.53 |
| Private placement | 11,115,125 | 0.25 |
| Finder's fee for private placement | 509,198 | 0.14 |
| Finder's fees for convertible debenture financing | 765,000 | 0.40 |
| Convertible debenture financing | 112,235 | 0.29 |
| Expired | (5,383,608) | 0.39 |
| Balance, December 31, 2022 | 19,116,400 | 0.39 |
| Private placement | 11,771,650 | 0.20 |
| Finder's fee for private placement | (5,000) | 0.15 |
| Expired | (6,087,742) | 0.65 |
| Exercised | (71,250) | 0.14 |
| Balance, June 30, 2023 | 24,724,058 | 0.24 |

On June 28, 2023, the Company announced the repricing of 12,536,538 non-brokered private placement warrants and 765,000 convertible debenture warrants ranging from original exercise price of \$0.25-\$0.40 to \$0.20 per warrant subject to TSX.V approval. On July 11, 2023, the TSX.V approved the warrant reprice to \$0.20.

20. Capital risk management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, restricted cash, loans, convertible debenture, and equity comprised of issued share capital, contributed surplus and equity reserve:

| | June 30, 2023 \$ | December 31, 2022 \$ |
|---------------------------|------------------------|----------------------------|
| Cash and cash equivalents | 3,034,374 | 2,712,684 |
| Restricted cash | 140,423 | 140,423 |
| Short-term loans | 2,680,605 | 5,262,320 |
| Convertible debenture | 1,217,849 | 1,191,366 |
| Share capital | 25,356,610 | 23,507,501 |
| Contributed surplus | 2,822,513 | 2,413,046 |
| Equity reserve | 675,879 | 870,871 |
| Total | 35,928,253 | 36,098,211 |

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

20. Capital risk management (continued)

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, balances its overall capital structure through new share issuances, loans, or by undertaking other activities as deemed appropriate under the specific circumstances.

21. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables, trade payables and accruals, lease liability, short term loans, and convertible debenture.

Cash and cash equivalents and restricted cash are classified as financial assets at amortized cost and are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Trade receivables as collateral for loans are classified as financial assets at FVTOCI and are initially recognized at fair value and subsequently measured with FVTOCI. Trade and other receivables other than trade receivables as collateral for loans are classified as financial assets at amortized cost and are initially recognized at fair value and subsequently carried at amortized cost less any impairment. The carrying value of these financial assets approximates their fair value due to the relatively short period to maturity.

Trade payables and accruals, short term loans, lease liability, and a portion of convertible debenture are classified as financial liabilities at amortized cost and recognized at fair value and subsequently carried at amortized cost. The carrying value of other financial liabilities approximate fair value due to the relatively short period to maturity.

Financial risk management

Management and monitoring of financial risks are performed by the Company's management, which manages all financial exposures. The Company is exposed to various financial risks through its financial instruments: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The following analysis enables users to evaluate the nature and extent of the risks at the end of each reporting period.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's significant financial assets include cash and cash equivalents, restricted cash and trade and other receivables. The Company mitigates credit risk on cash by placing it at credit-worthy financial institutions. The carrying amounts of the financial assets represent the Company's maximum credit exposure:

| | June 30, 2023 | December 31, 2022 |
|-----------------------------|--------------------------|------------------------------|
| | \$ | \$ |
| Cash and cash equivalents | 3,034,374 | 2,712,684 |
| Restricted cash | 140,423 | 140,423 |
| Trade and other receivables | 7,969,210 | 12,019,731 |
| | 11,144,007 | 14,872,838 |

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates of the Company's short-term loans are fixed; as a result, the Company is not subject to significant interest rate

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

21. Financial instruments (continued)

Financial risk management (continued)

(b) Interest rate risk (continued)

risk. Interest rate on the Company's cash deposits and guaranteed income certificates held at the bank is nominal.

(c) Liquidity risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due or can only do so at excessive costs.

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due, through cash flows from its operations and anticipating any investing and financing activities. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

(d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into foreign currency purchase and sale transactions and has assets and liabilities that are denominated in foreign currencies. The Company is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates.

The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

A breakdown of the Company's financial instruments by currency, presented in Canadian dollars, is presented below:

| | June 30, 2023 | | | | December 31, 2022 | | | |
|-----------------------------|------------------|---------|-----------|------------|----------------------|--------|-----------|------------|
| | USD | INR | CAD | Total | USD | INR | CAD | Total |
| Cash and cash equivalents | 1,527,025 | 119,446 | 1,387,903 | 3,034,374 | 1,600,672 | 47,181 | 1,064,831 | 2,712,684 |
| Restricted cash | 70,423 | - | 70,000 | 140,423 | 90,423 | - | 50,000 | 140,423 |
| Trade and other receivables | 7,489,705 | 57,861 | 421,644 | 7,969,210 | 10,736,990 | 50,680 | 1,232,061 | 12,019,731 |
| Trade payables and accruals | 9,042,089 | 50,098 | 2,924,365 | 12,016,552 | 9,457,808 | 41,519 | 2,174,633 | 11,673,960 |
| Short-term loans | 2,591,994 | - | 88,611 | 2,680,605 | 5,014,436 | - | 247,884 | 5,262,320 |
| Lease liability | 84,124 | - | 87,662 | 171,786 | 138,869 | - | 88,025 | 226,894 |
| Convertible debenture | - | - | 1,217,849 | 1,217,849 | - | - | 1,191,366 | 1,191,366 |

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

21. Financial instruments (continued)*Financial risk management (continued)**(d) Currency risk (continued)*

| | June 30, 2023 | December 31, 2022 |
|--|--------------------------|----------------------|
| Average rate for the period/year | | |
| US dollar | 1.3485 | 1.3016 |
| Indian Rupee | 0.0164 | 0.0166 |
| Statement of financial position rates | | |
| US dollar | 1.3248 | 1.3569 |
| Indian Rupee | 0.0161 | 0.0164 |

The table below shows the Company's sensitivity to foreign exchange rates for its U.S. dollar and Indian Rupee financial instruments, the foreign currencies in which the Company's assets and liabilities are denominated:

| | June 30, 2023 increase/(decrease) in equity | December 31, 2022 increase/(decrease) in equity |
|--|--|---|
| 10% appreciation of the U.S. dollar against Canadian dollar | (263,105) | (218,303) |
| 10% depreciation of the U.S. dollar against Canadian dollar | 263,105 | 218,303 |
| 10% appreciation of the Indian Rupee against Canadian dollar | 12,721 | 5,634 |
| 10% depreciation of the Indian Rupee against Canadian dollar | (12,721) | (5,634) |

(e) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value reflects market conditions at a given date and, for this reason, may not be representative of future fair values or of the amount that will be realized upon settling the instrument.

To the extent possible, the Company uses data from observable markets to measure the fair value of an asset or liability. Fair value measurements are established based on a hierarchy into three levels that categorizes the inputs to valuation techniques.

Level 1 – Fair value measurement based on quoted prices (unadjusted) observable in active markets for identical assets or liabilities.

Level 2 – Fair value measurement using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Fair value measurement using inputs that are not based on observable market data (unobservable inputs).

Plurilock Security Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

June 30, 2023 and 2022

(Expressed in Canadian dollars)

21. Financial instruments (continued)*Financial risk management (continued)**(e) Fair values (continued)*

The carrying value of cash and cash equivalents, restricted cash, trade and other receivables, trade payables and accruals and short-term loans approximates their fair value due to the relatively short-term maturity of these financial instruments and are measured and reported at amortized cost. The carrying values of the liability portion of the convertible debenture and the lease liability are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

All financial instruments carried at fair value have been measured using a Level 2 valuation method. The fair value of financial assets and liabilities are as follows:

| | June 30, 2023 | December 31, 2022 |
|------------------------------------|--------------------------|----------------------|
| Cash and cash equivalents | 3,034,374 | 2,712,684 |
| Restricted cash | 140,423 | 140,423 |
| Trade and other receivables | 7,969,210 | 12,019,731 |
| Total financial assets | 11,144,007 | 14,872,838 |
| Trade payables and accruals | 12,016,552 | 11,673,960 |
| Short-term loans | 2,680,605 | 5,262,320 |
| Lease liability | 171,786 | 226,894 |
| Convertible debenture | 1,217,849 | 1,191,366 |
| Total financial liabilities | 16,086,792 | 18,354,540 |

(f) Contractual cash flows

The contractual maturity of short-term loans, lease liability, convertible debenture and trade payables and accruals are shown below:

| | June 30, 2023 | | | Total |
|------------------------------------|------------------------------------|--|---------------------------------|-------------------|
| | Due in less than a year | Due between one to five years | Due after five years | |
| Trade payables and accruals | 12,016,552 | - | - | 12,016,552 |
| Short-term loans | 2,680,605 | - | - | 2,680,605 |
| Lease liability | 102,841 | 68,945 | - | 171,786 |
| Convertible debenture | - | 1,217,849 | - | 1,217,849 |
| | 14,799,998 | 1,286,794 | - | 16,086,792 |
| | December 31, 2022 | | | |
| | Due in less than a year | Due between one to five years | Due after five years | Total |
| Trade payables and accruals | 11,673,960 | - | - | 11,673,960 |
| Short-term loans | 5,262,320 | - | - | 5,262,320 |
| Lease liability | 89,522 | 137,372 | - | 226,894 |
| Convertible debenture | - | 1,191,366 | - | 1,191,366 |
| | 17,025,802 | 1,328,738 | - | 18,354,540 |

22. Segment information

The Company's operating segments are organized according to similar economic characteristics by the markets and types of products it serves and are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). The CEO and CFO are considered the chief operating decision-makers ("CODMs") and have the authority for resource allocation and are responsible for assessing the Company's performance.

(a) Operating segments

Plurilock has two operating segments, the Technology Division and the Solutions Division. The following table provides an overview of these segments and underlying businesses.

Technology Division

The Technology division, operated under the Plurilock brand, builds and operates Plurilock's own proprietary product (DEFEND) as well as the acquired product (CloudCodes). The Technology division is operated by PSI, PL, PLUS and PSP. The Company's corporate overhead expenses associated with PSI are allocated to the Technology Division.

Solutions Division

The Solutions division is separately operated by ASC and INC. The Solutions division offers services, cybersecurity industry products and technologies other than Plurilock's own proprietary products (DEFEND). Acquisition related costs associated with acquiring ASC and INC have also been allocated to the Solutions Division.

(b) Consolidated total assets and liabilities

For the purposes of monitoring segment performance and allocating resources between segments, the Company's CODMs monitor the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of investments in associates. Goodwill has been allocated to the reportable segment where the acquisition took place. Total assets and liabilities by reportable operating segments are as follows:

| | June 30, 2023 | | | December 31, 2022 | | |
|-------------------|------------------------|-----------------------|------------|------------------------|-----------------------|------------|
| | \$ | | | \$ | | |
| | Technology Division | Solutions Division | Total | Technology Division | Solutions Division | Total |
| Total assets | 6,449,337 | 12,810,462 | 19,259,799 | 6,667,909 | 16,940,157 | 23,608,066 |
| Total liabilities | 5,749,251 | 12,776,742 | 18,525,993 | 5,160,494 | 15,646,361 | 20,806,855 |

22. Segment information (continued)

(c) Revenue from major products and services

Under both the Technology Division and the Solutions Division, revenue is generated from the below three categories.

(i) Hardware and systems sales

Hardware and systems sales revenues are comprised of products that proactively prevent, secure, and manage advanced cybersecurity threats and malware for customers.

(ii) Software, license, and maintenance sales

Software, license, and maintenance sales revenues are comprised of fees that provide customers with access to propriety and third-party software licenses and related support and updates during the term of the customer agreements.

(iii) Professional services

Professional services are generally on either a fixed fee, milestone based, time & material or subscription basis. These services are generally distinct from other goods or services that the Company might provide to the same customer under the same or separate contracts.

Revenue from the above categories under each segment for the three and six months ended June 30, 2023 and 2022 are as follows:

| | Three months ended June 30, | | | | | |
|---|-----------------------------|--------------------|-------------------|---------------------|--------------------|------------------|
| | 2023 | | | 2022 | | |
| | Technology Division | Solutions Division | Total Revenue | Technology Division | Solutions Division | Total Revenue |
| Hardware and systems sales | - | 10,368,483 | 10,368,483 | - | 8,359,715 | 8,359,715 |
| Software, license and maintenance sales | 263,414 | 887,353 | 1,150,767 | 76,693 | 533,830 | 610,523 |
| Professional services | - | 731,893 | 731,893 | - | 136,309 | 136,309 |
| Total | 263,414 | 11,987,729 | 12,251,143 | 76,693 | 9,029,854 | 9,106,547 |

| | Six months ended June 30, | | | | | |
|---|---------------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | 2023 | | | 2022 | | |
| | Technology Division | Solutions Division | Total Revenue | Technology Division | Solutions Division | Total Revenue |
| Hardware and systems sales | - | 22,812,612 | 22,812,612 | - | 14,855,611 | 14,855,611 |
| Software, license and maintenance sales | 506,127 | 3,358,218 | 3,864,345 | 92,916 | 947,063 | 1,039,979 |
| Professional services | - | 1,341,514 | 1,341,514 | - | 164,009 | 164,009 |
| Total | 506,127 | 27,512,344 | 28,018,471 | 92,916 | 15,966,683 | 16,059,599 |

(d) Segment revenue, gross margin, and operational results

Management evaluates each segment's performance based on gross margin which factors in directly attributable segment revenues, cost of sales, as well as net income/(loss) before taxes. Segment net income represents segment revenues less cost of sales, minus operating expenditures including sales and marketing, research, and development as well as general and administrative expenses under each segment. The Company's revenue, cost of sales, gross margin and net income for the three and six months ended June 30, 2023 and 2022 are as follows:

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

22. Segment information (continued)

(d) *Segment revenue, gross margin, and operational results (continued)*

| | For the three months ended June 30, | | | | | |
|---------------------------------------|-------------------------------------|-----------------------|--------------------|------------------------|-----------------------|--------------------|
| | 2023 | | | 2022 | | |
| | Technology Division | Solutions Division | Total | Technology Division | Solutions Division | Total |
| Revenue | 263,414 | 11,987,729 | 12,251,143 | 76,693 | 9,029,854 | 9,106,547 |
| Cost of sales | 95,676 | 10,789,273 | 10,884,949 | 54,712 | 8,139,390 | 8,194,102 |
| Gross profit | 167,738 | 1,198,456 | 1,366,194 | 21,981 | 890,464 | 912,445 |
| Gross margin | 63.7% | 10.0% | 11.2% | 28.7% | 9.9% | 10.0% |
| Total operating expenses | 1,549,599 | 1,918,917 | 3,468,516 | 2,393,617 | 602,531 | 2,996,148 |
| Other expenses | n.a | n.a | 480,847 | n.a | n.a | 215,762 |
| Net income (loss) before taxes | (1,381,861) | (720,461) | (2,583,169) | (2,371,636) | 287,933 | (2,299,465) |

| | For the six months ended June 30, | | | | | |
|---------------------------------------|-----------------------------------|-----------------------|--------------------|------------------------|-----------------------|--------------------|
| | 2023 | | | 2022 | | |
| | Technology Division | Solutions Division | Total | Technology Division | Solutions Division | Total |
| Revenue | 506,127 | 27,512,344 | 28,018,471 | 92,916 | 15,966,683 | 16,059,599 |
| Cost of sales | 196,144 | 24,309,545 | 24,505,689 | 67,685 | 14,618,367 | 14,686,052 |
| Gross profit | 309,983 | 3,202,799 | 3,512,782 | 25,231 | 1,348,316 | 1,373,547 |
| Gross margin | 61.2% | 11.6% | 12.5% | 27.2% | 8.4% | 8.6% |
| Total operating expenses | 3,100,275 | 3,749,659 | 6,849,934 | 4,476,357 | 1,159,634 | 5,635,991 |
| Other expenses | n.a | n.a | 601,565 | n.a | n.a | 416,157 |
| Net income (loss) before taxes | (2,790,292) | (546,860) | (3,938,717) | (4,451,126) | 188,682 | (4,678,601) |

(e) *Revenue and long-lived assets by geographic locations*

Geographic revenue information is based on the location of the customers invoiced. Long-lived assets include property and equipment, non-current deposits, right-of-use asset, and intangible assets.

| | For the three months ended | | For the six months ended | |
|---------------|----------------------------|------------------|--------------------------|------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| United States | 11,344,212 | 8,340,226 | 22,500,091 | 14,965,553 |
| India | 128,390 | - | 246,612 | - |
| Canada | 778,541 | 766,321 | 5,271,768 | 1,094,046 |
| | 12,251,143 | 9,106,547 | 28,018,471 | 16,059,599 |

| | June 30, 2023 | December 31, 2022 |
|-------------------|------------------|----------------------|
| | \$ | \$ |
| Long-lived assets | | |
| United States | 1,652,445 | 2,019,363 |
| India | 3,697 | 7,298 |
| Canada | 679,184 | 2,407,364 |
| | 2,335,326 | 4,434,025 |

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

23. Operating expenses

| | For the three months ended | | For the six months ended | |
|--|----------------------------|------------------|--------------------------|------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| | \$ | \$ | \$ | \$ |
| Research and development | | | | |
| Communication and IT services | 159,329 | 236,916 | 313,191 | 355,944 |
| Contractors | 38,533 | 93,626 | 71,808 | 183,027 |
| Government assistance | (16,728) | - | (16,728) | - |
| Office and general | 454 | 1,402 | 601 | 2,272 |
| Salaries and benefits | 352,140 | 479,703 | 731,433 | 843,637 |
| COS allocation | (38,954) | (69,645) | (97,322) | (95,465) |
| Travel and entertainment | - | - | 2,671 | - |
| | 494,774 | 742,002 | 1,005,654 | 1,289,415 |
| Sales and marketing | | | | |
| Advertising and promotion | 14,661 | 2,840 | 27,429 | 21,845 |
| Communication and IT services | 31,306 | 33,683 | 65,311 | 77,861 |
| Contractors | 25,207 | 62,366 | 50,567 | 157,805 |
| Marketing | 19,039 | 69,696 | 40,848 | 107,035 |
| Office and general | 29 | 13,926 | 459 | 42,586 |
| Salaries and benefits | 655,990 | 447,922 | 1,335,079 | 933,165 |
| Sales commission | (54,978) | 183,055 | (53,619) | 259,364 |
| Travel and entertainment | 3,496 | 12,830 | 6,268 | 13,999 |
| | 694,750 | 826,318 | 1,472,342 | 1,613,660 |
| General and administrative | | | | |
| Amortization | 194,874 | 68,043 | 292,428 | 109,420 |
| Bad debt | - | - | (8,313) | - |
| Communication and IT services | 83,275 | 35,485 | 216,349 | 64,304 |
| Contractors | 119,715 | 126,144 | 221,570 | 217,976 |
| Insurance | 43,170 | 26,613 | 67,740 | 43,421 |
| Office and general | 165,672 | 55,270 | 325,658 | 121,805 |
| Professional fees | 229,204 | 119,498 | 353,066 | 275,719 |
| Investor relations and regulatory filing | 255,603 | 305,924 | 476,290 | 482,597 |
| Salaries and benefits | 1,107,539 | 446,172 | 2,129,970 | 916,670 |
| Travel and entertainment | 25,158 | 20,427 | 77,088 | 25,403 |
| | 2,224,210 | 1,203,576 | 4,151,846 | 2,257,315 |

Plurilock Security Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
June 30, 2023 and 2022
(Expressed in Canadian dollars)

24. Loss per share

Basic loss per share is calculated by dividing net loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by dividing net loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares, if any, that would be issued on conversion of all the dilutive potential effects.

All of the outstanding stock options and share purchase warrants as at June 30, 2023 and June 30, 2022 were anti-dilutive as the Company was in a loss position.

The basic and diluted net loss per share for the Company for the period is calculated using the following:

| | For the three months ended | | For the six months ended | |
|---|----------------------------|------------------|--------------------------|------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| | \$ | \$ | \$ | \$ |
| Numerator | | | | |
| Net loss for the period | (2,584,242) | (2,304,518) | (3,942,229) | (4,683,654) |
| Denominator | | | | |
| Weighted average number of common shares outstanding, basic and diluted | 89,013,607 | 71,433,796 | 88,175,824 | 70,850,238 |
| Basic and diluted loss per share | (0.03) | (0.03) | (0.04) | (0.07) |

25. Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's Board of Directors and members of the executive team.

The following table summarizes the related party transactions:

| | For the three months ended | | For the six months ended | |
|--|----------------------------|------------------|--------------------------|------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| | \$ | \$ | \$ | \$ |
| Salaries, benefits and consulting fees | 265,458 | 367,201 | 579,896 | 575,529 |
| Stock-based compensation expense* | 2,243 | 191,490 | 88,327 | 363,243 |
| | 267,701 | 558,691 | 668,223 | 938,772 |

* Reflects the amount recorded as expense in the condensed interim consolidated statement of loss and comprehensive loss. The fair value of stock-based compensation is measured at grant date and is recognized as an expense over the vesting period.

26. Subsequent events

- On July 12, 2023, the Company announced and accepted one additional subscription for 100,000 units at a subscription price of \$0.145 per unit, for aggregate gross proceeds to the Company of \$14,500. Share issuance costs of \$1,015 related to this non-broker private placement were incurred. An additional amount of broker warrants of \$810 was issued as compensation for completing the financing.
- On July 11, 2023, the TSX.V approved the repricing of 12,536,538 non-brokered private placement warrants and 765,000 convertible debenture warrants ranging from original exercise price of \$0.25-\$0.40 to \$0.20 (Note 19(e)).