



PATRIOT ONE TECHNOLOGIES INC.

Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)



MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Patriot One Technologies Inc.:

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

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

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

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

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

“Martin Cronin”

“Karen Hersh”

Martin Cronin
Chief Executive Officer

Karen Hersh
Chief Financial Officer

October 14, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Patriot One Technologies Inc.

Opinion

We have audited the accompanying consolidated financial statements of Patriot One Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

October 14, 2020

PATRIOT ONE TECHNOLOGIES INC.

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

	2020	2019
Assets		
Current assets		
Cash	\$ 22,407,251	\$ 50,637,942
Receivables (Note 7)	1,623,148	1,509,583
Prepaid expenses and deposits	956,615	694,114
Inventory (Note 8)	1,521,666	987,562
Investment in Sotech (Note 10)	4,021,200	-
	30,529,880	53,829,201
Investment in Sotech (Note 10)	-	3,386,390
Property and equipment (Note 11)	1,537,783	1,620,488
Intangible assets (Note 12)	7,388,317	7,915,175
Right of use assets (Note 13)	972,448	-
Goodwill (Notes 5 and 6)	25,582,433	2,588,614
Total assets	\$ 66,010,861	\$ 69,339,868
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,348,697	\$ 1,930,104
Deferred revenue (Note 15)	428,289	-
Current portion of lease liability (Note 13)	418,215	-
	3,195,201	1,930,104
Non-current portion of lease liability (Note 13)	595,211	-
	3,790,412	1,930,104
Shareholders' equity		
Share capital (Note 14)	114,597,731	96,243,400
Contributed surplus	10,507,920	8,925,171
Accumulated deficit	(62,885,202)	(37,758,807)
	62,220,449	67,409,764
Total liabilities and shareholders' equity	\$ 66,010,861	\$ 69,339,868

Reporting entity (Note 1)
Basis of preparation (Note 2)
Subsequent event (Note 23)

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

Approved on behalf of the Board:

"Martin Cronin"

"Peter van der Gracht"

PATRIOT ONE TECHNOLOGIES INC.

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

	<u>2020</u>	<u>2019</u>
Revenue (Note 15)	\$ 2,071,244	\$ -
Expenses		
Advertising and marketing	1,445,389	1,788,717
Amortization (Note 12)	1,097,733	28,825
Hardware (Note 8)	194,097	-
Business development	957,703	1,759,998
Conferences and trade shows	1,411,855	1,269,720
Depreciation (Notes 11 and 13)	1,256,736	467,163
General and administration	2,190,577	1,888,951
Licensing	66,555	429,245
Personnel costs	5,393,093	2,838,672
Professional fees	3,435,032	1,263,672
Research and development	5,410,663	2,772,645
Share-based compensation (Note 14)	2,186,546	3,080,807
Loss on inventory write-down (Note 8)	245,531	-
Loss on retirement of assets (Note 11)	171,199	-
	<u>25,462,709</u>	<u>17,588,415</u>
Loss from operations	23,391,465	17,588,415
Proportionate share of loss on investment (Note 10)	1,531,817	825,565
Loss on investment upon fair value recognition (Note 10)	1,017,627	-
Interest income	(481,702)	(862,013)
	<u>25,459,207</u>	<u>17,551,967</u>
Loss before income taxes	25,459,207	17,551,967
Current tax recovery (Note 20)	(332,812)	-
Deferred tax recovery (Note 20)	-	(120,000)
	<u>-</u>	<u>(120,000)</u>
Loss and comprehensive loss for the year	<u>\$ 25,126,395</u>	<u>\$ 17,431,967</u>
Weighted average number of shares	<u>148,674,284</u>	<u>130,719,916</u>
Basic and diluted loss per share	<u>\$ 0.17</u>	<u>\$ 0.13</u>

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

PATRIOT ONE TECHNOLOGIES INC.

Consolidated Statements of Changes in Shareholders' Equity
for the years ended July 31, 2020 and July 31, 2019
(Expressed in Canadian Dollars)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2018	110,957,029	\$ 49,232,014	\$ 4,628,954	\$ (20,326,840)	\$ 33,534,128
Shares issued on prospectus financings, net of share issue costs (Note 14)	18,400,000	40,465,727	1,582,233	-	42,047,960
Shares issued on the exercise of warrants (Note 14)	7,789,582	2,348,866	(177,599)	-	2,171,267
Shares issued on the exercise of stock options (Note 14)	1,216,970	809,536	(263,633)	-	545,903
Shares and options issued on acquisition of EhEye (Note 5)	1,636,356	3,387,257	74,409	-	3,461,666
Share-based compensation (Note 14)	-	-	3,080,807	-	3,080,807
Loss for the year	-	-	-	(17,431,967)	(17,431,967)
Balance - July 31, 2019	139,999,937	\$ 96,243,400	\$ 8,925,171	\$ (37,758,807)	\$ 67,409,764
Shares issued on the exercise of warrants (Note 14)	617,192	1,208,459	(491,242)	-	\$ 717,217
Shares issued on the exercise of stock options (Note 14)	688,537	278,782	(112,555)	-	\$ 166,227
Shares and options issued on acquisition of Xtract (Note 5)	9,422,956	16,867,090	-	-	\$ 16,867,090
Share-based compensation (Note 14)	-	-	2,186,546	-	\$ 2,186,546
Loss for the year	-	-	-	(25,126,395)	(25,126,395)
Balance - July 31, 2020	150,728,622	\$ 114,597,731	\$ 10,507,920	\$ (62,885,202)	\$ 62,220,449

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

PATRIOT ONE TECHNOLOGIES INC.

Consolidated Statements of Cash Flows for the years ended July 31,
(Expressed in Canadian Dollars)

	2020	2019
Cash flow used in operating activities		
Loss and comprehensive loss for the year	\$ (25,126,395)	\$ (17,431,967)
Adjustment for:		
Share-based compensation (Note 14)	2,186,546	3,080,807
Depreciation (Note 11 and 13)	1,256,736	467,163
Amortization (Note 12)	1,097,733	28,825
Finance cost (Note 13)	97,673	-
Deferred tax recovery (Note 20)	-	(120,000)
Loss on lease terminations (Note 13)	(1,490)	-
Loss recognized on Sotech investment (Note 10)	2,549,444	825,565
Loss on inventory impairment (Note 8)	245,531	-
Loss on retirement of assets (Note 11)	171,199	-
	(17,523,023)	(13,149,607)
Changes in non-cash operating working capital		
Receivables	400,047	(978,846)
Prepaid expenses and deposits	(262,501)	(290,677)
Inventory	(779,635)	(783,397)
Accounts payable and accrued liabilities	169,089	842,997
Deferred revenue	428,289	-
Cash used in operating activities	(17,567,734)	(14,359,530)
Cash flow used in from investing activities		
Purchase of property and equipment (Note 11)	(920,724)	(1,508,083)
Recovery of costs relating to leasehold improvements	110,874	-
Cash payments and funding of Sotech investment (Note 10)	(3,184,254)	(4,211,955)
Acquisition of intangible distribution rights (Note 12)	-	(6,574,000)
Development of intangible assets (Note 12)	(115,000)	(120,000)
Acquisition of EcoMine option (Note 12)	(100,000)	-
Cash consideration to acquire Xtract (Note 5)	(7,546,526)	-
Cash acquired on the acquisition of Xtract (Note 5)	791,271	-
Cash acquired on the acquisition of EhEye (Note 5)	-	9,590
Redemption of guaranteed cash investment securities	-	15,060,055
Cash provided by (used in) investing activities	(10,964,359)	2,655,607
Cash flow from financing activities		
Proceeds on issue of share capital, net of share issue costs	883,444	44,765,130
Lease payments (Note 13)	(582,042)	-
Cash received from financing activities	301,402	44,765,130
Change in cash for the year	(28,230,691)	33,061,207
Cash beginning of year	50,637,942	17,576,735
Cash end of year	\$ 22,407,251	\$ 50,637,942

Supplemental Cash Flow Information (Note 17)

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

PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
For the years ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

1. Reporting entity

Patriot One Technologies Inc. (the "Company"), was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed on the Toronto Stock Exchange under the trading symbol "PAT". The Company's wholly-owned subsidiaries include Patriot One Detection Ltd. ("Patriot"), Patriot One (UK) Limited ("Patriot UK"), Patriot One Detection Technologies Inc. ("Patriot US"), EhEye Inc. ("EhEye") and Xtract Technologies Inc. ("Xtract"), acquired on September 6, 2019 (Note 5). The Company, through its subsidiaries, is principally engaged in the development and commercialization of systems to detect concealed weapons.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

The Company's head office is located at 400-257 Adelaide Street West, Toronto, Ontario, Canada, M5H 1X9 and its registered and records office is located at 400-725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements, including the comparative period, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements were approved for issuance by the Board of Directors on October 14, 2020.

(b) Principles of consolidation

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

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

(c) Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Canadian dollar and these consolidated financial statements are presented in Canadian dollars.

PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
For the years ended July 31, 2020 and 2019
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(d) Basis of measurement

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

3. Significant accounting policies

(a) Revenue recognition

Revenue arising from providing customized research and software development is measured at the fair value of the consideration received or receivable. Contract revenue includes the initial contractual amount plus any variations in contract work, claims and incentive payments, to the extent that they are probable and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue is recognized in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

Revenue arising from the sale of the PATSCAN platform is recognized as the Company fulfils its performance obligations. Most commercial sales of the PATSCAN platform are made to resellers in accordance with a standard reseller agreement. The Company's standard reseller agreement includes a reseller acceptance clause for the sale to be completed. Revenue is recognized once the Company receives reseller acceptance and the sale is complete. Consideration for service and maintenance obligations are recognized as revenue over the term of the contract or when the service is provided and the obligation is met. For commercial sales that are made without an acceptance clause, the Company will recognize revenue when its performance obligations are complete.

(b) Financial instruments

(i) Financial assets

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

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

PATRIOT ONE TECHNOLOGIES INC.

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(ii) Impairment

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

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

(iii) Financial liabilities

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

As at July 31, 2020, the Company does not have any derivative financial liabilities.

(c) Intangible assets

(i) Research and development costs

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

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

In subsequent periods, capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

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

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Notes to Consolidated Financial Statements
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(iii) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its estimated residual value.

Amortization is recognized in profit or loss on a sales-based rate, other than intangible assets arising from a service concession arrangement that are amortized according to the unit of production method, over the estimated useful lives of the intangible assets from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset. Where a sales-based rate could not be determined, the straight-line approach was used.

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

The Company examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

(iv) Impairment

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

(d) Business combinations

Business combinations are accounted for using the acquisition method required by IFRS 3 – Business Combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued plus any liabilities and contingent liabilities assumed. Assets acquired and liabilities assumed (including liabilities of the acquiree not previously recognized) in the business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the costs of the acquisition are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of loss and comprehensive loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when

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determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

(e) Investments accounted for using the equity method

Investments accounted for using the equity method include investments in associates or joint ventures, which are entities over which the Company exercises significant influence, and joint arrangements representing joint ventures.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Company accounts for its investments in associates and joint ventures using the equity method of accounting. Under the equity method, investments in associates and joint ventures are initially recognized in the consolidated statements of financial position at cost, and subsequently adjusted for the Company's share of the net income (loss), comprehensive income (loss) and distributions of the investee. The carrying value is assessed for impairment at each statement of financial position date. The Company shall discontinue the use of the equity method from the date when the Company ceases to hold significant influence over its investment.

(f) Government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be met. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. Government assistance received relating to expenses of future periods is deferred and deducted against the related expenditures as incurred.

(g) Inventory

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

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

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(h) Loss per share

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

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(i) Income taxes

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

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

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

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

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

(j) Cash and cash equivalents

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

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(k) Capital stock

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

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

(l) Share-based compensation

The Company may grant stock options of the Company to allow directors, officers, employees and consultants to acquire common shares of the Company. Stock options granted to directors, officers and employees are measured at their fair values determined on the date of grant using the Black-Scholes option pricing model and recognized as an expense over the vesting periods of the options. Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from these parties, or at their Black-Scholes fair values if the fair value of the goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

(m) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Property and equipment with an original cost of \$5,000 or less is expensed on acquisition. Depreciation is calculated to write-off the cost of items of property and equipment less the estimated residual value over the estimated useful lives of the assets on a declining balance basis and is recognized in profit or loss. The depreciation rates are as follows:

Furniture and fixtures	20%
Machinery and equipment	25%
Office equipment	55%
Office software	100%
Leasehold Improvements	Straight line over the term of the lease

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

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in profit or loss.

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(n) Significant accounting judgments, estimates and assumptions

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

Significant areas requiring the use of management estimates and judgements include:

Share-based payments

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

Deferred income tax assets and liabilities

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

Treatment of development costs

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

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss in the period for any difference between book value and net realizable value.

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Impairment of Goodwill

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, management must make critical estimates and use assumptions to project the value of each cash generating unit. Assumptions include future sales, profit margin and an appropriate discount rate. These assumptions will impact the valuation and impairment of goodwill.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. Judgment is also required to assess whether the amounts paid on achievement of milestones represents contingent consideration or compensation for post-acquisition services. Judgment is also required to assess whether contingent consideration should be classified as equity or a liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration is recognized in profit and loss.

Control, joint control or level of influence

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities. Information about these judgments is included in Note 10.

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

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

Right of use lease assets and liabilities

The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. The Company did not have any outstanding debt during the year ended July 31, 2020, therefore the rate was estimated based on comparable companies' borrowing rates. These assumptions will impact the valuation of right of use assets and liabilities and interest expense.

4. New accounting standards adopted during the year

(a) New accounting standards adopted during the year

IFRS 16 – Leases

The Company has adopted IFRS 16 with an initial adoption date of August 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations. IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The Company's accounting policy under IFRS 16 is as follows:

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- (i) At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a right of use liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the right of use liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The assets are depreciated over the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the right of use liability.
- (ii) The right of use liability is initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The right of use liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the right of use liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use asset. The Company has elected to apply the practical following recognition exemptions and practical expedients, as described under IFRS 16:
- recognition exemption of short-term leases;
 - recognition exemption of low-value leases;
 - application of a single discount rate to a portfolio of leases with similar characteristics on transition;
 - exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
 - application of hindsight in determining the applicable lease term at the date of transition; and
 - election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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

The carrying amounts of the Company's right-of-use assets and right-of-use liabilities during the period is as follows:

Right of use assets	\$	1,172,544
Right of use lease liabilities	\$	1,172,544

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IFRIC 23 – Uncertainties over income tax

IFRIC 23 clarifies the application of recognition and measurement requirements in *IAS 12, Income taxes*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as August 31, 2019 and has assessed no significant impact as a result of the adoption of this interpretation.

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

Classification of liabilities as current or non-current (Amendments to IAS 1)

The IASB has published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* which clarified the guidance on whether a liability should be classified as either current or non-current. The amendments:

- (i) Clarify that the classification of liabilities as current or non-current should only be based on rights that are in place “at the end of the reporting period”;
- (ii) Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- (iii) Make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined. There is currently a proposal outstanding that would defer the effective date until January 1, 2023.

Definition of a business (Amendments to IFRS 3)

The IASB has issued *Definition of a Business (Amendments to IFRS 3)* to clarify the definition of a business for the purpose of determining whether a transaction should be accounted for as an asset acquisition or a business combination. The amendments:

- (i) Clarify the minimum attributes that the acquired assets and activities must have to be considered a business;
- (ii) Remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs;
- (iii) Narrow the definition of a business and the definition of outputs; and
- (iv) Add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

This amendment is effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. The Company does not expect the adoption of this new amendment to have a significant impact on the consolidated financial statements.

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5. Acquisitions

Xtract

Effective September 6, 2019, the Company acquired 100% of the issued and outstanding shares of Xtract, a private company incorporated in British Columbia. Xtract develops and commercializes artificial intelligence, machine learning, deep neural network and predictive solutions utilizing its proprietary technology for public institutions and private enterprises. The purpose of this acquisition was to integrate the Xtract data science team to progress the various PATSCAN sensor technologies and platform. The purchase price included a cash payment of \$6,000,000, a working capital adjustment and option holder payout of \$1,546,526 and the issuance of 9,422,956 common shares of the Company ("Consideration Shares") at a fair value of \$16,867,090. Subject to certain exceptions based on the business of the Company or the performance of the Company's common share price, the Consideration Shares will be subject to escrow restrictions and released on a quarterly basis over the next 12 consecutive fiscal quarters of the Company. The acquisition was accounted for under *IFRS 3 – Business combinations* and not an asset acquisition.

The consideration paid and the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed in the acquisition on September 6, 2019 are as follows:

Consideration		
Cash	\$	6,000,000
Working capital adjustment and option holder payout		1,546,526
Shares issued		16,867,090
Total consideration	\$	24,413,616
Net assets acquired		
Cash	\$	791,271
Accounts receivable and unbilled revenue		513,613
Property and equipment		8,806
Right of use assets		63,752
Government contracts		355,875
Accounts payable and accrued liabilities		(249,505)
Right of use liabilities		(64,015)
Goodwill		22,993,819
Total	\$	24,413,616

Amongst other things, the goodwill recognized reflects the Xtract data science team's involvement in the enhancement of the PATSCAN platform and expected growth in the underlying markets in which the Company operates. The goodwill is not tax deductible.

During the year ended July 31, 2020, the Company paid \$1,270,000 for a fairness opinion and other advisory services in connection with the acquisition of Xtract, which have been expensed and are included in professional fees.

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EhEye

Effective January 8, 2019, the Company acquired 100% of the issued and outstanding shares of EhEye, a private company located in Saint John, New Brunswick, Canada. EhEye has developed video threat recognition software that automates the detection of weapons, disturbances and suspicious behaviours through existing camera infrastructure. The Company determined that EhEye's video threat recognition software will complement its covert weapon detection system. Pursuant to the share purchase agreement, the Company issued 1,636,363 shares at a fair value of \$3,387,257. In addition, the Company granted 277,775 stock options (the "Replacement Options") to directors, officers and employees of EhEye to replace existing options in EhEye. The fair value of the Replacement Options was \$448,160, of which \$74,409 was allocated to the purchase consideration and the balance of \$373,751 was recorded as share-based compensation over the vesting terms of the stock options. The fair value of the shares attributed to the acquisition consideration was estimated based on the market price of the Company's common shares on January 8, 2019 of \$2.02 per share. The business combination has been accounted for using the acquisition method with the results of operations consolidated with those of the Company effective January 8, 2019. The acquisition was accounted for under *IFRS 3 – Business combinations* and not an asset acquisition.

The fair value of the Replacement Options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	3.4 years
Expected volatility in market price of shares	100%
Expected dividend rate	0%
Risk-free interest rate	1.89%
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Weighted average fair value per option granted	\$ 1.6134

The consideration paid and the preliminary allocation of the consideration to the fair values of the assets acquired and liabilities assumed in the acquisition at January 8, 2019 are as follows:

Consideration	
Shares issued	\$ 3,387,257
Fair value of stock options granted	74,409
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Total consideration	\$ 3,461,666
Net assets acquired	
Cash	\$ 9,590
Accounts receivable	47,839
Property and equipment	14,906
Intellectual property	1,250,000
Accounts payable and accrued liabilities	(329,283)
Deferred income tax liability	(120,000)
Goodwill	2,588,614
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Total	\$ 3,461,666

Amongst other things, the goodwill recognized reflects future cash flows, growth in sales to existing and new customers through cross selling opportunities and expected growth in the underlying markets in which the Company operates.

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6. Goodwill

A summary of the changes to goodwill for the two years ending July 31, 2020 is as follows:

Balance as at July 31, 2018	\$	-
Acquisition of EhEye		2,588,614
Balance as at July 31, 2019		2,588,614
Acquisition of Xtract		22,993,819
Balance as at July 31, 2020	\$	25,582,433

For the purpose of impairment testing, goodwill from the acquisition of EhEye and Xtract have been fully allocated to the PATSCAN cash-generation unit (CGU). During the year ended July 31, 2020, the Company determined that there was no impairment to goodwill.

7. Receivables

Receivables as of July 31 are comprised of:

	2020	2019
Trade receivable	\$ 372,803	\$ -
ITB funding receivable (Note 21)	1,021,000	640,000
Taxes receivable	229,345	629,124
Other receivables	-	240,459
Balance end of year	\$ 1,623,148	\$ 1,509,583

8. Inventory

As at July 31, 2020, the Company held inventory of \$1,521,666 (2019 - \$987,562). The Company's inventory consists primarily of hardware components that will be used in its security product offerings:

	2020	2019
Components and work-in-progress	\$ 244,939	\$ 245,532
Finished goods	1,276,727	742,030
Balance end of year	\$ 1,521,666	\$ 987,562

During the year ended July 31, 2020, the Company recorded total inventory sold of \$194,097 (2019 - \$nil) under hardware expense. The Company recognized a loss from inventory write-downs of \$245,531 (2019 - \$nil) related to obsolete inventory that it no longer has the ability to sell. The write-down is presented on the statement of loss and comprehensive loss.

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9. License, assignment and option fees

On April 29, 2016, the Company entered into an agreement with Bullrun Capital Inc. ("Bullrun") wherein Bullrun agreed to assign to the Company its option (the "Option Agreement") to obtain from McMaster University ("McMaster") a worldwide exclusive license to use or cause to be used certain radar technology used to detect concealed weapons (the "License Agreement") invented, developed and/or acquired by McMaster. As consideration for the Option Agreement, the Company paid Bullrun a fee of \$60,000 and granted Bullrun a 2% royalty (the "Bullrun Royalty") to be paid on net sales of all commercial products developed under the License Agreement between McMaster and the Company.

This royalty payable to Bullrun would be in addition to any royalties to be paid to McMaster by the Company. In consideration for the License Agreement, the Company paid an up-front license fee of \$10,000 and issued 1,560,000 common shares with a fair value of \$78,000 to McMaster. In addition, the Company agreed to pay a royalty of 3.5% on net sales and from time to time, issue common shares of the Company to McMaster so that in the aggregate, shares held by McMaster represent 5% of the Company's issued and outstanding common shares calculated on a fully diluted basis. Such issuance shall continue until and including the date upon which a total of \$2,000,000 in cash is received by the Company in exchange for the Company's capital stock. The Company had met this requirement and no additional shares will be issued to McMaster. In addition, the Company agreed to make minimum annual royalty payments of \$2,500 in the first and second year, \$5,000 in the third year and \$7,500 each year thereafter.

On October 26, 2016, Patriot entered into an amended agreement with Bullrun wherein both parties set out their mutual understandings and conclusively recorded the terms and conditions with respect to the Bullrun Royalty. In the amended agreement, Bullrun agreed to an equal division of the Bullrun Royalty between Bullrun and Rajni Singhera ("Singhera") to be paid on net sales of the licensed product in a calendar year, the amount of which is to be accrued and paid annually on March 31 of the following year. Payment of the Bullrun Royalty is subject to a minimum royalty threshold of \$100,000, the first payment of which was not payable until March 31, 2019 and then annually thereafter. In the case where the Company's Board of Directors determines that the payment of the Bullrun Royalty would impact the ongoing operations of the Company, the annual payment for that year will be satisfied by the issuance of notes payable to Bullrun and Singhera which notes will mature two years from the date of issue and accrue interest at the Bank of Canada prime rate plus 3% per annum.

During the years ended July 31, 2020 and 2019, the Company accrued or paid \$7,500 and \$5,000 in royalties, respectively.

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10. Investment in Sotech Secure, LLC

As at July 31, 2020, the Company owns a 49% interest in Sotech Secure, LLC ("Sotech"), a Delaware Limited Liability Company with NanoBio Detection Systems LLC ("NanoBio") owning the remaining 51% interest.

Management has considered several factors based on recent developments and determined that the Company no longer holds significant influence or joint control over Sotech. Accordingly, the Company has discontinued the use of the equity method for the Sotech investment during Q4 2020. The Company's interest in Sotech has been recorded in the consolidated financial statements at its expected fair value of \$4,021,200 (USD \$3 million), with the difference between carrying value and fair value recorded as loss on investment. Despite the change in accounting treatment, management will continue to pursue all measures necessary to recover value from this investment.

The carrying value of the investment in Sotech for the two years ending July 31, 2020 is as follows:

Initial capital contributions	\$ 2,629,600
Reduction in ownership interest on option exercise	(1,342)
Funding advances	1,583,697
Proportionate share of loss	(825,565)
Carrying Value at July 31, 2019	\$ 3,386,390
Funding advances	3,184,254
Proportionate share of loss	(1,531,817)
Loss on investment upon fair value recognition	(1,017,627)
Carrying Value at July 31, 2020	\$ 4,021,200

11. Property and equipment

Details of the Company's property and equipment as at July 31, 2020 and July 31, 2019 are listed as follows:

	Office Equipment	Office Software	Furniture & Fixtures	Machinery & Equipment	Leasehold Improvements	Total
Cost						
Balance at July 31, 2018	\$ 183,841	\$ 58,808	\$ 178,959	\$ 177,358	\$ -	598,966
Additions	293,150	90,717	240,414	744,109	139,693	1,508,083
Additions through acquisitions (Note 5)	14,906	-	-	-	-	14,906
Balance at July 31, 2019	491,897	149,525	419,373	921,467	139,693	2,121,955
Additions	151,856	76,491	50,916	559,023	82,438	920,724
Additions through acquisitions (Note 5)	8,806	-	-	-	-	8,806
Retirement of assets	(331,967)	(128,790)	(75,835)	(62,543)	(5,210)	(604,345)
Cost recovery of leasehold improvement	-	-	-	-	(110,874)	(110,874)
Balance at July 31, 2020	\$ 320,592	\$ 97,226	\$ 394,454	\$ 1,417,947	\$ 106,047	\$ 2,336,266
Accumulated depreciation						
Balance at July 31, 2018	\$ 14,530	\$ 9,523	\$ 4,668	\$ 5,583	\$ -	\$ 34,304
Depreciation	189,271	92,146	74,834	97,579	13,333	467,163
Balance at July 31, 2019	203,801	101,669	79,502	103,162	13,333	501,467
Depreciation	235,075	75,166	80,876	327,018	12,027	730,162
Retirement of assets	(239,910)	(126,003)	(31,206)	(23,875)	(12,152)	(433,146)
Balance at July 31, 2020	\$ 198,966	\$ 50,832	\$ 129,172	\$ 406,305	\$ 13,208	\$ 798,483
Carrying amount as at July 31, 2019	\$ 288,096	\$ 47,856	\$ 339,871	\$ 818,305	\$ 126,360	\$ 1,620,488
Carrying amount as at July 31, 2020	\$ 121,626	\$ 46,394	\$ 265,282	\$ 1,011,642	\$ 92,839	\$ 1,537,783

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The Company reviewed fixed assets as of July 31, 2020 and has written off all retired assets that are no longer in use. There were no proceeds from the retirement of assets and the net book value written off has been recorded on the statement of loss and comprehensive loss. During the year ended July 31, 2020, the Company received \$110,874 as a recovery of leasehold improvements.

12. Intangible assets

As at July 31, 2020, the carrying values of intangible assets are as follows:

	Quasar Licensed Distribution Rights	EhEye Intellectual Property	Xtract Government Contracts	EcoMine Intellectual Property Rights	Total
Cost					
Balance at July 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	6,574,000	120,000	-	-	6,694,000
Additions through acquisitions (Note 5)	-	1,250,000	-	-	1,250,000
Balance at July 31, 2019	6,574,000	1,370,000	-	-	7,944,000
Additions	-	115,000	-	100,000	215,000
Additions through acquisitions (Note 5)	-	-	355,875	-	355,875
Balance at July 31, 2020	\$ 6,574,000	\$ 1,485,000	\$ 355,875	\$ 100,000	\$ 8,514,875
Accumulated Amortization					
Balance at July 31, 2018	-	-	-	-	-
Amortization	28,825	-	-	-	28,825
Balance at July 31, 2019	28,825	-	-	-	28,825
Amortization	657,400	111,375	328,958	-	1,097,733
Balance at July 31, 2020	\$ 686,225	\$ 111,375	\$ 328,958	\$ -	\$ 1,126,558
Carrying Amount as at July 31, 2019	\$ 6,545,175	\$ 1,370,000	\$ -	\$ -	\$ 7,915,175
Carrying Amount as at July 31, 2020	\$ 5,887,775	\$ 1,373,625	\$ 26,917	\$ 100,000	\$ 7,388,317

Quasar - Licensed distribution rights

In June 2019, the Company entered into a licensing agreement with Quasar Federal Systems, Inc. ("Quasar") receiving a perpetual, worldwide, exclusive, fully paid-up, transferable and irrevocable license (with a right of sublicense) to use Quasar's intellectual property in exchange for an aggregate cash consideration of \$6,574,000 (US\$5,000,000). The Quasar license includes access to patented sensor technology and patent-pending magnetic detection and security screening technology. The Company also has the right to engage Quasar's development team to assist with future modifications to the technology, as well as manufacturing and implementation engineering. The license was recognized as an intangible asset and is amortized over its estimated useful life of 10 years.

EhEye - Intellectual property

The Company has determined the fair value of the intellectual property acquired in connection with the acquisition of EhEye to be \$1,250,000 (Note 5). In addition, the Company determined \$235,000 of directly attributable development expenditures met the criteria for capitalization, of which \$115,000 were capitalized in the year ended July 31, 2020. As of November 1, 2019, the Company determined that this technology was ready for commercial use and has begun amortizing the acquired intellectual property and capitalized development costs over the technology's estimated useful life of 10 years.

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Xtract - Government contracts

The Company has determined the fair value of the government contracts acquired in connection with the acquisition of Xtract to be \$355,875 (Note 5). The Company is amortizing the acquired contracts over their term. As of July 31, 2020, \$26,917 of Xtract government contracts remain unamortized.

EcoMine - Intellectual property rights

During the year ended July 31, 2020, the Company entered into an agreement with EcoMine Technologies Inc. ("EcoMine") whereby the Company will fund up to \$250,000 towards specified research and development in exchange for the Company receiving the exclusive option to license the intellectual property developed. The agreement and the Company's exclusive option to license the intellectual property expired as of September 30, 2020. The Company is in discussion with EcoMine on extending the agreement or reaching an alternative arrangement. As at July 31, 2020, the Company has provided \$100,000 in funding. The Company will begin amortizing these intellectual property rights when they are ready for use.

13. Right of use assets and lease liabilities

The Company has recorded right of use assets and lease liabilities in its statement of financial position related to nine properties for which the Company has entered into office lease agreements that have an initial term of one year or more. These leases have been classified as a single class of right of use assets under office leases.

<u>Fiscal year</u>	<u>Amount</u>
2021	\$ 435,966
2022	327,217
2023	260,398
2024	120,329
Effects of discounting	(130,484)
Right of use liabilities	\$ 1,013,426
Current portion of right of use liabilities	(418,215)
Non-current portion of right of use liabilities	\$ 595,211

The carrying amounts of the Company's right-of-use assets, liabilities as at July 31, 2020 and the movements during the year ended July 31, 2020 were as follows:

	<u>Right of use asset</u>	<u>Right of use liabilities</u>
Adoption of IFRS 16	\$ 1,172,544	\$ 1,172,544
Additions	344,685	344,685
Additions through acquisition	63,752	64,015
Lease termination adjustments	(81,959)	(83,449)
Depreciation	(526,574)	-
Interest costs	-	97,673
Payments	-	(582,042)
As at July 31, 2020	\$ 972,448	\$ 1,013,426

Additionally, the Company has entered into a new five-year office lease commencing August 1, 2020, with a total commitment of \$623,088. During the year ended July 31, 2020, the Company incurred \$90,000 and \$nil in short term and low value leases, respectively.

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14. Share capital

Authorized

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

Share Capital

The issued and outstanding share capital for the years ended July 31, is as follows:

	2020		2019	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	139,999,937	\$ 96,243,400	110,957,029	\$ 49,232,014
Shares issued on the exercise of warrants	617,192	1,208,459	7,789,582	2,348,866
Shares issued on the exercise of stock options	688,537	278,782	1,216,970	809,536
Shares issued for the acquisition of Xtract (Note 5)	9,422,956	16,867,090	-	-
Shares issued for the acquisition of EhEye (Note 5)	-	-	1,636,356	3,387,257
Shares issued for cash, net of share issue costs	-	-	18,400,000	40,465,727
Balance end of year	150,728,622	\$ 114,597,731	139,999,937	\$ 96,243,400

Warrants

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

	2020		2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of year	35,963,432	\$ 2.60	24,095,014	\$ 1.35
Issued	-	-	19,688,000	3.20
Exercised	(617,192)	1.16	(7,789,582)	0.28
Expired	(4,387,190)	1.40	(30,000)	0.25
Balance end of year	30,959,050	\$ 2.79	35,963,432	\$ 2.60

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Details of the outstanding warrants as at July 31, 2020 are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
4,796,150	\$ 1.70	October 31, 2020	3.0
150,000	\$ 1.00	November 18, 2020	3.5
1,288,000	\$ 2.50	November 21, 2020	3.5
18,400,000	\$ 3.25	November 21, 2020	3.5
6,324,900	\$ 2.40	February 16, 2021	6.5
30,959,050	\$ 2.79		4.0

Stock options

The Company offers an incentive stock option plan that provides for the granting of options up to 10% of its issued and outstanding common shares to directors, officers, employees and consultants. The exercise price of each option is equal to the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is five years. Vesting terms, if any, are set at the discretion of the Board.

The stock option activity for the years ended July 31 is as follows:

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of year	7,414,553	\$ 1.15	6,030,000	\$ 0.62
Granted	3,712,963	1.26	2,992,775	1.92
Exercised	(688,537)	0.24	(1,216,970)	0.45
Forfeited	(565,348)	1.41	(391,252)	1.33
Balance end of year	9,873,631	\$ 1.24	7,414,553	\$ 1.15

During the year ended July 31, 2020, the Company recognized share-based compensation related to stock options of \$2,186,546 (2019 - \$3,080,807). Fair value of options granted during the year were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Expected life	4.6 years	4.3 years
Expected market volatility of shares (%)	90.0%	100.0%
Expected dividend rate	0%	0%
Risk-free interest rate	1.27%	1.78%
Weighted average fair value per option granted	\$ 0.839	\$ 1.457

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Details of the outstanding stock options as at July 31, 2020 are as follows:

Number of stock options outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)	Number of stock options exercisable	Weighted average exercise price
50,000	\$ 1.00	September 15, 2020	1.5	50,000	\$ 1.00
200,000	\$ 1.44	December 14, 2020	4.5	200,000	\$ 1.44
150,000	\$ 1.71	February 22, 2021	6.0	150,000	\$ 1.71
345,000	\$ 1.30	June 22, 2021	10.5	323,334	\$ 1.30
250,000	\$ 1.35	July 10, 2021	11.5	250,000	\$ 1.35
250,000	\$ 0.30	August 1, 2021	12.0	250,000	\$ 0.30
300,000	\$ 0.185	October 3, 2021	14.0	300,000	\$ 0.185
890,000	\$ 0.30	October 3, 2021	14.0	815,000	\$ 0.30
122,222	\$ 0.70	December 15, 2021	16.5	76,380	\$ 0.70
884,000	\$ 0.65	May 18, 2022	21.5	875,250	\$ 0.65
250,000	\$ 2.00	May 29, 2022	22.0	170,000	\$ 2.00
11,111	\$ 0.70	June 20, 2022	22.5	5,552	\$ 0.70
27,777	\$ 0.70	August 9, 2022	24.5	12,145	\$ 0.70
125,000	\$ 0.65	September 5, 2022	25.0	125,000	\$ 0.65
55,558	\$ 0.70	September 14, 2022	25.5	18,047	\$ 0.70
65,000	\$ 1.47	November 1, 2022	27.0	65,000	\$ 1.47
250,000	\$ 1.29	January 1, 2023	29.0	90,000	\$ 1.29
150,000	\$ 1.82	March 22, 2023	31.0	150,000	\$ 1.82
75,000	\$ 1.61	April 4, 2023	32.0	75,000	\$ 1.61
50,000	\$ 1.62	August 27, 2023	37.0	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	37.0	50,000	\$ 1.80
555,000	\$ 2.48	October 15, 2023	38.5	555,000	\$ 2.48
285,000	\$ 2.01	December 11, 2023	40.5	159,998	\$ 2.01
75,000	\$ 1.80	June 18, 2024	46.5	37,500	\$ 1.80
935,000	\$ 1.81	July 3, 2024	47.0	737,500	\$ 1.81
60,000	\$ 1.83	July 25, 2024	48.0	30,000	\$ 1.83
75,000	\$ 1.78	August 22, 2024	49.0	18,750	\$ 1.78
70,000	\$ 1.79	September 6, 2024	49.0	17,500	\$ 1.79
50,000	\$ 1.43	October 15, 2024	50.5	12,500	\$ 1.43
50,000	\$ 1.88	October 29, 2024	51.0	12,500	\$ 1.88
100,000	\$ 1.47	November 12, 2024	51.5	25,000	\$ 1.47
37,000	\$ 1.46	December 9, 2024	52.5	9,250	\$ 1.46
795,000	\$ 1.21	December 23, 2024	53.0	198,750	\$ 1.21
130,963	\$ 1.31	January 20, 2025	54.0	32,741	\$ 1.31
80,000	\$ 1.37	January 21, 2025	54.0	20,000	\$ 1.37
900,000	\$ 1.49	February 7, 2025	54.5	225,000	\$ 1.49
705,000	\$ 0.76	April 13, 2025	57.5	176,250	\$ 0.76
145,000	\$ 0.69	May 11, 2025	58.5	36,250	\$ 0.69
125,000	\$ 1.16	June 9, 2025	59.5	31,250	\$ 1.16
9,873,631	\$ 1.24		35.1	6,436,447	\$ 1.20

Subsequent to July 31, 2020, 50,000 stock options with an exercise price of \$1.00 expired unexercised.

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Share issuances

On November 21, 2018, the Company issued 18,400,000 units (the "Units") for gross proceeds of \$46,000,000 pursuant to a bought deal equity financing. Each Unit consisted of one common share and one common share purchase warrant ("Warrants"). Each Warrant allows the holders to acquire an additional common share at \$3.25 per share until November 21, 2020. The Company paid cash commissions of \$3,680,000 and \$272,040 for other share issue costs in connection with the financing. The Company issued 1,288,000 broker warrants exercisable at \$2.50 per share until November 21, 2020. The fair value of these broker warrants was \$1,582,233, which along with the other costs of the financing was deducted from the value of the common shares and included in contributed surplus. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100%
Expected dividend rate	0%
Risk-free interest rate	2.23%
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Weighted average fair value per warrant granted	\$ 1.23

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the years ended July 31, 2020 and 2019 as these instruments are anti-dilutive.

15. Revenue and deferred revenue

Revenue recognized during the year ended July 31, 2020 relates to Xtract contract revenue and Patscan platform revenue.

The Company has recognized \$1,345,719 in revenue from Xtract from September 6, 2019, the date of acquisition (Note 5), to July 31, 2020. As at July 31, 2020, accounts receivable for work completed on contracts was \$418,972. This entire balance is receivable from the federal government and is not subject to significant collection risk. Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized ("contracted not yet recognized") and includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted not yet recognized as revenue was \$732,531 as of July 31, 2020, of which we expect to recognize 100% as revenue over the next twelve months. Xtract has also collected \$119,742 for work it has not yet performed which has been recorded as deferred revenue as of July 31, 2020.

The Company has recognized \$725,525 in revenue related to the sale of the PATSCAN platform. During the year ended July 31, 2020, the Company billed and collected cash for the sale of the PATSCAN product hardware and software licenses to a select number of early adopter resellers and end-user customers. The cash received on these sales was \$308,547 and was recorded as deferred revenue on the consolidated statement of financial position as at July 31, 2020. Contracted not yet recognized revenue was \$511,111 as of July 31, 2020, of which we expect to recognize 100% as revenue over the next twelve months. Covid-19 related circumstances have prevented the Company from fulfilling its performance obligations related to these sales during the year. The deferred revenue will be recognized as revenue when the Company is able to fulfil its performance obligations.

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16. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Key management compensation incurred by officers and directors of the Company or to companies controlled by officers and directors of the Company during the year ended July 31, 2020 was \$1,390,028 (2019 - \$933,131). In addition, share-based compensation expense relating to officers and directors for the year ended July 31, 2020 was \$622,322 (2019 - \$136,950).

As at July 31, 2020, there is no outstanding amount (2019 - \$33,571) in accounts payable and accrued liabilities due to officers and directors of the Company or to companies controlled by directors and officers of the Company.

17. Supplemental cash flow information

Non-cash activities during the year ended July 31, 2020 were conducted by the Company as follows:

Fair value of shares issued on acquisition of Xtract (Note 5)	\$16,867,090
Transfer of contributed surplus on exercise of broker warrants	\$ 491,242
Transfer of contributed surplus on exercise of stock options	\$ 112,555
Recognition of right of use assets for IFRS 16 (Note 13)	\$ 1,499,020
Recognition of right of use liabilities for IFRS 16 (Note 13)	\$ 1,497,795

Non-cash activities during the year ended July 31, 2019 were conducted by the Company as follows:

Fair value of 1,288,000 warrants issued for broker fees	\$1,582,233
Fair value of shares issued on acquisition of EhEye (Note 5)	\$3,387,257
Fair value of replacement options granted	\$ 74,409
Transfer of contributed surplus on exercise of broker warrants	\$ 177,599
Transfer of contributed surplus on exercise of stock options	\$ 263,633

No cash was paid towards taxes during the years ended July 31, 2020 or July 31, 2019. The Company paid interest expense of \$97,673 (2019 - \$nil) during the year ended July 31, 2020.

18. Financial instruments and risk management

As at July 31, 2020, the Company's financial instruments comprise cash, receivables, investment in Sotech, accounts payable and accrued liabilities. The fair values of receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of the instrument. The Company's other financial instruments, cash and investment in Sotech are carried at fair value. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs that are not based on observable market data (unobservable inputs).

The Company has segregated all financial assets that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date:

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	As at July 31, 2020			Total
	Level 1	Level 2	Level 3	
Assets				
Cash	\$ 22,407,251	\$ -	\$ -	\$ 22,407,251
Investment in Sotech	-	4,021,200		4,021,200
Balance end of year	\$ 22,407,251	\$ 4,021,200	\$ -	\$ 26,428,451

	As at July 31, 2019			Total
	Level 1	Level 2	Level 3	
Cash	\$ 50,637,642	\$ -	\$ -	\$ 50,637,642
Balance end of year	\$ 50,637,642	\$ -	\$ -	\$ 50,637,642

As at July 31, 2020, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy. The fair value of investment in Sotech was based on Level 2 of the fair value hierarchy and was determined based on an agreement to sell the Company's 49% ownership. The transaction has not closed as of the release of these financials.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding or net income from operating activities will be required to meet long-term requirements. As at July 31, 2020, the Company had cash of \$22,407,251 (2019 - \$50,637,942) to settle current liabilities of \$3,195,201 (2019 - \$1,930,104). All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and receivables. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset-backed commercial paper. The Company's receivables consists of sales tax refundable from the Canada Revenue Agency and accounts receivable under the Canadian Industrial & Technological Benefits program and is not subject to significant credit risk.

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Market risk

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

i. Interest rate risk

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

ii. Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. Substantially all of the Company's assets, liabilities and operations are denominated in Canadian dollars. As at July 31, 2020 and 2019, the Company did not have any material monetary assets or liabilities denominated in a foreign currency and consequently is not exposed to significant foreign currency risk.

iii. Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

19. Capital Management

The Company defines its capital as its shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the research, development and commercialization of its systems to detect concealed weapons utilizing radar technologies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not generating revenue and is dependent upon external financing to fund activities. In order to carry out planned research and development and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

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

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

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20. Income Taxes

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

	2020	2019
Loss for the year before income taxes	\$ (25,459,207)	\$ (17,551,967)
Combined Canadian federal and provincial statutory rate	27.0%	27.0%
Income tax recovery at statutory rate	(6,874,000)	(4,739,000)
Reconciliation of effective rate:		
Change in statutory, foreign tax, foreign exchange rates and other	493,000	318,000
Permanent differences	682,000	845,000
Share issue costs	-	(1,067,000)
Adjustment to prior year provision versus statutory tax return	-	79,000
Changes in unrecognized deductible temporary timing differences and other items	5,366,188	4,444,000
Current tax recovery	\$ (332,812)	-
Deferred tax recovery	-	\$ (120,000)

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

	2020		2019	
	Amount	Expiry	Amount	Expiry
Non-capital losses - Canada	\$ 45,177,000	2026 - 2039	\$ 29,159,000	2029 - 2039
Non-capital losses - United States	4,253,000	2038 - 2040	1,822,000	2038 - 2039
Non-capital losses - United Kingdom	2,194,000	indefinite	2,104,000	indefinite
Share issue costs	3,929,000	2040 - 2044	5,523,000	2040 - 2043
	\$ 55,553,000		\$ 38,608,000	

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21. Raytheon Canada Ltd. Canadian Industrial and Technological Benefits Program Funding

The Company has entered into an agreement with Raytheon Canada Ltd. ("Raytheon") wherein Raytheon will fund the Company with \$3,000,000 non-dilutive cash financing for further development of Patriot's concealed weapons detection technology (the "Project"). The Project has been approved as a qualifying project under the Government of Canada's Industrial and Technological Benefits program, administered by Innovation Science and Economic Development Canada. Pursuant to the terms of the agreement, Patriot will be eligible to claim milestone funding of \$500,000, \$1,000,000 and \$1,500,000 due on or before December 31, 2018, December 31, 2019, and December 31, 2020, respectively, provided at least double the applicable milestone value has been spent by Patriot on qualifying expenditures. The first milestone funding amount of \$500,000, relating to qualifying expenditures for the annual period ending December 31, 2018 was accrued and paid in 2019. The second milestone funding amount of \$1,000,000, relating to qualifying expenditures for the annual period ending December 31, 2019 was collected during the year ended July 31, 2020, of which \$640,000 was accrued as of July 31, 2019. The Company has accrued a receivable of \$1,021,000 related to qualifying expenditures from January 1, 2020 through July 31, 2020 (Note 7). This reflects a portion of the third and final milestone funding of \$1,500,000 for the annual period ending December 31, 2020. The Company has recorded research and development costs net of the \$1,021,000 of accrued non-dilutive funding for the year ended July 31, 2020.

22. Operating segments

The Company currently has two distinct operating segments, Patriot Threat Detection and Xtract. Patriot Threat Detection develops and commercializes a platform of multi-sensor threat detection technologies. Xtract develops and commercializes artificial intelligence solutions for customers.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (Note 3). The Company currently has no intersegment sales. Xtract labour costs incurred in the development of Patriot technologies are allocated to Patriot at cost.

Segment reporting information is presented for both of the Company's distinct operating segments. The following tables summarize the operations and current financial position of each segment for the periods ended July 31, 2020.

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	Patriot Threat Detection	Xtract (Sept 6, 2019 - July 31, 2020)	Total
Revenue	\$ 725,525	\$ 1,345,719	\$ 2,071,244
Expenses			
Advertising and marketing	1,441,389	4,000	1,445,389
Amortization and depreciation	2,278,661	75,808	2,354,469
Hardware	194,097	-	194,097
Business development	957,703	-	957,703
Conferences, travel, trade shows	1,402,183	9,672	1,411,855
General and administration	1,913,751	276,826	2,190,577
License fees	66,555	-	66,555
Personnel costs	5,393,093	-	5,393,093
Professional fees	2,915,771	519,261	3,435,032
Research & development	4,997,625	413,038	5,410,663
Share-based compensation	1,916,648	269,898	2,186,546
Loss on inventory write-down	245,531	-	245,531
Loss on retirement of assets	171,199	-	171,199
Loss from operations	23,168,681	222,784	23,391,465
Proportionate share of loss on investment	1,531,817	-	1,531,817
Loss on investment upon fair value recognition	1,017,627	-	1,017,627
Interest income	(481,157)	(545)	(481,702)
Loss before income taxes	25,236,968	222,239	25,459,207
Current tax recovery	(332,812)	-	(332,812)
Loss and comprehensive loss for the year	\$ 24,904,156	\$ 222,239	\$ 25,126,395
As of July 31, 2020			
Current assets	\$ 29,633,438	\$ 896,442	\$ 30,529,880
Current liabilities	\$ 2,782,649	\$ 412,552	\$ 3,195,201

During the year ended July 31, 2020, non-current asset additions were \$878,807 and \$41,916 for the Patriot Threat Detection and Xtract operating segments, respectively. Total interest expense was \$95,138 and \$2,535 for Patriot Threat Detection and Xtract operating segments, respectively, and are included in general and administrative expense.

No comparable operating segment information was reportable as at July 31, 2019 or for the year ended July 31, 2019 as at that time the Company did not have any distinct operating segments.

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Geographic Breakdown

Patriot Threat Detection currently operates in Canada and the United States. Xtract currently only operates within Canada.

Geographic location	Revenue			Non-current assets		
	Patscan	Xtract	Total	Patscan	Xtract	Total
Canada	\$ 725,525	\$ 1,345,719	\$ 2,071,244	\$ 29,424,902	\$ 38,667	\$ 29,463,569
United States	-	-	-	6,017,412	-	6,017,412
Total	<u>\$ 725,525</u>	<u>\$ 1,345,719</u>	<u>\$ 2,071,244</u>	<u>\$ 35,442,314</u>	<u>\$ 38,667</u>	<u>\$ 35,480,981</u>

No comparable operating segment information was reportable as at July 31, 2019 or for the year ended July 31, 2019 as the Company operated in one reportable segment, being the research and development, commercialization of threat detection and counter-terrorism solutions up until the acquisition of Xtract on September 6, 2019 (Note 5).

Major Customers

All revenue recognized by Xtract and Patriot Threat Detection during the years ended July 31, 2020 was earned from the Canadian Federal Government.

23. Subsequent event

Subsequent to year end, the Company granted 355,000 stock options to employees and officers with exercise prices ranging from \$0.69 to \$0.97 per share. Each of these options was granted for a term of five years and a vesting period of three years.