



Consolidated Financial Statements
For the years ended July 31, 2021 and 2020
(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.

"Karen Hersh"

Chief Financial Officer

October 21, 2021

"Peter Evans"

Director, Chief Executive Officer

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, 2021 and 2020, 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, 2021 and 2020, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, prepared under the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

During the year ended July 31, 2021, the Company recognized revenue from operations of \$1,081,975. Refer to Note 13 for details.

The significant value of revenue transactions and complex terms under which title and control pass to the customer increases the risk of cut-off errors. Further, the recognition of revenue involves certain estimation uncertainties regarding the estimate percentage completion of contracts.

Due to the significance of revenue for the Company's financial statements, and since the calculations are based on estimations and susceptible to potential manipulation, we consider this a key audit matter.



To address this key audit matter, we performed the following procedures:

- We obtained a detailed understanding of each of the revenue streams and the processes for capture and recording of revenue;
- Reviewed accounting policies for revenue recognition to ensure compliance with IFRS;
- For significant consulting contracts, we assessed the reasonability of management's estimate around percentage of completion of the contract by reviewing the terms of the contract and work performed up to the end of the reporting period;
- On a test basis, we tested sales transactions against sales contracts and invoices to assess that revenues have been recognized at appropriate prices and in the correct accounting period; and
- On a sample basis, we vouched proceeds received against the terms of contract and invoices issued.

Impairment of Goodwill

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company used the discounted cash flow model to estimate fair value, which requires management to make significant estimates and assumptions related to forecasts of future revenues and operating margins, and discount rates.

Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both.

As disclosed in Note 12, the Company carries out impairment tests on goodwill, annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill amounts to \$25,582,433 as of July 31, 2021.

Due to the significant balance of goodwill for the Company's financial statements, and since the calculations are based on estimations and susceptible to potential manipulation, we consider this to be a key audit matter.

To address this key audit matter, we performed the following procedures:

- We obtained an understanding of the controls and control activities in place related to the determination and management's review of significant assumptions used in the calculation;
- We performed sensitivity testing to consider the impact of changes in certain assumptions on the estimate of recoverable amount;
- With the assistance of our internal valuation specialist we evaluated whether the valuation techniques used in estimating the recoverable amounts were appropriate;
- We compared the discount rate used to the weighted average cost of capital and to a range developed using publicly available information for comparable companies; and
- We compared growth rates used by management to historical information, approved budgets, as well as industry standards.

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 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.

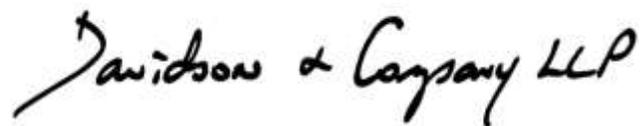
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.

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.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

October 21, 2021

Patriot One Technologies Inc.

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

	2021	2020
Assets		
Current assets		
Cash	\$ 9,652,493	\$ 22,407,251
Receivables (Note 6)	3,257,411	1,623,148
Prepaid expenses and deposits	355,575	956,615
Inventory (Note 7)	1,458,122	1,521,666
Investment in Sotech (Note 8)	-	4,021,200
	14,723,601	30,529,880
Property and equipment (Note 9)	1,504,871	1,537,783
Intangible assets (Note 10)	6,455,500	7,388,317
Right of use assets (Note 11)	913,269	972,448
Goodwill (Note 12)	25,582,433	25,582,433
Investment in Gemina Labs (Notes 10,17)	218,750	-
Total assets	\$ 49,398,424	\$ 66,010,861
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,265,611	\$ 2,348,697
Deferred revenue (Note 13)	308,547	428,289
Current portion of lease liability (Note 11)	308,645	418,215
	1,882,803	3,195,201
Non-current portion of lease liability (Note 11)	677,275	595,211
	2,560,078	3,790,412
Shareholders' equity		
Share capital (Note 14)	114,597,731	114,597,731
Contributed surplus	11,688,151	10,507,920
Accumulated deficit	(79,447,536)	(62,885,202)
	46,838,346	62,220,449
Total liabilities and shareholders' equity	\$ 49,398,424	\$ 66,010,861

Reporting entity (Note 1)

Basis of preparation (Note 2)

The accompanying notes form an integral part of these consolidated 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.

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

	2021	2020
Revenue (Note 13)	\$ 1,081,975	\$ 2,071,244
Expenses		
Sales and marketing	1,472,209	3,814,947
Research and development	2,757,491	5,477,218
General and administration	1,387,245	2,190,577
Personnel costs	4,362,471	5,393,093
Professional fees	861,239	3,435,032
Hardware	28,054	194,097
Amortization (Note 10)	832,817	1,097,733
Depreciation (Notes 9,11)	979,922	1,256,736
Share-based compensation (Note 14)	1,180,231	2,186,546
Loss on inventory write-down (Note 7)	-	245,531
Loss on retirement of assets (Note 9)	-	171,199
	13,861,679	25,462,709
Loss from operations	12,779,704	23,391,465
Proportionate share of loss on joint venture (Note 8)	-	1,531,817
Fair value changes in investments (Notes 8,10)	3,977,450	1,017,627
Interest income	(24,934)	(481,702)
Loss before income taxes	16,732,220	25,459,207
Current tax recovery (Note 19)	(169,886)	(332,812)
Loss and comprehensive loss for the year	\$ 16,562,334	\$ 25,126,395
Weighted average number of basic and diluted shares	150,728,622	148,674,284
Basic and diluted loss per share	\$ 0.11	\$ 0.17

Change in classification (Note 2e)

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, 2021 and July 31, 2020
 (Expressed in Canadian Dollars)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2020	150,728,622	\$ 114,597,731	\$ 10,507,920	\$ (62,885,202)	\$ 62,220,449
Share-based compensation (Note 14)	-	-	1,180,231	-	1,180,231
Loss for the year	-	-	-	(16,562,334)	(16,562,334)
Balance - July 31, 2021	150,728,622	\$ 114,597,731	\$ 11,688,151	\$ (79,447,536)	\$ 46,838,346
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	617,192	1,208,459	(491,242)	-	717,217
Shares issued on the exercise of stock options	688,537	278,782	(112,555)	-	166,227
Shares issued on the 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)

	2021	2020
Cash flow used in operating activities		
Loss and comprehensive loss for the year	\$ (16,562,334)	\$ (25,126,395)
Adjustment for:		
Share-based compensation (Note 14)	1,180,231	2,186,546
Depreciation (Notes 9,11)	979,922	1,256,736
Amortization (Note 10)	832,817	1,097,733
Finance cost (Note 11)	99,065	97,673
Gain on lease terminations	(5,681)	(1,490)
Unrealized loss on joint venture investment (Note 8)	-	2,549,444
Unrealized net loss on investments	3,977,450	-
Loss on inventory impairment (Note 7)	-	245,531
Loss on retirement of assets (Note 9)	-	171,199
	(9,498,530)	(17,523,023)
Changes in non-cash working capital		
Receivables	(1,634,263)	400,047
Prepaid expenses and deposits	601,040	(262,501)
Inventory	39,744	(779,635)
Accounts payable and accrued liabilities	(1,083,086)	169,089
Deferred revenue	(119,742)	428,289
	(11,694,837)	(17,567,734)
Cash flow used in investing activities		
Purchase of property and equipment (Note 9)	(491,592)	(920,724)
Recovery of costs relating to leasehold improvements (Note 9)	21,635	110,874
Cash payments and funding of Sotech investment	-	(3,184,254)
Development of intangible assets	-	(115,000)
Investment in EcoMine intellectual property (Note 10)	(75,000)	(100,000)
Cash consideration to acquire Xtract, net of cash received (Note 5)	-	(6,755,255)
	(544,957)	(10,964,359)
Cash flow from (used in) financing activities		
Proceeds on issue of share capital, net of share issue costs	-	883,444
Lease payments (Note 11)	(514,964)	(582,042)
	(514,964)	301,402
Net decrease in cash for the year	\$ (12,754,758)	\$ (28,230,691)
Cash beginning of year	22,407,251	50,637,942
Cash end of year	\$ 9,652,493	\$ 22,407,251

Supplemental cash flow information (Note 16)

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

Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements
for the years ended July 31, 2021 and 2020
(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 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"), which was acquired on September 6, 2019 (Note 5). The principal business of the Company is the development and commercialization of an integrated, layered, multi-sensor platform of technologies, referred to as the "PATSCAN 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 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"). These consolidated financial statements were approved for issuance by the Board of Directors on October 21, 2021.

(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.

Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements
for the years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

(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.

(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.

(e) Change in classification

During the year ended July 31, 2021, the Company modified the classification of certain operating expenses on the consolidated statements of loss and comprehensive loss. Advertising and marketing, business development and conferences and tradeshow expenses were reclassified to sales and marketing to more appropriately reflect the Company's current operations. Licensing expense was reclassified to research and development to more appropriately reflect the nature of the expense. Comparative amounts in the consolidated statements of loss and comprehensive loss were reclassified for consistency, which resulted in \$3,814,947 being reclassified to sales and marketing and \$66,555 being reclassified to research and development for the year ended July 31, 2020.

Since these amounts are reclassifications within operating activities in the consolidated statements of loss and comprehensive loss, this reclassification did not have any effect on the consolidated statements of financial position or the consolidated statements of cash flows.

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. The main revenue streams for the PATSCAN platform include upfront commercial sales and subscription sales. Upfront commercial sales of the PATSCAN platform are made to resellers and direct customers and revenue is recognized upon reseller or customer acceptance. Consideration for service and maintenance obligations are recognized as revenue over the term of the contract or when the service is provided as the obligation is met. Revenue from subscription sales is recognized over the duration of the subscription period on a straight-line basis.

Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)

(b) Financial instruments

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 is measured at fair value and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss. The Company's investments in Sotech Secure, LLC ("Sotech") and Gemina Laboratories Ltd. ("Gemina Labs") are measured at FVTPL with subsequent valuation adjustments recognized in profit or loss.

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.

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, 2021 and 2020, the Company does not have any derivative financial liabilities.

Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements
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(c) Intangible assets

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 expenditures are 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.

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.

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.

Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements
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(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 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.

Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements
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(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.

(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.

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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.

(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.

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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%
Computer hardware	55%
Office software	100%
Leasehold improvements	Straight line over the term of the lease
Subscription assets	Straight line over its useful life (three years)

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.

(n) Leases

Leases are accounted for in accordance with IFRS 16 – Leases (“IFRS 16”). 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.

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 following practical recognition exemptions and practical expedients, as described under IFRS 16:

- recognition exemption of short-term leases;
- recognition exemption of low-value leases;

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- 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.

(o) Impairment of property and equipment, definite life intangibles, indefinite life intangibles and goodwill

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.

Goodwill is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. The impairment test methodology is based on a comparison between the higher of fair value less costs to sell and value-in-use of each of the Company's cash generating units ("CGU") and the net asset carrying values (including goodwill). An impairment is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount.

All property and equipment and definite life intangibles are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable value is the higher of an asset's fair value less costs of disposal and value in use. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

(p) 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:

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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.

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, 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.

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Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. Judgement 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 8.

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. 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 PATSCAN 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.

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Fair value of investments

The Company holds investments that are not publicly traded in an active and open market. The fair value of these investments is determined based on certain inputs that cannot be directly observed in the marketplace. Management's estimation of fair value involves assumptions and judgements based on information available at the time the financial statements are prepared. Significant changes in these assumptions could materially impact the stated fair value of the investments.

4. New accounting standard adopted during the year

(a) New accounting standards adopted during the year

Definition of a business (Amendments to IFRS 3)

The Company has adopted new amendments to IFRS 3 effective August 1, 2020 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.

The adoption of the new amendments did not have a significant impact on the consolidated financial statements.

(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.

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This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment on the consolidated financial statements has not yet been determined.

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.

5. Acquisition of 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 as an asset acquisition.

The consideration paid and the 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:

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Consideration	
Cash	\$ 6,000,000
Working capital adjustment and option holder payout	1,546,526
Shares issued (Note 14,16)	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.

6. Receivables

Receivables as of July 31 are comprised of:

	July 31, 2021	July 31, 2020
Trade receivables	\$ 236,720	\$ 372,803
ITB funding receivable (Note 20)	1,000,000	1,021,000
Taxes receivable	317,272	229,345
Other receivables	1,703,419	-
	\$ 3,257,411	\$ 1,623,148

Other receivables is mainly comprised of government subsidies. As at July 31, 2021, the Company has not taken a provision for uncollectible accounts (2020 - \$nil).

7. Inventory

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

	July 31, 2021	July 31, 2020
Components and work-in-progress	\$ 142,499	\$ 244,939
Finished goods	1,315,623	1,276,727
	\$ 1,458,122	\$ 1,521,666

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During the year ended July 31, 2021, the Company recorded total inventory sold of \$28,054 (2020 - \$194,097) under hardware expense. The Company reclassified inventory in the amount of \$23,800 (2020 - \$nil) to subscription assets under property and equipment. The Company has not taken a provision for inventory write-downs for the year ended July 31, 2021. The Company recognized a loss from inventory write-downs of \$245,531 for the year ended July 31, 2020 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.

8. Investment in Sotech Secure, LLC

As at July 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, 2020, management determined that the Company no longer held significant influence or joint control over Sotech and as a result, the Company discontinued the use of the equity method for the Sotech Investment. The Company's interest in Sotech was recorded in the consolidated financial statements at its expected fair value of \$4,021,000 (\$USD 3 million) as at July 31, 2020.

During the year ended July 31, 2021, management considered several factors including recent legal developments and concluded that Patriot is unlikely to recoup its investment in Sotech. Accordingly, the Company has written the investment balance in Sotech down to its estimated fair value of \$nil as at July 31, 2021. Despite the write-down, management will continue to take every financially prudent measure to recover the Company's investment in Sotech.

The carrying value of the investment in Sotech for the two years ending July 31, 2021 is as follows:

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)
<hr/>	
Carrying value at July 31, 2020	\$ 4,021,200
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Fair value change in investment	(4,021,200)
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Carrying value at July 31, 2021	\$ -

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9. Property and equipment

Details of the Company's property and equipment as at July 31, 2021 and 2020 are listed as follows:

	Office Equipment	Computer Hardware	Office Software	Furniture & Fixtures	Machinery & Equipment	Subscription Assets	Leasehold Improvements	Total
Cost								
Balance at August 1, 2019	\$ 936,469	\$ 484,004	\$ 123,578	\$ 420,094	\$ 18,117	\$ -	\$ 139,693	\$ 2,121,955
Additions	569,666	146,570	76,491	54,365	-	-	82,438	929,530
Cost recovery of leasehold improvement	-	-	-	-	-	-	(110,874)	(110,874)
Retirement of assets	(63,698)	(309,356)	(132,129)	(75,835)	(18,117)	-	(5,210)	(604,345)
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
Reclassification	-	-	-	-	-	23,800	-	23,800
Cost recovery of leasehold improvement	-	-	-	-	-	-	(21,635)	(21,635)
Balance at July 31, 2021	\$ 1,652,862	\$ 438,832	\$ 86,478	\$ 398,624	\$ -	\$ 23,800	\$ 229,427	\$ 2,830,023
Accumulated depreciation								
Balance at August 1, 2019	\$ 112,861	\$ 191,030	\$ 101,669	\$ 79,012	\$ 3,563	\$ -	\$ 13,332	\$ 501,467
Depreciation	332,428	219,599	72,810	80,876	4,682	-	19,767	730,162
Retirement of assets	(24,051)	(222,765)	(126,988)	(31,206)	(8,245)	-	(19,891)	(433,146)
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
Carrying amount as at July 31, 2020	\$ 1,021,199	\$ 133,354	\$ 20,449	\$ 269,942	\$ -	\$ -	\$ 92,839	\$ 1,537,783
Carrying amount as at July 31, 2021	\$ 940,976	\$ 151,067	\$ 6,461	\$ 210,767	\$ -	\$ 21,817	\$ 173,783	\$ 1,504,871

During the year ended July 31, 2021, there was no retirement of assets (2020 - \$171,199). The Company reviewed its fixed assets as of July 31, 2020 which resulted in the recategorization of certain property and equipment. The opening balances of property and equipment in aggregate were not impacted by the recategorization.

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10. Intangible assets

The carrying values of intangible assets as at July 31, 2021 and July 31, 2020 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, 2019	\$ 6,574,000	\$ 1,250,000	\$ -	\$ -	\$ 120,000	\$ 7,944,000
Additions	-	-	-	100,000	115,000	215,000
Additions through acquisitions (Note 5)	-	-	355,875	-	-	355,875
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
Accumulated amortization						
Balance at July 31, 2019	\$ 28,825	\$ -	\$ -	\$ -	\$ -	\$ 28,825
Amortization	657,400	93,750	328,958	-	17,625	1,097,733
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
Carrying amount as at July 31, 2020	\$ 5,887,775	\$ 1,156,250	\$ 26,917	\$ 100,000	\$ 217,375	\$ 7,388,317
Carrying amount as at July 31, 2021	\$ 5,230,375	\$ 1,031,250	\$ -	\$ -	\$ 193,875	\$ 6,455,500

* Internally developed intellectual property includes capitalized development costs for the PATSCAN platform.

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 to be \$355,875 (Note 5). The Company amortized the acquired contracts over their term.

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 \$218,750 (Note 17).

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.

11. 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 during year ended July 31, 2021 and 2020 are as follows:

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

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

Fiscal year	Amount
2022	\$ 375,456
2023	362,673
2024	250,138
2025	129,810
Effects of discounting	(132,157)
Right of use liabilities	\$ 985,920
Current portion of right of use liabilities	(308,645)
Non-current portion of right of use liabilities	\$ 677,275

During the year ended July 31, 2021, there were no short term or low value leases recorded (2020 - \$90,000 and \$nil, respectively).

12. Goodwill

A summary of the changes to goodwill for the two years ending July 31, 2021 is as follows:

Balance as at July 31, 2019	\$ 2,588,614
Acquisition of Xtract (Note 5)	22,993,819
Balance as at July 31, 2020 and 2021	\$ 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, 2021, the

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Company determined that there was no impairment to its CGU containing goodwill with an indefinite useful life.

The recoverable amount of the PATSCAN CGU was determined based on fair value less cost of disposal (“FVLCD”). The FVLCD was based on Level 3 inputs of the fair value hierarchy described in IFRS 13. The FVLCD calculation used cash flow projections based on financial forecasts and budgets covering a five-year period, and a discount rate of 20%. The discount rate was a post-tax measure estimated based on the industry average of companies with a similar risk profile to the Company. Cash flows beyond the five-year period have been extrapolated using a flat terminal growth rate of 3%. This growth rate does not exceed the long-term average growth rate for the market in which the Company operates. Cash flow was estimated using historical cash flows, projected revenue growth and related operating expense growth.

The key assumptions used in the estimation of the recoverable amount represent management’s assessment of future trends in the security industry and have been based on historical data from both external and internal sources.

13. Revenue and deferred revenue

Revenue recognized during the year ended July 31, 2021 relates to Xtract and PATSCAN revenue.

The Company has recognized \$968,633 (2020 - \$1,345,719) in revenue from Xtract during the year ended July 31, 2021. As at July 31, 2021, accounts receivable for work completed on contracts was \$197,096 (2020 - \$418,972) and there is no deferred revenue recorded (2020 - \$119,742). Most of the 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 \$1,206,635 as at July 31, 2021 (2020 - \$732,531), of which the Company expects to recognize 100% as revenue over the next 12 months.

The Company has recognized \$113,342 (2020 - \$725,525) in revenue related to the sale of or subscription to use the PATSCAN platform during the year ended July 31, 2021. As at July 31, 2021, accounts receivable for PATSCAN sales was \$39,624 (2020 - \$nil). 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 (2020 - \$308,547) and is recorded as deferred revenue on the consolidated statement of financial position as at July 31, 2021. Contracted not yet recognized revenue was \$1,241,828 as at July 31, 2021 (2020 - \$511,111), of which the Company expects to recognize approximately \$345,000 over the next 12 months, with the remainder to follow in the subsequent 24 months.

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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:

	2021		2020	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	150,728,622	\$ 114,597,731	139,999,937	\$ 96,243,400
Shares issued on the exercise of warrants	-	-	617,192	1,208,459
Shares issued on the exercise of stock options	-	-	688,537	278,782
Shares issued for the acquisition of Xtract (Note 5)	-	-	9,422,956	16,867,090
Balance end of year	150,728,622	\$ 114,597,731	150,728,622	\$ 114,597,731

As at July 31, 2021, the Company had 3,140,968 common shares held in escrow in connection with the purchase of Xtract.

Warrants

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

	2021		2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of year	30,959,050	\$ 2.79	35,963,432	\$ 2.60
Exercised	-	-	(617,192)	1.16
Expired	(30,959,050)	2.79	(4,387,190)	1.40
Balance end of year	-	\$ -	30,959,050	\$ 2.79

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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:

	2021		2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of year	9,873,631	\$ 1.24	7,414,553	\$ 1.15
Granted	2,830,000	0.58	3,712,963	1.26
Exercised	-	-	(688,537)	0.24
Forfeited / Expired	(2,679,361)	1.43	(565,348)	1.41
Balance end of year	10,024,270	\$ 1.00	9,873,631	\$ 1.24

During the year ended July 31, 2021, the Company recognized share-based compensation related to stock options of \$1,180,231 (2020 - \$2,186,546). Fair value of options granted during the year were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2021	2020
Expected life	3.8 years	4.6 years
Expected market volatility of shares (%)	80.0%	90.0%
Expected dividend rate	0%	0%
Risk-free interest rate	1.03%	1.27%
Weighted average fair value per option granted	\$ 0.331	\$ 0.839

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Details of the outstanding stock options as at July 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
1,190,000	\$ 0.27	October 3, 2021	2.1	1,190,000	\$ 0.27
250,000	\$ 0.30	October 31, 2021	3.0	250,000	\$ 0.30
122,222	\$ 0.70	December 15, 2021	4.6	105,544	\$ 0.70
849,000	\$ 0.65	May 18, 2022	9.7	849,000	\$ 0.65
250,000	\$ 2.00	May 29, 2022	10.1	250,000	\$ 2.00
11,111	\$ 0.70	June 20, 2022	10.8	8,328	\$ 0.70
27,777	\$ 0.70	August 9, 2022	12.5	19,085	\$ 0.70
125,000	\$ 0.65	September 5, 2022	13.4	125,000	\$ 0.65
44,447	\$ 0.70	September 14, 2022	13.7	38,181	\$ 0.70
65,000	\$ 1.47	November 1, 2022	15.3	65,000	\$ 1.47
250,000	\$ 1.29	January 1, 2023	17.3	170,000	\$ 1.29
300,000	\$ 1.49	February 7, 2023	18.5	203,334	\$ 1.49
150,000	\$ 1.82	March 22, 2023	20.0	150,000	\$ 1.82
75,000	\$ 1.61	April 4, 2023	20.4	75,000	\$ 1.61
50,000	\$ 1.62	August 27, 2023	25.2	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	25.4	200,000	\$ 1.80
305,000	\$ 2.48	October 15, 2023	26.9	305,000	\$ 2.48
150,000	\$ 2.01	December 11, 2023	28.8	125,000	\$ 2.01
56,250	\$ 1.80	June 18, 2024	35.1	56,250	\$ 1.80
828,750	\$ 1.81	July 3, 2024	35.6	761,250	\$ 1.81
30,000	\$ 1.83	July 25, 2024	36.3	22,500	\$ 1.83
70,000	\$ 1.81	September 6, 2024	37.8	35,000	\$ 1.81
100,000	\$ 1.47	November 12, 2024	40.0	50,000	\$ 1.47
757,500	\$ 1.21	December 23, 2024	41.4	397,500	\$ 1.21
95,963	\$ 1.31	January 20, 2025	42.3	47,982	\$ 1.31
80,000	\$ 1.37	January 21, 2025	42.3	40,000	\$ 1.37
300,000	\$ 1.49	February 7, 2025	42.9	150,000	\$ 1.49
405,000	\$ 0.76	April 13, 2025	45.1	352,500	\$ 0.76
145,000	\$ 0.69	May 11, 2025	46.0	72,500	\$ 0.69
125,000	\$ 1.16	June 9, 2025	47.0	62,500	\$ 1.16
250,000	\$ 0.97	August 10, 2025	49.0	62,500	\$ 0.97
105,000	\$ 0.69	September 15, 2025	50.2	26,250	\$ 0.69
140,000	\$ 0.56	October 29, 2025	51.7	35,000	\$ 0.56
720,000	\$ 0.57	November 11, 2025	52.1	180,000	\$ 0.57
50,000	\$ 0.51	December 10, 2025	53.1	12,500	\$ 0.51
60,000	\$ 0.49	March 22, 2026	56.5	60,000	\$ 0.49
1,291,250	\$ 0.52	June 15, 2026	59.3	338,750	\$ 0.52
10,024,270	\$ 1.00		31.7	6,941,454	\$ 1.06

Subsequent to July 31, 2021, of the 1,190,000 stock options expiring October 3, 2021, 400,000 were exercised, 490,000 expired unexercised and 300,000 were extended.

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Loss per share

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

15. 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 year ended July 31, 2021 was \$1,761,642 (2020 – \$1,390,028). In addition, share-based compensation expense relating to key management for the year ended July 31, 2021 was \$575,984 (2020 – \$622,322).

There were no other related party transactions during the fiscal years ended July 31, 2021 and 2020.

16. Supplemental cash flow information

Non-cash activities during the year ended July 31, 2021 were conducted by the Company as follows:

Additions to right of use assets for IFRS 16 (Note 11)	\$ 466,559
Additions to right of use liabilities for IFRS 16 (Note 11)	\$ 466,559
Transfer from EcoMine intellectual property to investment in Gemina Labs (Note 10)	\$ 175,000
Transfer of inventory to property and equipment	\$ 23,800

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, 14)	\$ 16,867,090
Transfer of contributed surplus on exercise of warrants	\$ 491,242
Transfer of contributed surplus on exercise of stock options	\$ 112,555
Recognition of right of use assets for IFRS 16	\$ 1,499,020
Recognition of right of use liabilities for IFRS 16	\$ 1,497,795

No cash was paid towards taxes during the year ended July 31, 2021 and 2020. The Company paid interest expense imbedded in its lease payments of \$99,065 during the year ended July 31, 2021 (2020 – \$97,673).

17. Financial instruments and risk management

As at July 31, 2021 and 2020, the Company's financial instruments comprise cash, receivables, investment in Sotech and 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 investments in Sotech and Gemina Labs 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:

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- 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 July 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
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 July 31, 2020			
	Level 1	Level 2	Level 3	Total
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, 2021, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy. The investment in Gemina Labs was based on Level 2 of the fair value hierarchy as it was a privately held company as of July 31, 2021, and was determined with reference to a recent financing completed by Gemina Labs. Subsequent to year end, Gemina Labs went public on the Canadian Securities Exchange.

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 12 months, but that further funding or net income from operating activities will be required to meet long-term requirements. As at July 31, 2021, the Company had cash of \$9,652,493 (2020 - \$22,407,251) to settle current liabilities of \$1,882,803 (2020 - \$3,195,201). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

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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 July 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.

18. 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.

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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.

19. 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:

	2021	2020
Loss for the year before income taxes	\$ (16,562,334)	\$ (25,459,207)
Combined Canadian federal and provincial statutory rate	27.0%	27.0%
Income tax recovery at statutory rate	(4,472,000)	(6,874,000)
Reconciliation of effective rate:		
Change in statutory, foreign tax, foreign exchange rates and other	(545,000)	493,000
Permanent differences	1,054,000	682,000
Adjustment to prior year provision versus statutory tax return	1,965,000	-
Changes in unrecognized deductible temporary timing differences and other items	1,828,114	5,366,188
Current tax recovery	\$ (169,886)	\$ (332,812)
Deferred tax recovery	\$ -	\$ -

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:

	2021		2020	
	Amount	Expiry	Amount	Expiry
Research and development assets	\$ 198,000	indefinite	\$ -	n/a
Investment tax credit	613,000	2021 - 2041	-	n/a
Property and equipment	726,000	indefinite	-	n/a
Share issue costs	1,871,000	2041 - 2045	3,929,000	2040 - 2044
Intangible assets	5,230,000	indefinite	-	n/a
Non-capital losses - Canada	46,629,000	2026 - 2041	45,177,000	2026 - 2039
Non-capital losses - United States	6,424,000	2039 - 2041	4,253,000	2038 - 2040
Non-capital losses - United Kingdom	2,291,000	indefinite	2,194,000	indefinite
	\$ 63,982,000		\$ 55,553,000	

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20. Raytheon Canada Ltd. Funding

Raytheon Canada Ltd. ("Raytheon") agreed to provide the Company with \$3,000,000 in non-dilutive cash financing for research and development through the Industrial and Technological Benefits 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 July 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 6). Research and development costs have been recorded net of the \$478,700 accrued non-dilutive funding for the year ended July 31, 2021 (2020 - \$1,021,000).

21. Segmented information

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 the Patriot Threat Detection 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 year ended July 31, 2021 and July 31, 2020.

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	For the year ended July 31, 2021		
	Patriot Threat Detection	Xtract	Total
Revenue	\$ 113,342	\$ 968,633	\$ 1,081,975
Expenses			
Sales and marketing	1,286,429	185,780	1,472,209
Research and development	2,370,832	386,659	2,757,491
General and administration	1,129,133	258,112	1,387,245
Personnel costs	3,797,659	564,812	4,362,471
Professional fees	777,784	83,455	861,239
Hardware	28,054	-	28,054
Amortization	832,817	-	832,817
Depreciation	849,572	130,350	979,922
Share-based compensation	985,958	194,273	1,180,231
	12,058,238	1,803,441	13,861,679
Loss from operations	11,944,896	834,808	12,779,704
Unrealized loss on fair value investment	3,977,450	-	3,977,450
Interest income	(24,934)	-	(24,934)
Loss before income taxes	\$ 15,897,412	\$ 834,808	\$ 16,732,220
Current tax recovery	(169,886)	-	(169,886)
Loss and comprehensive loss for the period	\$ 15,727,526	\$ 834,808	\$ 16,562,334
Non-current asset additions	\$ 445,882	120,710	\$ 566,592
Finance cost ⁽¹⁾	\$ 64,816	34,249	\$ 99,065
As at July 31, 2021			
Current assets	\$ 13,442,268	\$ 1,281,333	\$ 14,723,601
Current liabilities	\$ 1,581,148	\$ 301,655	\$ 1,882,803

(1) Finance costs relate to imbedded interest in its office lease commitments (Note 11) and are included in general and administrative expenses.

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	For the year ended July 31, 2020		
	Patriot Threat Detection	Xtract	Total
Revenue	\$ 725,525	\$ 1,345,719	\$ 2,071,244
Expenses			
Sales and Marketing	3,801,275	13,672	3,814,947
Research and development	5,064,180	413,038	5,477,218
General and administration	1,913,751	276,826	2,190,577
Personnel costs	5,393,093	-	5,393,093
Professional fees	2,915,771	519,261	3,435,032
Hardware	194,097	-	194,097
Amortization	1,097,733	-	1,097,733
Depreciation	1,180,928	75,808	1,256,736
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
	23,894,206	1,568,503	25,462,709
Loss from operations	23,168,681	222,784	23,391,465
Proportionate share of loss on investment	1,531,817	-	1,531,817
Gain/loss on investments	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 period	\$ 24,904,156	\$ 222,239	\$ 25,126,395
Non-current asset additions	\$ 991,740	\$ 41,916	\$ 1,033,656
Finance cost ⁽¹⁾	\$ 95,138	\$ 2,535	\$ 97,673
As at July 31, 2020			
Current assets	\$ 29,633,438	\$ 896,442	\$ 30,529,880
Current liabilities	\$ 2,782,649	\$ 412,552	\$ 3,195,201

(1) Finance costs relate to imbedded interest in its office lease commitments (Note 11) and are included in general and administrative expenses.

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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	For the year ended July 31, 2021			As at July 31, 2021		
	Revenue			Non-current assets		
	Patriot Threat			Patriot Threat		
	Detection	Xtract	Total	Detection	Xtract	Total
Canada	\$ 79,971	\$ 968,633	\$ 1,048,604	\$ 28,693,335	\$ 473,951	\$ 29,167,286
United States	33,371	-	33,371	5,288,787	-	5,288,787
Total	\$ 113,342	\$ 968,633	\$ 1,081,975	\$ 33,982,122	\$ 473,951	\$ 34,456,073

Geographic location	For the year ended July 31, 2020			As at July 31, 2020		
	Revenue			Non-current assets		
	Patriot Threat			Patriot Threat		
	Detection	Xtract	Total	Detection	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	\$ 725,525	\$ 1,345,719	\$ 2,071,244	\$ 35,442,314	\$ 38,667	\$ 35,480,981

Major Customers

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

22. 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

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(Expressed in Canadian Dollars)

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. 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, 2021 and 2020, the Company has paid \$7,500 in royalties in each fiscal year, respectively.