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Consolidated Financial Statements  
For the years ended July 31, 2022, and 2021  
(Expressed in Canadian Dollars)

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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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"

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**Chief Financial Officer**

October 20, 2022

"Peter Evans"

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**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, 2022 and 2021 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, 2022 and 2021, 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 audit is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 3(n) of the consolidated financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *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 year. 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, 2022, the Company recognized revenue from operations of \$3,619,214. Refer to Note 11 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 estimating the percentage of 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 10, the Company estimated the recoverable amount of the Platform cash generating unit resulting in an impairment loss of \$25,582,433 against the carrying value of goodwill in the year ended July 31, 2022.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Vancouver, Canada

Chartered Professional Accountants

October 20, 2022

# Patriot One Technologies Inc.

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

	2022	2021
<b>Assets</b>		
Current assets		
Cash	\$ 6,277,321	\$ 9,652,493
Receivables (Note 4)	1,895,156	3,257,411
Prepaid expenses and deposits	668,650	355,575
Inventory (Note 5)	1,106,034	1,458,122
	9,947,161	14,723,601
Property and equipment (Note 7)	1,477,841	1,504,871
Intangible assets (Note 8)	5,649,600	6,455,500
Right of use assets (Note 9)	589,832	913,269
Goodwill (Note 10)	-	25,582,433
Investment in Gemina Labs (Notes 8,15)	393,750	218,750
<b>Total assets</b>	<b>\$ 18,058,184</b>	<b>\$ 49,398,424</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,639,082	\$ 1,265,611
Deferred revenue (Note 11)	196,651	308,547
Current portion of lease liability (Note 9)	320,435	308,645
	3,156,168	1,882,803
Non-current portion of lease liability (Note 9)	356,841	677,275
	3,513,009	2,560,078
<b>Shareholders' equity</b>		
Share capital (Note 12)	119,796,584	114,597,731
Contributed surplus	13,912,816	11,688,151
Accumulated deficit	(119,164,225)	(79,447,536)
	14,545,175	46,838,346
<b>Total liabilities and shareholders' equity</b>	<b>\$ 18,058,184</b>	<b>\$ 49,398,424</b>

Reporting entity (Note 1)  
 Basis of preparation (Note 2)  
 Subsequent events (Note 22)

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

Approved on behalf of the Board:

"Peter Evans"

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 Director, Chief Executive Officer

"Peter van der Gracht"

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 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)

	2022	2021
<b>Revenue</b> (Note 11)	\$ 3,619,214	\$ 1,081,975
<b>Expenses</b>		
Sales and marketing	1,968,641	1,472,209
Research and development	4,463,527	2,757,491
General and administration	2,044,536	1,387,245
Personnel costs	5,284,255	4,362,471
Professional fees	772,091	861,239
Hardware	277,286	28,054
Amortization (Note 8)	805,900	832,817
Depreciation (Notes 7,9)	765,126	979,922
Share-based compensation (Note 12)	1,063,840	1,180,231
Loss on inventory write-down (Note 5)	502,397	-
Impairment of goodwill (Note 10)	25,582,433	-
Loss on retirement of assets (Note 7)	12,155	-
	43,542,187	13,861,679
<b>Loss from operations</b>	39,922,973	12,779,704
Unrealized loss (gain) on investments (Note 8)	(175,000)	3,977,450
Interest income	(31,284)	(24,934)
<b>Loss before income taxes</b>	39,716,689	16,732,220
Current tax recovery (Note 17)	-	(169,886)
<b>Loss and comprehensive loss for the year</b>	\$ 39,716,689	\$ 16,562,334
<b>Weighted average number of basic and diluted shares</b>	155,744,354	150,728,622
<b>Basic and diluted loss per share</b>	\$ 0.25	\$ 0.11

Grant funding (Note 18)

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, 2022 and 2021  
 (Expressed in Canadian Dollars)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2021	150,728,622	\$ 114,597,731	\$ 11,688,151	\$ (79,447,536)	\$ 46,838,346
Shares issued on the exercise of stock options	978,750	368,440	(103,353)	-	265,087
Shares issued on prospectus financings, net of share issue costs (Note 12)	11,471,850	4,830,413	1,264,178	-	6,094,591
Share-based compensation (Note 12)	-	-	1,063,840	-	1,063,840
Loss for the year	-	-	-	(39,716,689)	(39,716,689)
<b>Balance - July 31, 2022</b>	<b>163,179,222</b>	<b>\$ 119,796,584</b>	<b>\$ 13,912,816</b>	<b>\$ (119,164,225)</b>	<b>\$ 14,545,175</b>
Balance - July 31, 2020	150,728,622	\$ 114,597,731	\$ 10,507,920	\$ (62,885,202)	\$ 62,220,449
Share-based compensation (Note 12)	-	-	1,180,231	-	1,180,231
Loss for the year	-	-	-	(16,562,334)	(16,562,334)
<b>Balance - July 31, 2021</b>	<b>150,728,622</b>	<b>\$ 114,597,731</b>	<b>\$ 11,688,151</b>	<b>\$ (79,447,536)</b>	<b>\$ 46,838,346</b>

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)

	2022	2021
<b>Cash flow used in operating activities</b>		
Loss and comprehensive loss for the year	\$ (39,716,689)	\$ (16,562,334)
Adjustment for:		
Share-based compensation (Note 12)	1,063,840	1,180,231
Depreciation (Notes 7,9)	802,925	979,922
Amortization (Note 8)	805,900	832,817
Finance cost (Note 9)	66,632	99,065
Gain on lease terminations	(707)	(5,681)
Unrealized net loss (gain) on investments	(175,000)	3,977,450
Loss on inventory write-down (Note 5)	502,397	-
Impairment of goodwill (Note 10)	25,582,433	-
Loss on retirement of fixed assets (Note 7)	12,155	-
	(11,056,114)	(9,498,530)
Changes in non-cash working capital		
Receivables	1,362,255	(1,634,263)
Prepaid expenses and deposits	(313,075)	601,040
Inventory	(526,082)	39,744
Accounts payable and accrued liabilities	1,373,471	(1,083,086)
Deferred revenue	(111,896)	(119,742)
Cash used in operating activities	(9,271,441)	(11,694,837)
<b>Cash flow used in investing activities</b>		
Purchase of property and equipment (Note 7)	(95,757)	(491,592)
Recovery of costs relating to leasehold improvements (Note 7)	-	21,635
Acquisition of EcoMine Option (Note 8)	-	(75,000)
Cash used in investing activities	(95,757)	(544,957)
<b>Cash flow from (used in) financing activities</b>		
Proceeds on issue of share capital, net of share issue costs	6,359,678	-
Lease payments (Note 9)	(367,652)	(514,964)
Cash received from (used in) financing activities	5,992,026	(514,964)
<b>Net decrease in cash for the year</b>	<b>\$ (3,375,172)</b>	<b>\$ (12,754,758)</b>
<b>Cash beginning of year</b>	<b>9,652,493</b>	<b>22,407,251</b>
<b>Cash end of year</b>	<b>\$ 6,277,321</b>	<b>\$ 9,652,493</b>

Supplemental cash flow information (Note 14)

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, 2022, and 2021  
(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”). The principal business of the Company is the development and commercialization of an integrated, layered, AI-powered threat detection gateway solution, referred to as the “Platform”, with the aim of enhancing public health and safety.

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

The Company’s head office is located at 400-257 Adelaide Street West, Toronto, Ontario, Canada, M5H 1X9 and its registered and records office is located at Bentall 5, 1008 - 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5.

## 2. Basis of preparation

### (a) Statement of compliance

These consolidated financial statements, including the comparative period, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and prepared on a going concern basis. These consolidated financial statements were approved for issuance by the Board of Directors on October 20, 2022.

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

## **3. Significant accounting policies**

### **(a) Revenue recognition**

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

Revenue arising from the sale of the Platform is recognized as the Company fulfills its performance obligations. The main revenue streams for the Platform include upfront commercial sales and subscription sales. Upfront commercial sales of the Platform are made to resellers and direct customers and revenue is recognized upon reseller or customer acceptance. Consideration for service and maintenance obligations is 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.

### **(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

# Patriot One Technologies Inc.

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at FVTPL and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss. The Company's investment in Gemina Laboratories Ltd. ("Gemina Labs") and Sotech Secure, LLC ("Sotech") is 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 the 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 and subsequently measured as either: (i) fair value through profit or loss; or (ii) amortized cost. 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 of July 31, 2022 and 2021, the Company does not have any derivative financial liabilities.

## **(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.

# Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements  
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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*

The useful life of intangible assets is considered either finite or indefinite.

When the Company assess the intangible asset life as finite, it applies 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 over the estimated useful lives of the intangible assets from the date they are available for use. Where a sales-based rate could not be determined, the straight-line approach was used. Intangible assets arising from a service concession arrangement are amortized according to the unit of production method. These methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Intangible assets assessed with indefinite useful lives are not periodically amortized but are tested for impairment at least annually, either at the individual level or cash-generating unit level. An assessment is made at least annually to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Internally generated intangible assets are not systematically amortized while 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.

## **(d) 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.

## **(e) 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.

# Patriot One Technologies Inc.

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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.

## **(f) 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.

## **(g) Income taxes**

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

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

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

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

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

# Patriot One Technologies Inc.

Notes to the Consolidated Financial Statements  
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## (h) 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 an original term to maturity greater than three months but less than one year are presented as short-term investments.

## (i) Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of 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 the announcement. The balance is then allocated to the attached warrants.

## (j) 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.

## (k) 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. Depreciation is calculated as the cost 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	22%
Office equipment	25%
Computer hardware	55%
Office software	100%
Leasehold improvements	Straight line over the term of the lease
Subscription and demo assets	Straight line over its useful life (three years)

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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. When property and equipment are disposed of through asset retirement in which no proceeds are obtained, the loss is recorded through loss on retirement of assets on the consolidated statements of loss and comprehensive loss.

## (l) 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;
- 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.

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

## **(m) Impairment of non-financial assets**

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.

## **(n) Significant accounting judgments, estimates, and assumptions**

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

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

### *Share-based payments*

The fair value of stock options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, the 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 the uncertainty associated with the timing of future events and changes in legislation, tax rates, and interpretations by tax authorities. The

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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 the 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.

## *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.

## *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

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or subscription to use the Platform is recognized as the Company fulfils its performance obligations. There are significant estimates made in determining and measuring performance obligations which could impact the timing of revenue recognition.

## *Going concern*

The preparation of the Company's consolidated financial statements requires management to identify whether the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. To assess this, the Company must identify events and conditions that may indicate significant doubt about the Company's ability to continue as a going concern. The Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The ability of the Company to continue as a going concern is dependent on either a single or a combination of events occurring - obtaining additional financing through the issuance of debt or equity, and/or to generate profit through its operations. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company or that profitable operations are not achieved. These matters result in material uncertainties which may cast significant doubt on whether the Company will continue as a going concern.

The Company manages its liquidity risk in order to meet its contractual obligations by ensuring there is appropriate cash on hand and obtaining other opportunities for financing. The Company identifies when funds are required through the planning and budgeting process to support the Company's normal operations. The Company's ability to continue as a going concern involves significant judgements and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

## **(o) 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

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- (iii) Make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment 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.

## *Disclosures of accounting policies (Amendments to IAS 1)*

The IASB has published *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* to guide companies in applying materiality judgements to accounting policies disclosures.

The amendments:

- (i) Require companies to disclose their material accounting policies rather than their significant accounting policies;
- (ii) With the corresponding amendments to IFRS Practice Statement 2, provides further guidance and examples on how to apply the materiality process to identify material accounting policy information that should be disclosed compared to policies that do not.

This amendment is effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. Earlier application is permitted. The Company is currently assessing the impact of this amendment to the consolidated financial statements disclosures.

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## 4. Receivables

Receivables are comprised of the following:

	<u>July 31, 2022</u>	<u>July 31, 2021</u>
Trade receivables	\$ 724,605	\$ 236,720
ITB funding receivable (Note 19)	1,000,000	1,000,000
Taxes receivable	170,551	317,272
Other receivables	-	1,703,419
	<u>\$ 1,895,156</u>	<u>\$ 3,257,411</u>

Other receivables is mainly comprised of government subsidies. As at July 31, 2022, the Company has not taken a provision for uncollectible accounts (2021 - \$nil).

## 5. Inventory

The Company's inventory consists primarily of hardware components that will be used in the Platform product offerings:

	<u>July 31, 2022</u>	<u>July 31, 2021</u>
Components and work-in-progress	\$ 379,244	\$ 142,499
Finished goods	726,790	1,315,623
	<u>\$ 1,106,034</u>	<u>\$ 1,458,122</u>

During the year ended July 31, 2022, the Company recorded a total inventory sold of \$239,487 (2021 - \$28,054) as hardware expense. The Company reclassified inventory in the amount of \$48,428 (2021 - \$nil) to office equipment and \$327,345 (2021 - \$23,800) to subscription and demo assets under property and equipment. The Company recognized a loss on inventory write-downs of \$502,397 (2021 - \$nil) for the year ended July 31, 2022 related to obsolete inventory. The write-down is presented on the consolidated statement of loss and comprehensive loss.

## 6. Investment in Sotech Secure, LLC

As at July 31, 2022 and 2021, the Company owned a 49% interest in Sotech, a Delaware Limited Liability Company with NanoBio Detection Systems LLC owning the remaining 51% interest. The Company does not have significant influence or joint control over Sotech.

During the year ended July 31, 2021, Management considered several factors including legal developments and concluded that Company is unlikely to recoup its investment in Sotech. Accordingly, the Company wrote off the investment balance in Sotech down to its estimated fair value of \$nil as at July 31, 2021 and recognized an unrealized loss on investments of \$4,021,200. Sotech is still valued as \$nil as at July 31, 2022. Despite the write-down, management will continue to take every financially prudent measure to recover the Company's investment in Sotech.

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## 7. Property and equipment

Details of the Company's property and equipment as at July 31, 2022 and 2021 are as follows:

	Office equipment	Computer hardware	Office software	Furniture & fixtures	Subscription & demo assets	Leasehold Improvements	Total
<b>Cost</b>							
Balance at August 1, 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 (Note 5)	-	-	-	-	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
Additions	-	95,757	-	-	-	-	95,757
Reclassification (Note 5)	48,428	-	-	-	327,345	-	375,773
Retirement of assets	-	-	-	-	-	(17,788)	(17,788)
Balance at July 31, 2022	\$ 1,701,290	\$ 534,589	\$ 86,478	\$ 398,624	\$ 351,145	\$ 211,639	\$ 3,283,765
<b>Accumulated depreciation</b>							
Balance at August 1, 2020	\$ 421,238	\$ 187,864	\$ 47,491	\$ 128,682	\$ -	\$ 13,208	\$ 798,483
Depreciation	290,648	99,901	32,526	59,175	1,983	42,436	526,669
Balance at July 31, 2021	711,886	287,765	80,017	187,857	1,983	55,644	1,325,152
Depreciation	240,149	118,628	6,461	46,794	37,799	36,574	486,405
Retirement of assets	-	-	-	-	-	(5,633)	(5,633)
Balance at July 31, 2022	\$ 952,035	\$ 406,393	\$ 86,478	\$ 234,651	\$ 39,782	\$ 86,585	\$ 1,805,924
Carrying amount as at July 31, 2021	\$ 940,976	\$ 151,067	\$ 6,461	\$ 210,767	\$ 21,817	\$ 173,783	\$ 1,504,871
Carrying amount as at July 31, 2022	\$ 749,255	\$ 128,196	\$ -	\$ 163,973	\$ 311,363	\$ 125,054	\$ 1,477,841

During the year ended July 31, 2022, the Company recognized \$12,155 as the retirement of assets (2021 - \$nil). There were no proceeds from the retirement of assets and the net book value written off has been recorded on the statement of loss and comprehensive loss. The Company recorded depreciation of subscription and demo assets in the amount of \$37,799 (2021 - \$nil) under hardware expense.

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## 8. Intangible assets

The carrying values of intangible assets as at July 31, 2022 and 2021 are as follows:

	Quasar Licensed Distribution Rights	EhEye Intellectual Property	Xtract Government Contracts	EcoMine Intellectual Property Rights	Internally Developed Intellectual Property	Total
<b>Cost</b>						
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 and 2022	6,574,000	1,250,000	355,875	-	235,000	8,414,875
<b>Accumulated amortization</b>						
Balance at July 31, 2020	\$ 686,225	\$ 93,750	\$ 328,958	\$ -	\$ 17,625	\$ 1,126,558
Amortization	657,400	125,000	26,917	-	23,500	832,817
Balance at July 31, 2021	1,343,625	218,750	355,875	-	41,125	1,959,375
Amortization	657,400	125,000	-	-	23,500	805,900
Balance at July 31, 2022	\$ 2,001,025	\$ 343,750	\$ 355,875	\$ -	\$ 64,625	\$ 2,765,275
Carrying amount as at July 31, 2021	\$ 5,230,375	\$ 1,031,250	\$ -	\$ -	\$ 193,875	\$ 6,455,500
Carrying amount as at July 31, 2022	\$ 4,572,975	\$ 906,250	\$ -	\$ -	\$ 170,375	\$ 5,649,600

### **Quasar - Licensed distribution rights**

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

### **EhEye - Intellectual property**

In connection with the acquisition of EhEye during the year ended July 31, 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 10 years. The remaining useful life of this intangible asset is approximately seven 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. The Company has fully amortized the acquired contracts.

## ***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 \$393,750 as at July 31, 2022 (2021 - \$218,750) (Note 15). During the year ended July 31, 2022, the Company recognized an unrealized gain of \$175,000 (2021 - \$43,750) on its investment in Gemina Labs.

## ***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 seven years.

## **9. Right of use assets and lease liabilities**

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

The carrying amounts of the Company's right-of-use assets, liabilities and the movements for the years ended July 31, 2022 and 2021 are as follows:

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	Right of use asset	Right of use liabilities
As at July 31, 2020	\$ 972,448	\$ 1,013,426
Additions	466,559	466,559
Lease terminations	(72,485)	(78,166)
Depreciation	(453,253)	-
Finance costs	-	99,065
Lease payments	-	(514,964)
<b>As at July 31, 2021</b>	<b>\$ 913,269</b>	<b>\$ 985,920</b>
Lease terminations	(6,917)	(7,624)
Depreciation	(316,520)	-
Finance costs	-	66,632
Lease payments	-	(367,652)
<b>As at July 31, 2022</b>	<b>\$ 589,832</b>	<b>\$ 677,276</b>

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

Fiscal year	Amount
2023	\$ 362,673
2024	250,140
2025	129,810
Effects of discounting	(65,347)
Right of use liabilities	\$ 677,276
Current portion of right of use liabilities	(320,435)
Non-current portion of right of use liabilities	\$ 356,841

During the year ended July 31, 2022, there were no short-term or low-value leases recorded (2021 - \$nil).

## 10. Goodwill

A summary of the changes to goodwill for the years ending July 31, 2022 and 2021 is as follows:

	July 31, 2022	July 31, 2021
Opening balance	\$ 25,582,433	\$ 25,582,433
Impairment of goodwill	(25,582,433)	-
<b>Ending balance</b>	<b>\$ -</b>	<b>\$ 25,582,433</b>

For the purpose of impairment testing, goodwill from the acquisition of EhEye and Xtract have been fully allocated to the Platform CGU.

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The Company performed its annual impairment test for the year ended July 31, 2022. The Company considers the proper valuation techniques, significant assumptions, and applies sensitivity when testing goodwill for impairment.

For the year ended July 31, 2022, the Company adopted a higher discount rate to reflect the changing market conditions, cost of borrowing, and risk profile for the technology sector. As a result, the estimated recoverable amount of the CGU is \$7,056,351 resulting in an impairment loss of \$25,582,433 against the carrying value of goodwill in the year ended July 31, 2022. The Company has determined the recoverable amount of the CGU based on the fair value less cost of disposal valuation method using estimated after-tax discounted cashflow projections covering a period of five years. Future cashflows beyond the five-year projections are extrapolated using a terminal growth rate of 3% which has been determined through industry standards, historical growth, and pending contracts.

The impairment loss is recorded under impairment of goodwill in the consolidated statement of loss and comprehensive loss. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used. The key assumptions used in the valuation of the recoverable amount are as follows:

## **Discount rate**

Discount rates represents the current market assessment of the risks specific to the CGU and the Company, while taking into consideration the time value of money. The discount rate calculation is based on the specific circumstances and risks within the current market and adjusted for the Company and its operating segment derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on corporate bond rates that would align with the current market risk for the Company's sector, as no interest-bearing borrowings are present. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

## **Revenue and terminal growth rate**

The Company's estimated growth rate is based on industry research, along with historical growth and expected growth based on pending pipeline contracts and new sector customers entering the market. The projections are prepared based on the financial budgets approved by the board, in which the Company estimates the forecast of revenue growth for a five-year period and applies adjustments related to forecasted long term growth of the North American market to the terminal value. The five-year average revenue growth rate applied to the cashflow projections was 240%.

## **Estimated and budgeted cashflows**

Cashflows were projected by considering projected revenue growth, based on the Company's pipeline of pending contracts, backlog of signed agreements, industry growth and expected sales volume. Increases in variable costs are aligned with projected increases in revenue growth.

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## 11. Revenue

Revenue recognized during the year ended July 31, 2022 relates to Xtract and Platform revenue.

The Company has recognized \$2,845,940 (2021 - \$968,633) in revenue from Xtract during the year ended July 31, 2022. As at July 31, 2022, accounts receivable for work completed on contracts was \$637,353 (2021 - \$197,096) and there was no deferred revenue recorded (2021 - \$nil). Most of the balance is receivable from the federal government and is not subject to significant collection risk.

The Company has recognized \$773,274 (2021 - \$113,342) in revenue related to the sale of or subscription to use the Platform during the year ended July 31, 2022. As at July 31, 2022, accounts receivable for Platform revenue was \$87,252 (2021 - \$39,624) and deferred revenue was \$196,650 (2021 - \$308,547).

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

	Less than one year	Greater than one year	Total backlog July 31,	
			2022	2021
Platform revenue	\$ 596,990	\$ 720,248	\$ 1,317,238	\$ 1,241,828
Xtract revenue	451,747	456,371	908,118	1,206,635
<b>Total backlog*</b>	<b>\$ 1,048,737</b>	<b>\$ 1,176,619</b>	<b>\$ 2,225,356</b>	<b>\$ 2,448,463</b>

\* Backlog figures exclude contracted sales that are pending installation and successful pilots.

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## 12. 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:

	2022		2021	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	150,728,622	\$ 114,597,731	150,728,622	\$ 114,597,731
Shares issued on prospectus financings, net of share issue costs	11,471,850	4,830,413	-	-
Shares issued on the exercise of stock options	978,750	368,440	-	-
Balance end of year	163,179,222	\$ 119,796,584	150,728,622	\$ 114,597,731

As at July 31, 2022, the Company had no common shares held in escrow in connection with the purchase of Xtract (2021 – 3,140,968).

On March 17, 2022, the Company issued 10,743,450 units (the "Units") for gross proceeds of \$6,446,070 pursuant to a prospectus financing. On March 25, 2022, the Company issued additional 41,700 Units for gross proceeds of \$25,020. On March 31, 2022, the Company further issued additional 686,700 Units for gross proceeds of \$412,020 pursuant to the partial exercise of the over-allotment option. Each Unit consisted of one common share and one common share purchase warrant ("Warrants"). These 11,471,850 Warrants allow the holders to acquire an additional common share at \$0.75 per share until March 17, 2025. The fair value of these Warrants issued to investors was \$1,119,718 calculated using the residual value approach. The Company paid cash commissions of \$468,148 and \$320,371 for other share issue costs. The Company issued 781,711 broker warrants exercisable at \$0.60 per share until March 17, 2024. The fair value of these broker warrants was \$144,460, which along with the other costs of this financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	78%
Share price	\$ 0.50
Expected dividend rate	0%
Risk-free interest rate	2.19%
<b>Weighted average fair value per warrant granted</b>	<b>\$ 0.1848</b>

# Patriot One Technologies Inc.

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## Warrants

Warrant activity for the two years ended July 31, 2022 is as follows:

	2022		2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of year	-	\$ -	30,959,050	\$ 2.79
Issued	12,253,561	0.74	-	-
Expired	-	-	(30,959,050)	2.79
Balance end of year	12,253,561	\$ 0.74	-	\$ -

As at July 31, 2022, outstanding warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
781,711	\$ 0.60	March 17, 2024	19.8
11,471,850	\$ 0.75	March 17, 2025	32.0
12,253,561	\$ 0.74		31.2

## Incentive Awards

The Company offers an omnibus equity incentive plan (the “Omnibus Plan”) that provides for the granting of incentive awards up to 10% of its issued and outstanding common shares to directors, officers, employees, and consultants. Incentive awards may consist of options, restricted share units (RSUs), deferred share units (DSUs), performance share units (PSUs) and other share-based awards. 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 with a maximum term of five years. Vesting terms, if any, are set at the discretion of the Board. During the years ended July 31, 2022 and 2021, other than stock options as discussed herein, no other incentive awards were issued or outstanding pursuant to the Omnibus Plan.

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The stock option activity for the two years ended July 31, 2022 is as follows:

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of year	10,024,270	\$ 1.00	9,873,631	\$ 1.24
Granted	4,563,750	0.64	2,830,000	0.58
Exercised	(978,750)	0.27	-	-
Forfeited / Expired	(3,850,691)	1.00	(2,679,361)	1.43
<b>Balance end of year</b>	<b>9,758,579</b>	<b>\$ 0.91</b>	<b>10,024,270</b>	<b>\$ 1.00</b>

During the year ended July 31, 2022, the Company recognized share-based compensation related to stock options of \$1,063,840 (2021 - \$1,180,231). The fair value of options granted during the year were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2022	2021
Expected life	3.8 years	3.8 years
Expected market volatility of shares (%)	70.0%	80.0%
Share price	\$ 0.64	\$ 0.58
Expected dividend rate	0%	0%
Risk-free interest rate	2.18%	1.03%
<b>Weighted average fair value per option granted</b>	<b>\$ 0.338</b>	<b>\$ 0.331</b>

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Details of the outstanding stock options as at July 31, 2022, 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
5,555	\$ 0.70	August 9, 2022*	0.3	5,205	\$ 0.70
125,000	\$ 0.65	September 5, 2022*	1.2	125,000	\$ 0.65
33,336	\$ 0.70	September 14, 2022*	1.5	33,336	\$ 0.70
30,000	\$ 1.47	November 1, 2022	3.1	30,000	\$ 1.47
250,000	\$ 1.29	January 1, 2023	5.1	250,000	\$ 1.29
300,000	\$ 1.49	February 7, 2023	6.4	300,000	\$ 1.49
150,000	\$ 1.82	March 22, 2023	7.8	150,000	\$ 1.82
75,000	\$ 1.61	April 4, 2023	8.2	75,000	\$ 1.61
50,000	\$ 1.62	August 27, 2023	13.1	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	13.2	200,000	\$ 1.80
305,000	\$ 2.48	October 15, 2023	14.7	305,000	\$ 2.48
510,000	\$ 1.81	July 3, 2024	23.4	510,000	\$ 1.81
30,000	\$ 1.83	July 25, 2024	24.2	30,000	\$ 1.83
70,000	\$ 1.81	September 6, 2024	25.6	52,500	\$ 1.81
75,000	\$ 1.47	November 12, 2024	27.8	75,000	\$ 1.47
515,000	\$ 1.21	December 23, 2024	29.2	386,250	\$ 1.21
80,000	\$ 1.37	January 21, 2025	30.2	60,000	\$ 1.37
80,000	\$ 0.76	April 13, 2025	32.9	60,000	\$ 0.76
145,000	\$ 0.69	May 11, 2025	33.8	108,750	\$ 0.69
125,000	\$ 1.16	June 9, 2025	34.8	93,750	\$ 1.16
250,000	\$ 0.97	August 10, 2025	36.9	125,000	\$ 0.97
105,000	\$ 0.69	September 15, 2025	38.1	52,500	\$ 0.69
110,000	\$ 0.56	October 29, 2025	39.5	55,000	\$ 0.56
720,000	\$ 0.57	November 11, 2025	40.0	360,000	\$ 0.57
60,000	\$ 0.49	March 22, 2026	44.3	60,000	\$ 0.49
1,140,000	\$ 0.52	June 15, 2026	47.2	595,000	\$ 0.52
295,000	\$ 0.43	October 25, 2026	51.6	81,250	\$ 0.43
20,000	\$ 0.44	November 1, 2026	51.8	5,000	\$ 0.44
135,000	\$ 0.44	December 8, 2026	53.0	135,000	\$ 0.44
2,369,688	\$ 0.73	February 16, 2027	55.4	644,688	\$ 0.73
100,000	\$ 0.54	April 1, 2027	56.8	25,000	\$ 0.54
150,000	\$ 0.54	April 4, 2027	56.9	37,500	\$ 0.54
75,000	\$ 0.56	April 6, 2027	57.0	18,750	\$ 0.56
700,000	\$ 0.57	April 13, 2027	57.2	175,000	\$ 0.57
250,000	\$ 0.46	June 14, 2027	59.3	250,000	\$ 0.46
125,000	\$ 0.42	July 11, 2027	60.2	125,000	\$ 0.42
<b>9,758,579</b>	<b>\$ 0.91</b>		<b>40.7</b>	<b>5,644,479</b>	<b>\$ 1.08</b>

\* Options were unexercised and expired subsequent to year end.

## Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for years ended July 31, 2022 and 2021 as these instruments are anti-dilutive.

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## 13. 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, 2022 was \$1,229,492 (2021 - \$1,761,642). In addition, share-based compensation expense relating to key management for the year ended July 31, 2022 was \$502,692 (2021 - \$575,984). As at July 31, 2022, there is no outstanding amount (2021 - \$nil) in accounts payable and accrued liabilities due to officers and directors of the Company or to companies controlled by directors and officers of the Company. There were no other related party transactions during the fiscal years ended July 31, 2022 and 2021.

## 14. Supplemental cash flow information

Non-cash financing and investing activities during the year ended July 31, 2022, were conducted by the Company as follows:

Fair value of 781,711 warrants issued for broker fees (Note 12)	\$	144,460
Fair value of 11,471,850 warrants issued to investors (Note 12)	\$	1,119,718
Transfer of contributed surplus on the exercise of stock options	\$	103,353
Transfer of inventory to property and equipment (Note 7)	\$	375,773

Non-cash financing and investing 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 (Note 7)	\$	23,800

No cash was paid towards taxes during the year ended July 31, 2022 and 2021. The Company paid interest expense embedded in its lease payments of \$66,632 during the year ended July 31, 2022 (2021 - \$99,065).

## 15. Financial instruments and risk management

As at July 31, 2022, the Company's financial instruments comprise of cash, receivables, investment in Gemina Labs, accounts payable and accrued liabilities. The carrying values of receivables, and accounts payable and accrued liabilities approximate fair value due to the short-term nature of the instruments. The Company's other financial instruments, cash and investment in Gemina Labs and Sotech are carried at fair value. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

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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, 2022			
	Level 1	Level 2	Level 3	Total
Cash	\$ 6,277,321	\$ -	\$ -	\$ 6,277,321
Investment in Gemina Labs	393,750	-	-	393,750
Investment in Sotech	-	-	-	-
<b>Balance end of year</b>	<b>\$ 6,671,071</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,671,071</b>

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

As at July 31, 2022 and 2021, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy. During the year ended July 31, 2022, Gemina Labs went public on the Canadian Securities Exchange. The fair value of this investment is now based on a quoted market share price which is considered level 1 of the fair value hierarchy. As at July 31, 2021, Gemina Labs was not yet public, resulting in the valuation to be based on Level 2 of the fair value hierarchy.

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

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk in order to meet its contractual obligations by ensuring there is appropriate cash on hand and obtaining other opportunities for financing. The Company's ability to continue as a going concern involves significant judgements and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing. As at July 31, 2022, the Company had cash of \$6,277,321 (July 31, 2021 - \$9,652,493) to settle current liabilities of \$3,156,168 (July 31, 2021 - \$1,882,803). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

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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, trade receivable and 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. The Company's maximum exposure to credit risk is limited to the carrying amount of cash and receivables.

## **Market risk**

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

### *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, however the Company holds some cash balances in USD and GBP. As at July 31, 2022, 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*

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 did not hold material equity investment as at July 31, 2022, so its exposure to price risk is insignificant.

## **16. Capital management**

The Company defines its capital as its shareholders' equity. The Company manages its capital structure and makes adjustments 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 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.

## 17. 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:

	2022	2021
Loss for the year before income taxes	\$ (39,716,689)	\$ (16,562,334)
Combined Canadian federal and provincial statutory rate	27.0%	27.0%
Income tax recovery at statutory rate	(10,724,000)	(4,472,000)
Reconciliation of effective rate:		
Change in statutory, foreign tax, foreign exchange rates and other	(745,000)	(545,000)
Permanent differences	264,000	1,054,000
Impact of goodwill impairment	6,941,000	-
Share issue costs	(213,000)	-
Adjustment to prior year provision versus statutory tax return	(1,956,000)	1,965,000
Changes in unrecognized deductible temporary timing differences and other items	6,443,000	1,828,114
Current tax recovery	\$ -	\$ (169,886)

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:

	2022		2021	
	Amount	Expiry	Amount	Expiry
Research and development assets	\$ 198,000	indefinite	\$ 198,000	indefinite
ROU assets and lease liability	79,000	indefinite	-	n/a
Investment tax credit	613,000	2021 - 2041	613,000	2021 - 2041
Property and equipment	2,576,000	indefinite	726,000	indefinite
Share issue costs	2,383,000	2042 to 2046	1,871,000	2041 - 2045
Intangible assets	-	n/a	5,230,000	indefinite
Non-capital losses - Canada	58,224,000	2036 to 2042	46,629,000	2026 - 2041
Non-capital losses - United States	14,404,000	indefinite	6,424,000	2039 - 2041
Non-capital losses - United Kingdom	2,336,000	indefinite	2,291,000	indefinite
	\$ 80,813,000		\$ 63,982,000	

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## 18. Grant funding

During the year ended July 31, 2022 and 2021, the Company received non-dilutive funding from Raytheon, Supercluster, and COVID-19 relief programs from the Canadian Government. The following table summarizes the total funding received by the Company:

	Year ended July 31,	
	2022	2021
Raytheon ITB program (Note 19)	\$ 2,553,000	\$ 478,700
Supercluster	410,530	2,796,094
COVID-19 relief programs	317,240	3,623,504
<b>Total non-dilutive grants</b>	<b>\$ 3,280,770</b>	<b>\$ 6,898,298</b>

Grant funding is netted against related expenses in the statements of loss and comprehensive loss. When expenses are normalized by removing the non-dilutive funding, the loss and comprehensive loss for the year ended July 31, 2022, would have been \$42,997,459 (2021 - \$23,460,632).

## 19. Raytheon funding

On October 31, 2021, the Company entered into an agreement with Raytheon Intelligence and Space (“RIS”) wherein RIS would fund the Company approximately \$2,553,000 (US\$2,000,000) in non-dilutive cash financing for the development of the Company’s AI-driven technologies (the “Project”). The Project has been approved as a qualifying project under the Government of Canada’s ITB program. Pursuant to the terms of the agreement, the Company is eligible to claim the funding for qualifying research and development expenditures incurred during the period from December 1, 2020 through June 30, 2022. As at July 31, 2022, the Company has received \$2,553,000 related to qualifying expenditures from December 1, 2020 through January 31, 2022. The Company has recorded research and development costs of \$4,463,527, which is presented net of the \$2,553,000 non-dilutive funding for the year ended July 31, 2022.

In December 2018, Raytheon Canada Ltd. agreed to provide the Company with \$3,000,000 in non-dilutive cash financing for research and development through the ITB program. The Company has received \$2,000,000 in funding to date and is eligible to receive an additional \$1,000,000 based on research and development performed in the calendar year ended December 31, 2020. As at July 31, 2022, the Company has accrued a receivable of \$1,000,000 related to qualifying expenditures from January 1, 2020 through December 31, 2020 (Note 4).

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## 20. Segmented information

### Operating segments

The Company currently has two distinct operating segments, the Platform and Xtract. The Platform develops and commercializes a platform of AI-powered threat detection gateway solution. 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 labor costs incurred in the development of Platform technologies are allocated to the Platform business unit at cost.

Segmented reporting information is presented for both Company's distinct operating units. The following tables summarize the operations and current financial position of each segment for the year ended July 31, 2022 and 2021.

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	For the year ended July 31, 2022		
	Platform	Xtract	Total
Revenue	\$ 773,274	\$ 2,845,940	\$ 3,619,214
Expenses			
Sales and marketing	1,872,807	95,834	1,968,641
Research and development	2,945,080	1,518,447	4,463,527
General and administration	1,485,232	559,304	2,044,536
Personnel costs	4,771,579	512,676	5,284,255
Professional fees	686,732	85,359	772,091
Hardware	277,286	-	277,286
Amortization	805,900	-	805,900
Depreciation	642,201	122,925	765,126
Share-based compensation	990,040	73,800	1,063,840
Loss on inventory write-down	502,397	-	502,397
Impairment of goodwill	25,582,433	-	25,582,433
Loss on retirement of assets	12,155	-	12,155
	40,573,842	2,968,345	43,542,187
Loss from operations	39,800,568	122,405	39,922,973
Unrealized gain on fair value investment	(175,000)	-	(175,000)
Interest income	(31,284)	-	(31,284)
Loss and comprehensive loss for the year	\$ 39,594,284	\$ 122,405	\$ 39,716,689
Non-current asset additions	\$ 95,757	\$ -	\$ 95,757
Finance cost <sup>(1)</sup>	\$ 37,920	\$ 28,712	\$ 66,632
As at July 31, 2022			
Current assets	\$ 7,755,575	\$ 2,191,586	\$ 9,947,161
Current liabilities	\$ 1,701,151	\$ 1,455,017	\$ 3,156,168

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

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	For the year ended July 31, 2021		
	Platform	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 year	\$ 15,727,526	\$ 834,808	\$ 16,562,334
Non-current asset additions	\$ 445,882	120,710	\$ 566,592
Finance cost <sup>(1)</sup>	\$ 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 an embedded interest in its office lease commitments (Note 9) and are included in general and administrative expenses.

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## Geographic breakdown

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

	For the year ended July 31, 2022			As at July 31, 2022		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ 88,182	\$ 2,845,940	\$ 2,934,122	\$ 2,857,177	\$ 351,025	\$ 3,208,202
United States	685,092	-	685,092	4,902,821	-	4,902,821
<b>Total</b>	<b>\$ 773,274</b>	<b>\$ 2,845,940</b>	<b>\$ 3,619,214</b>	<b>\$ 7,759,998</b>	<b>\$ 351,025</b>	<b>\$ 8,111,023</b>

  

	For the year ended July 31, 2021			As at July 31, 2021		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ 79,971	\$ 968,633	\$ 1,048,604	\$ 28,912,085	\$ 473,951	\$ 29,386,036
United States	33,371	-	33,371	5,288,787	-	5,288,787
<b>Total</b>	<b>\$ 113,342</b>	<b>\$ 968,633</b>	<b>\$ 1,081,975</b>	<b>\$ 34,200,872</b>	<b>\$ 473,951</b>	<b>\$ 34,674,823</b>

## Major customers

Revenue from the Xtract operating segment was earned from Canadian government organizations and represented approximately 79% of the Company's total revenue recognized for the year ended July 31, 2022 (2021 – 90%). No other customers made up more than 10% of total revenue recognized for the year ended July 31, 2022.

## 21. 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

# Patriot One Technologies Inc.

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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. Further, the Company agreed to make minimum annual royalty payments of \$2,500 in the first and second year, \$5,000 in the third year and \$7,500 each year thereafter.

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

During the years ended July 31, 2022 and 2021, the Company has paid \$7,500 in royalties in each fiscal year.

## 22. Subsequent events

Subsequent to the year end, the Company granted 1,256,000 employee stock options with an exercise price of \$0.38 per share. These options were granted for a term of five years and a vesting period over three years.