



Condensed Consolidated Interim Financial Statements
For three months ended October 31, 2021 and 2020
(Expressed in Canadian Dollars)

Patriot One Technologies Inc.

Condensed Consolidated Interim Statements of Financial Position
 (Expressed in Canadian Dollars)
 (Unaudited)

	October 31, 2021	July 31, 2021
Assets		
Current assets		
Cash	\$ 6,986,938	\$ 9,652,493
Receivables (Note 4)	4,714,107	3,257,411
Prepaid expenses and deposits	341,329	355,575
Inventory (Note 5)	1,648,755	1,458,122
	13,691,129	14,723,601
Property and equipment (Note 7)	1,411,095	1,504,871
Intangible assets (Note 8)	6,254,025	6,455,500
Right of use assets (Note 9)	827,485	913,269
Goodwill	25,582,433	25,582,433
Investment in Gemina Labs (Note 14)	320,833	218,750
Total assets	\$ 48,087,000	\$ 49,398,424
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,039,937	\$ 1,265,611
Deferred revenue (Note 10)	218,431	308,547
Current portion of lease liability (Note 9)	303,584	308,645
	1,561,952	1,882,803
Non-current portion of lease liability (Note 9)	597,099	677,275
	2,159,051	2,560,078
Shareholders' equity		
Share capital (Note 11)	114,756,371	114,597,731
Contributed surplus	11,707,193	11,688,151
Accumulated deficit	(80,535,615)	(79,447,536)
	45,927,949	46,838,346
Total liabilities and shareholders' equity	\$ 48,087,000	\$ 49,398,424

Reporting entity (Note 1)
 Basis of preparation (Note 2)

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

Approved on behalf of the Board:

"Peter Evans"

 Director, Chief Executive Officer

"Peter van der Gracht"

 Director, Chairman of the Board

Patriot One Technologies Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
 (Expressed in Canadian Dollars)
 (Unaudited)

	Three months ended October 31,	
	2021	2020
Revenue (Note 10)	\$ 709,460	\$ 376,152
Expenses		
Sales and marketing	320,530	452,379
Research and development (Note 15)	(445,846)	218,824
General and administration	350,656	632,858
Personnel costs	1,004,302	1,163,212
Professional fees	194,664	377,083
Hardware (Note 5)	24,197	-
Amortization (Note 8)	201,475	228,392
Depreciation (Notes 7,9)	194,144	244,448
Share-based compensation (Note 11)	57,682	394,350
	1,901,804	3,711,546
Loss from operations	1,192,344	3,335,394
Unrealized loss (gain) on investments	(102,083)	25,800
Interest income	(2,182)	(35,726)
Loss and comprehensive loss for the period	\$ 1,088,079	\$ 3,325,468
Weighted average number of shares	150,860,622	150,728,622
Basic and diluted loss per share	\$ 0.01	\$ 0.02

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

Patriot One Technologies Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
 (Expressed in Canadian Dollars)
 (Unaudited)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2021	150,728,622	\$ 114,597,731	\$ 11,688,151	\$ (79,447,536)	\$ 46,838,346
Shares issued on the exercise of stock options	400,000	158,640	(38,640)	-	120,000
Share-based compensation (Note 11)	-	-	57,682	-	57,682
Loss for the period	-	-	-	(1,088,079)	(1,088,079)
Balance - October 31, 2021	151,128,622	\$ 114,756,371	\$ 11,707,193	\$ (80,535,615)	\$ 45,927,949
Balance - July 31, 2020	150,728,622	\$ 114,597,731	\$ 10,507,920	\$ (62,885,202)	\$ 62,220,449
Share-based compensation (Note 11)	-	-	394,350	-	394,350
Loss for the period	-	-	-	(3,325,468)	(3,325,468)
Balance - October 31, 2020	150,728,622	\$ 114,597,731	\$ 10,902,270	\$ (66,210,670)	\$ 59,289,331

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

Patriot One Technologies Inc.

Condensed Consolidated Interim Statements of Cash Flows
 (Expressed in Canadian Dollars)
 (Unaudited)

	Three months ended October 31,	
	2021	2020
Cash flow used in operating activities		
Loss and comprehensive loss for the period	\$ (1,088,079)	\$ (3,325,468)
Adjustment for:		
Share-based compensation (Note 11)	57,682	394,350
Depreciation (Notes 7,9)	194,144	244,448
Amortization (Note 8)	201,475	228,392
Finance cost (Note 9)	19,129	28,809
Unrealized loss (gain) on investments	(102,083)	25,800
	(717,732)	(2,403,669)
Changes in non-cash working capital		
Receivables	(1,456,696)	(650,505)
Prepaid expenses and deposits	14,246	218,239
Inventory	(166,436)	(15,143)
Accounts payable and accrued liabilities	(225,674)	(150,448)
Deferred revenue	(90,116)	(87,825)
Cash used in operating activities	(2,642,408)	(3,089,351)
Cash flow used in investing activities		
Purchase of property and equipment (Note 7)	(38,781)	(163,404)
Lease liabilities, net of lease assets	-	(148,404)
Acquisition of EcoMine Option	-	(75,000)
Cash used in investing activities	(38,781)	(386,808)
Cash flow from financing activities		
Proceeds on exercise of stock options	120,000	-
Lease payments (Note 9)	(104,366)	-
Cash received from financing activities	15,634	-
Net decrease in cash for the period	\$ (2,665,555)	\$ (3,476,159)
Cash beginning of the period	9,652,493	22,407,251
Cash end of the period	\$ 6,986,938	\$ 18,931,092

Supplemental cash flow information (Note 13)

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

Patriot One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements
for the three months ended October 31, 2021 and 2020
(Expressed in Canadian Dollars)
(Unaudited)

1. Reporting entity

Patriot One Technologies Inc. (the “Company”) was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed under the trading symbol “PAT” on the Toronto Stock Exchange in Canada, “PTOTF” on the OTCQX in the United States, and “OPL” on the Frankfurt Stock Exchange in Germany. 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”). The principal business of the Company is the development and commercialization of an integrated, layered, multi-sensor platform of technologies, referred to as the “Platform”, with the aim of enhancing public health and safety.

In March 2020, the World Health Organization declared 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 condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance with International Accounting Standard (“IAS 34”), *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on December 7, 2021.

(b) Principles of consolidation

These condensed consolidated interim 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.

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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 condensed consolidated interim financial statements are presented in Canadian dollars.

(d) Basis of measurement

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

3. Significant accounting policies

The accounting policies, estimates and judgements used in the preparation of these condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended July 31, 2021, as these condensed consolidated interim financial statements follow the same accounting policies and methods of application.

(a) Significant accounting judgments, estimates and assumptions

The preparation of these condensed consolidated interim 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 condensed consolidated interim 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 compensation

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.

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Treatment of development costs

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

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, assembly 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.

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.

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.

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

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estimated based on comparable companies' borrowing rates if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

Revenue recognition

Xtract contract revenue is recognized in proportion to the stage of completion of each contract. Significant assumptions are used to determine the stage of completion and changes in these assumptions could impact the revenue recognized during the period. Revenue arising from the sale of or subscription to use the Platform is recognized as the Company fulfils its performance obligations. There are significant estimates made in determining and measuring performance obligations which could impact the timing of revenue recognition.

(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, 2023. 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.

Provisions, Contingent Liabilities and Contingent Assets (Amendments to IAS 37)

The IASB has published Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) to clarify the definition of the 'cost of fulfilling' a contract. The amendments:

- (i) Clarify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract';
- (ii) Clarify that the costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

This amendment is effective for annual periods beginning on or after January 1, 2022. 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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4. Receivables

Receivables are comprised of the following:

	<u>October 31, 2021</u>	<u>July 31, 2021</u>
Trade receivables (Note 10)	\$ 580,585	\$ 236,720
ITB funding receivable (Note 15)	2,767,826	1,000,000
Taxes receivable	191,500	317,272
Other receivables	1,174,196	1,703,419
	<u>\$ 4,714,107</u>	<u>\$ 3,257,411</u>

Other receivables is mainly comprised of government subsidies. As at October 31, 2021, the Company has not taken a provision for uncollectible accounts (July 31, 2021 - \$nil).

5. Inventory

The Company's inventory consists primarily of hardware components that will be used in its safety and security product offerings:

	<u>October 31, 2021</u>	<u>July 31, 2021</u>
Components and work-in-progress	\$ 199,618	\$ 142,499
Finished goods	1,449,137	1,315,623
	<u>\$ 1,648,755</u>	<u>\$ 1,458,122</u>

During the three months ended October 31, 2021, the Company recorded total inventory sold of \$24,197 (2020 - \$nil) under hardware expense. The Company has not taken a provision for inventory write-downs for the three months ended October 31, 2021 (2020 - \$nil).

6. Investment in Sotech Secure, LLC

As at October 31, 2021 and 2020, the Company owned a 49% interest in Sotech, a Delaware Limited Liability Company with NanoBio Detection Systems LLC owning the remaining 51% interest.

During the year ended July 31, 2021, management considered several factors including legal developments and concluded that Company is unlikely to recoup its investment in Sotech. Accordingly, the Company wrote off the investment balance in Sotech down from \$4,021,200 on July 31, 2020 to its estimated fair value of \$nil as at July 31, 2021. Sotech is still valued as \$nil as of October 31, 2021. Despite the write-down, management will continue to take every financially prudent measure to recover the Company's investment in Sotech.

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7. Property and equipment

Details of the Company's property and equipment as at October 31, 2021 and July 31, 2021 are as follows:

	Office Equipment	Computer Hardware	Office Software	Furniture & Fixtures	Subscription Assets	Leasehold Improvements	Total
Cost							
Balance at July 31, 2020	\$ 1,442,437	\$ 321,218	\$ 67,940	\$ 398,624	\$ -	\$ 106,047	\$ 2,336,266
Additions	210,425	117,614	18,538	-	-	145,015	491,592
Cost recovery of leasehold improvement	-	-	-	-	-	(21,635)	(21,635)
Reclassification	-	-	-	-	23,800	-	23,800
Balance at July 31, 2021	1,652,862	438,832	86,478	398,624	23,800	229,427	2,830,023
Additions	-	38,781	-	-	-	-	38,781
Reclassification (Note 13)	(24,197)	-	-	-	-	-	(24,197)
Balance at October 31, 2021	\$ 1,628,665	\$ 477,613	\$ 86,478	\$ 398,624	\$ 23,800	\$ 229,427	\$ 2,844,607
Accumulated depreciation							
Balance at July 31, 2020	\$ 421,238	\$ 187,864	\$ 47,491	\$ 128,682	\$ -	\$ 13,208	\$ 798,483
Depreciation	290,648	99,901	32,526	59,175	1,983	42,436	526,669
Balance at July 31, 2021	711,886	287,765	80,017	187,857	1,983	55,644	1,325,152
Depreciation	57,535	25,737	1,615	11,701	1,983	9,789	108,360
Balance at October 31, 2021	\$ 769,421	\$ 313,502	\$ 81,632	\$ 199,558	\$ 3,966	\$ 65,433	\$ 1,433,512
Carrying amount as at July 31, 2021	\$ 940,976	\$ 151,067	\$ 6,461	\$ 210,767	\$ 21,817	\$ 173,783	\$ 1,504,871
Carrying amount as at October 31, 2021	\$ 859,244	\$ 164,111	\$ 4,846	\$ 199,066	\$ 19,834	\$ 163,994	\$ 1,411,095

During the three months ended October 31, 2021, there were no disposals of property and equipment (2020 - \$nil).

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8. Intangible assets

The carrying values of intangible assets as at October 31, 2021 and July 31, 2021 are as follows:

	Quasar Licensed Distribution Rights	EhEye Intellectual Property	Xtract Government Contracts	EcoMine Intellectual Property Rights	Internally Developed Intellectual Property	Total
Cost						
Balance at July 31, 2020	\$ 6,574,000	\$ 1,250,000	\$ 355,875	\$ 100,000	\$ 235,000	\$ 8,514,875
Additions	-	-	-	75,000	-	75,000
Converted into equity investment	-	-	-	(175,000)	-	(175,000)
Balance at July 31, 2021	6,574,000	1,250,000	355,875	-	235,000	8,414,875
Balance at October 31, 2021	\$ 6,574,000	\$ 1,250,000	\$ 355,875	\$ -	\$ 235,000	\$ 8,414,875
Accumulated amortization						
Balance at July 31, 2020	\$ 686,225	\$ 93,750	\$ 328,958	\$ -	\$ 17,625	\$ 1,126,558
Amortization	657,400	125,000	26,917	-	23,500	832,817
Balance at July 31, 2021	1,343,625	218,750	355,875	-	41,125	1,959,375
Amortization	164,350	31,250	-	-	5,875	201,475
Balance at October 31, 2021	\$ 1,507,975	\$ 250,000	\$ 355,875	\$ -	\$ 47,000	\$ 2,160,850
Carrying amount as at July 31, 2021	\$ 5,230,375	\$ 1,031,250	\$ -	\$ -	\$ 193,875	\$ 6,455,500
Carrying amount as at October 31, 2021	\$ 5,066,025	\$ 1,000,000	\$ -	\$ -	\$ 188,000	\$ 6,254,025

Quasar - Licensed distribution rights

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

EhEye - Intellectual property

In connection with the acquisition of EhEye during the year ended July 30, 2019, the Company has determined the fair value of the intellectual property acquired in connection with the acquisition of EhEye to be \$1,250,000. As at November 1, 2019, the Company determined that this technology was ready for commercial use and began amortizing the acquired intellectual property over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately eight years.

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Xtract - Government contracts

The Company determined the fair value of the government contracts acquired in connection with the acquisition of Xtract. The Company fully amortized the acquired contracts as of October 31, 2021.

EcoMine / Gemina Labs

The Company entered into an agreement with EcoMine Technologies Inc. (“EcoMine”) during the year ended July 31, 2020, whereby the Company funded \$175,000 towards specified research and development in exchange for the exclusive option to license the intellectual property developed (\$100,000 and \$75,000 during the years ended July 31, 2020 and 2021, respectively). During the year ended July 31, 2021, the Company converted this exclusive license into equity in EcoScreen Solutions Inc. (“EcoScreen”), operating as Gemina Labs, a business formed to further develop and commercialize this technology which was formerly a wholly-owned subsidiary of EcoMine. The Company received common shares of Gemina Labs which is now being accounted for as an investment recorded at a fair value of \$320,833 as of October 31, 2021 (Note 14).

Internally developed intellectual property

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

9. 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 five 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.

The carrying amounts of the Company's right-of-use assets, liabilities and the movements for the year ended July 31, 2021 and the three months ended October 31, 2021 are as follows:

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	Right of use asset	Right of use liabilities
As at July 31, 2020	\$ 972,448	\$ 1,013,426
Additions	466,559	466,559
Lease terminations	(72,485)	(78,166)
Depreciation	(453,253)	-
Finance costs	-	99,065
Lease payments	-	(514,964)
As at July 31, 2021	\$ 913,269	\$ 985,920
Depreciation	(85,784)	-
Finance costs	-	19,129
Lease payments	-	(104,366)
As at October 31, 2021	\$ 827,485	\$ 900,683

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

Fiscal year	Amount
2022	\$ 271,088
2023	362,673
2024	250,140
2025	129,810
Effects of discounting	(113,028)
Right of use liabilities	\$ 900,683
Current portion of right of use liabilities	(303,584)
Non-current portion of right of use liabilities	\$ 597,099

During the three months ended October 31, 2021, there were no short term or low value leases recorded (2020 - \$nil).

10. Revenue and deferred revenue

Revenue recognized during the three months ended October 31, 2021 relates to Xtract and Platform revenue.

The Company has recognized \$520,208 (2020 - \$376,152) in revenue from Xtract during the three month period ended October 31, 2021. As at October 31, 2021, accounts receivable for work completed on contracts was \$526,801 (2020 - \$263,907) and there is no deferred revenue recorded (2020 - \$31,917). Most of the balance is receivable from the federal government and is not subject to significant collection risk.

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The Company has recognized \$189,252 (2020 - \$nil) in revenue related to the sale of or subscription to use the Platform during the three month period ended October 31, 2021. As at October 31, 2021, accounts receivable for Platform revenue was \$53,784 (2020 - \$nil) and deferred revenue was \$218,431 (2020 - \$308,547).

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

	Less than one year	Greater than one year	Total
Platform revenue	\$ 525,558	\$ 493,520	\$ 1,019,078
Xtract revenue	1,420,282	614,400	2,034,682
Total backlog	\$ 1,945,840	\$ 1,107,920	\$ 3,053,760

11. 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 is as follows:

	Three months ended October 31, 2021		Year ended July 31, 2021	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	150,728,622	\$ 114,597,731	150,728,622	\$ 114,597,731
Shares issued on the exercise of stock options	400,000	158,640	-	-
Balance end of period	151,128,622	\$ 114,756,371	150,728,622	\$ 114,597,731

As at October 31, 2021, the Company had 2,355,726 common shares held in escrow in connection with the purchase of Xtract.

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Warrants

Warrant activity for the three months ended October 31, 2021 and the year ended July 31, 2021 is as follows:

	Three months ended October 31, 2021		Year ended July 31, 2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	-	\$ -	30,959,050	\$ 2.79
Expired	-	-	(30,959,050)	2.79
Balance end of period	-	\$ -	-	\$ -

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 are set at the discretion of the Board.

The stock option activity for the three months ended October 31, 2021, and the year ended July 31, 2021 is as follows:

	Three months ended October 31, 2021		Year ended July 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	10,024,270	\$ 1.00	9,873,631	\$ 1.24
Granted	350,000	0.43	2,830,000	0.58
Exercised	(400,000)	0.30	-	-
Forfeited / Expired	(1,906,533)	0.81	(2,679,361)	1.43
Balance end of period	8,067,737	\$ 1.06	10,024,270	\$ 1.00

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During the three months ended October 31, 2021, the Company recognized share-based compensation related to stock options of \$57,682 (2020 - \$394,350). Fair value of options granted during the period were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended October 31,	
	2021	2020
Expected life	3.8 years	3.8 years
Expected market volatility of shares (%)	68.0%	85.0%
Expected dividend rate	0%	0%
Risk-free interest rate	1.65%	0.56%
Weighted average fair value per option granted	\$ 0.213	\$ 0.439

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Details of the outstanding stock options as at October 31, 2021 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
550,000	\$ 0.24	November 4, 2021	0.1	550,000	\$ 0.24
122,222	\$ 0.70	December 15, 2021	1.5	114,570	\$ 0.70
349,000	\$ 0.65	May 18, 2022	6.6	349,000	\$ 0.65
250,000	\$ 2.00	May 29, 2022	7.0	250,000	\$ 2.00
11,111	\$ 0.70	June 20, 2022	7.7	9,022	\$ 0.70
27,777	\$ 0.70	August 9, 2022	9.4	20,820	\$ 0.70
125,000	\$ 0.65	September 5, 2022	10.3	125,000	\$ 0.65
41,664	\$ 0.70	September 14, 2022	10.6	41,664	\$ 0.70
30,000	\$ 1.47	November 1, 2022	12.2	30,000	\$ 1.47
250,000	\$ 1.29	January 1, 2023	14.2	170,000	\$ 1.29
300,000	\$ 1.49	February 7, 2023	15.5	203,334	\$ 1.49
150,000	\$ 1.82	March 22, 2023	16.9	150,000	\$ 1.82
75,000	\$ 1.61	April 4, 2023	17.3	75,000	\$ 1.61
50,000	\$ 1.62	August 27, 2023	22.2	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	22.3	200,000	\$ 1.80
305,000	\$ 2.48	October 15, 2023	23.8	305,000	\$ 2.48
143,750	\$ 2.01	December 11, 2023	25.7	137,500	\$ 2.01
810,000	\$ 1.81	July 3, 2024	32.5	742,500	\$ 1.81
30,000	\$ 1.83	July 25, 2024	33.3	22,500	\$ 1.83
70,000	\$ 1.81	September 6, 2024	34.7	45,000	\$ 1.81
100,000	\$ 1.47	November 12, 2024	36.9	50,000	\$ 1.47
630,000	\$ 1.21	December 23, 2024	38.3	360,000	\$ 1.21
95,963	\$ 1.31	January 20, 2025	39.2	47,982	\$ 1.31
80,000	\$ 1.37	January 21, 2025	39.3	40,000	\$ 1.37
105,000	\$ 0.76	April 13, 2025	42.0	52,500	\$ 0.76
145,000	\$ 0.69	May 11, 2025	42.9	72,500	\$ 0.69
125,000	\$ 1.16	June 9, 2025	43.9	62,500	\$ 1.16
250,000	\$ 0.97	August 10, 2025	46.0	125,000	\$ 0.97
105,000	\$ 0.69	September 15, 2025	47.2	52,500	\$ 0.69
117,500	\$ 0.56	October 29, 2025	48.6	62,500	\$ 0.56
720,000	\$ 0.57	November 11, 2025	49.1	180,000	\$ 0.57
50,000	\$ 0.51	December 10, 2025	50.0	12,500	\$ 0.51
60,000	\$ 0.49	March 22, 2026	53.4	60,000	\$ 0.49
1,243,750	\$ 0.52	June 15, 2026	56.3	317,500	\$ 0.52
350,000	\$ 0.43	October 25, 2026	60.7	87,500	\$ 0.43
8,067,737	\$ 1.06		33.5	5,173,892	\$ 1.22

Subsequent to October 31, 2021, all of the 550,000 stock options expiring on November 4, 2021 were exercised.

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Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three months ended October 31, 2021 and 2020 as these instruments are anti-dilutive.

12. 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 paid to officers and directors of the Company during the three month period ended October 31, 2021 was \$297,487 (2020 - \$398,265). In addition, share-based compensation expense relating to key management for the three month period ended October 31, 2021 was \$78,511 (2020 - \$166,118).

As at October 31, 2021, there is no outstanding amount (2020 - \$nil) in accounts payable and accrued liabilities due to officers and directors of the Company or to companies controlled by directors and officers of the Company. There were no other related party transactions during the three month period ended October 31, 2021.

13. Supplemental cash flow information

Non-cash activities during the three months ended October 31, 2021 were conducted by the Company as follows:

Transfer of property and equipment to inventory	\$ 24,197
Transfer of contributed surplus on exercise of stock options	\$ 38,640

Non-cash activities during the three months ended October 31, 2020 were conducted by the Company as follows:

Additions to right of use assets for IFRS 16 (Note 9)	\$ 466,559
Additions to right of use liabilities for IFRS 16 (Note 9)	\$ 466,559

No cash was paid towards taxes during the three months ended October 31, 2021 and 2020. The Company paid interest expense imbedded in its lease payments of \$19,129 during the three months ended October 31, 2021 (2020 - \$28,809).

14. Financial instruments and risk management

As at October 31, 2021, the Company's financial instruments comprise of cash, receivables and investment in Sotech and Gemina Laboratories Ltd. ("Gemina Labs"), accounts payable and accrued liabilities. The carrying values of receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of the instrument. The Company's other financial instruments, cash and investment in Sotech and Gemina Labs are carried at fair value. Fair values of financial instruments

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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.

	As at October 31, 2021			Total
	Level 1	Level 2	Level 3	
Assets				
Cash	\$ 6,986,938	\$ -	\$ -	\$ 6,986,938
Investment in Gemina Labs	320,833	-	-	320,833
Investment in Sotech	-	-	-	-
Balance end of period	\$ 7,307,771	\$ -	\$ -	\$ 7,307,771

	As at July 31, 2021			Total
	Level 1	Level 2	Level 3	
Cash	\$ 9,652,493	\$ -	\$ -	\$ 9,652,493
Investment in Gemina Labs	-	218,750	-	218,750
Investment in Sotech	-	-	-	-
Balance end of year	\$ 9,652,493	\$ 218,750	\$ -	\$ 9,871,243

As at October 31, 2021, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy. During the three month period ended October 31, 2021, Gemina Labs went public on the Canadian Securities Exchange. The fair value of this investment is now based on a quoted market share price which is considered level 1 of the fair value hierarchy. On July 31, 2021, Gemina Labs was not yet public so the valuation was based on Level 2 of the fair value hierarchy.

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 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 over the next twelve months, but that further funding or net income from operating activities will be required to meet long-term requirements. As at October 31, 2021, the Company had cash of \$6,986,938 (July 31,

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2021 - \$9,652,493) to settle current liabilities of \$1,561,952 (July 31, 2021 - \$1,882,803). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and 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. Most of the Company's receivables primarily consist of sales tax refundable from the Canada Revenue Agency, grant funding from the Canadian Government and accounts receivable under the Canadian Industrial and Technological Benefits ("ITB") program and is not subject to significant credit risk.

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.

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.

Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. Most of the Company's assets and liabilities are denominated in Canadian dollars. As at October 31, 2021, 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.

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.

15. Raytheon Funding

On October 31, 2021, the Company entered into an agreement with Raytheon Intelligence and Space ("RIS") wherein RIS will fund the Company approximately \$2.5 million (US\$2 million) in non-dilutive cash financing for development of the Company's AI-driven technologies (the "Project"). The Project has been approved as qualifying project under the Government of Canada's Industrial and Technological Benefits ("ITB") program. Pursuant to the terms of the agreement, the Company will be eligible to claim the funding for qualifying research and development expenditures incurred during the period from December 1, 2020 through June 30, 2022. As at October 31, 2021, the Company has accrued a receivable

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of \$1,767,826 related to qualifying expenditures from December 1, 2020 through October 31, 2021. The Company has recorded gross research and development costs of \$1,321,980, which is presented net of the \$1,767,826 accrued non-dilutive funding for the three months ended October 31, 2021.

In December 2018, Raytheon Canada Ltd. agreed to provide the Company with \$3,000,000 in non-dilutive cash financing for research and development through the ITB program. The Company has received \$2,000,000 in funding to date and is eligible to receive an additional \$1,000,000 based on research and development performed in the calendar year ended December 31, 2020. As at October 31, 2021, the Company has accrued a receivable of \$1,000,000 related to qualifying expenditures from January 1, 2020 through December 31, 2020 (Note 4).

16. Segmented information

Operating segments

The Company currently has two distinct operating segments, the Platform and Xtract. The Platform 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 Platform technologies are allocated to the Platform business unit at cost.

Segmented reporting information is presented for both Company's distinct operating units. The following tables summarize the operations and current financial position of each segment for the three months ended October 31, 2021 and October 31, 2020.

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	For the three months ended October 31, 2021		
	Platform	Xtract	Total
Revenue	\$ 189,252	\$ 520,208	\$ 709,460
Expenses			
Sales and marketing	298,030	22,500	320,530
Research and development	(780,976)	335,130	(445,846)
General and administration	347,286	3,371	350,657
Personnel costs	875,417	128,885	1,004,302
Professional fees	193,057	1,607	194,664
Hardware	24,196	-	24,196
Amortization	201,475	-	201,475
Depreciation	162,460	31,684	194,144
Share-based compensation	81,360	(23,678)	57,682
	1,402,305	499,499	1,901,804
Loss (profit) from operations	1,213,053	(20,709)	1,192,344
Unrealized gain on fair value investment	(102,083)	-	(102,083)
Interest income	(2,182)	-	(2,182)
Loss (profit) and comprehensive loss for the period	\$ 1,108,788	\$ (20,709)	\$ 1,088,079
Non-current asset additions	\$ 38,781	\$ -	\$ 38,781
Finance cost ⁽¹⁾	\$ 11,281	\$ 7,848	\$ 19,129
As at October 31, 2021			
Current assets	\$ 12,165,672	\$ 1,525,457	\$ 13,691,129
Current liabilities	\$ 1,259,597	\$ 302,355	\$ 1,561,952

(1) Finance costs relate to imbedded interest in its office lease commitments (Note 9) and are included in general and administrative expenses.

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	For three months ended October 31, 2020		
	Platform	Xtract	Total
Revenue	\$ -	\$ 376,152	\$ 376,152
Expenses			
Sales and Marketing	407,681	44,698	452,379
Research and development	309,347	(90,523)	218,824
General and administration	626,630	6,228	632,858
Personnel costs	1,063,120	100,092	1,163,212
Professional fees	283,662	93,421	377,083
Amortization	228,392	-	228,392
Depreciation	210,825	33,623	244,448
Share-based compensation	331,336	63,014	394,350
	3,460,993	250,553	3,711,546
Loss (profit) from operations	3,460,993	(125,599)	3,335,394
Unrealized loss on fair value investment	25,800	-	25,800
Interest income	(35,726)	-	(35,726)
Loss (profit) and comprehensive loss for the period	\$ 3,451,067	\$ (125,599)	\$ 3,325,468
Non-current asset additions	\$ 42,694	\$ 120,710	\$ 163,404
Finance cost ⁽¹⁾	\$ 19,618	\$ 9,191	\$ 28,809
As at October 31, 2020			
Current assets	\$ 26,624,706	\$ 850,624	\$ 27,475,330
Current liabilities	\$ 2,496,358	\$ 455,614	\$ 2,951,972

(1) Finance costs relate to imbedded interest in its office lease commitments and are included in general and administrative expenses.

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Geographic Breakdown

The Platform segment currently operates in Canada and the United States. Xtract currently only operates within Canada.

Geographic location	For three months ended October 31, 2021			As at October 31, 2021		
	Revenue			Non-current assets		
	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ 73,237	\$ 520,208	\$ 593,445	\$ 28,840,603	\$ 442,267	\$ 29,282,870
United States	116,015	-	116,015	5,113,001	-	5,113,001
Total	\$ 189,252	\$ 520,208	\$ 709,460	\$ 33,953,604	\$ 442,267	\$ 34,395,871

Geographic location	For three Months ended October 31, 2020			As at October 31, 2020		
	Revenue			Non-current assets		
	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ -	\$ 376,152	\$ 376,152	\$ 29,296,517	\$ 592,313	\$ 29,888,830
United States	-	-	-	5,824,274	-	5,824,274
Total	\$ -	\$ 376,152	\$ 376,152	\$ 35,120,791	\$ 592,313	\$ 35,713,104

Major Customers

The majority of revenue recognized during the three months ended October 31, 2021 and 2020 were earned from the Canadian Federal Government.