

Condensed Interim Consolidated Financial Statements of

Principal Technologies Inc.
(Formerly Connaught Ventures Inc.)

Three months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of Principal Technologies Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, the Company discloses that its independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

Principal Technologies Inc.

(Formerly Connaught Ventures Inc.)

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

(Unaudited)

	October 31, 2021	July 31, 2021
Assets		
Current assets		
Cash	\$ 1,128,750	\$ 1,289,855
Amounts receivable	81,655	578
Prepaid expense and deposit	9,586	319
Property and equipment (Note 5)	13,322	-
	1,233,313	1,290,752
Deposit (Note 6)	-	147,880
Total assets	\$ 1,233,313	\$ 1,438,632
Liabilities		
Current liabilities		
Amounts payable and accrued liabilities	\$ 87,903	\$ 74,442
Lease liabilities (Note 7)	2,427	-
	90,330	74,442
Shareholders' equity		
Share capital (Note 8)	1,927,656	1,910,137
Equity reserves (Note 8)	25,665	33,184
Accumulated other comprehensive loss	(23,769)	(6,573)
Deficit	(835,238)	(572,558)
Total shareholders' equity attributable to the Company	1,094,314	1,364,190
Non-controlling interest (Note 9)	48,669	-
Total shareholders' equity	1,142,983	1,364,190
Total liabilities and shareholders' equity	\$ 1,233,313	\$ 1,438,632

Nature of operations and going concern (Note 1)

Subsequent events (Note 14)

Approved by the Board of Directors and authorized for issue on December 20, 2021:

"Gerald Trent"	Director
"John McCoach"	Director

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

Principal Technologies Inc.

(Formerly Connaught Ventures Inc.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended October 31,	
	2021	2020
Revenue (Note 11)	\$ 109,994	\$ -
Cost of sales	(3,255)	-
Gross profit	\$ 106,739	\$ -
Expenses		
Advisory and consulting (Note 10)	\$ 240,389	\$ -
Depreciation (Note 5)	1,823	-
Finance expense (Note 7)	53	-
Marketing and advertisement	1,832	-
Professional fees	51,648	35,947
Regulatory and transfer agent	3,581	1,592
Office and administrative	28,304	-
Salaries and benefits	32,054	-
Travel	19,192	-
	(378,876)	(37,539)
Gain on acquisition (Note 3)	32,247	-
Finance income	429	-
	32,676	-
Net loss before tax	\$ (239,461)	\$ (37,539)
Income tax expense	(11,045)	-
Net loss	\$ (250,506)	\$ (37,539)
Net income (loss) attributable to:		
Shareholders of the Company	\$ (262,680)	\$ (37,539)
Non-controlling interest	12,174	-
	\$ (250,506)	\$ (37,539)
Other comprehensive loss		
Foreign exchange translation	\$ (18,798)	\$ -
Loss and comprehensive loss for the period	\$ (269,304)	\$ (37,539)
Other comprehensive loss attributable to:		
Shareholders of the Company	\$ (17,196)	\$ -
Non-controlling interest	(1,602)	-
	\$ (18,798)	\$ -
Income (loss) and comprehensive income (loss) attributable to:		
Shareholders of the Company	\$ (279,876)	\$ (37,539)
Non-controlling interest	10,572	-
	\$ (269,304)	\$ (37,539)
Basic and diluted loss per share	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	17,808,649	16,524,000

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

Principal Technologies Inc.

(Formerly Connaught Ventures Inc.)

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

(Unaudited)

	Share capital		Equity reserve	Accumulated other comprehensive loss	Deficit	Non-controlling interest	Total equity
	Number	Amount					
Balance at July 31, 2020	16,524,000	\$ 1,715,030	\$ 40,703	\$ -	\$ (128,543)	\$ -	\$ 1,627,190
Net loss and comprehensive loss	-	-	-	-	(37,539)	-	(37,539)
Balance at October 31, 2020	16,524,000	1,715,030	40,703	-	(166,082)	-	1,589,651
Exercise of share options (Note 8)	100,000	17,519	(7,519)	-	-	-	10,000
Shares issued for cash (Note 8)	1,109,924	177,588	-	-	-	-	177,588
Net loss and comprehensive loss	-	-	-	(6,573)	(406,476)	-	(413,049)
Balance at July 31, 2021	17,733,924	1,910,137	33,184	(6,573)	(572,558)	-	1,364,190
Exercise of share options (Note 8)	100,000	17,519	(7,519)	-	-	-	10,000
Acquisition of non-controlling interest (Note 3)	-	-	-	-	-	45,229	45,229
Capital withdrawal by non-controlling interest (Note 10)	-	-	-	-	-	(7,132)	(7,132)
Net loss and comprehensive loss	-	-	-	(17,196)	(262,680)	10,572	(269,304)
Balance at October 31, 2021	17,833,924	\$ 1,927,656	\$ 25,665	\$ (23,769)	\$ (835,238)	\$ 48,669	\$ 1,142,983

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

Principal Technologies Inc.

(Formerly Connaught Ventures Inc.)

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended October 31	
	2021	2020
Operating activities		
Net loss	\$ (250,506)	\$ (37,539)
Items not involving cash:		
Depreciation	1,823	-
Finance expense	21	-
Gain on acquisition	(32,247)	-
Changes in non-cash working capital items:		
Amounts receivable	9,785	-
Prepaid expenses and deposit	(525)	-
Amounts payable and accrued liabilities	(11,543)	(10,898)
	(283,192)	(48,437)
Investing activities		
Cash acquired from acquisition of E&E	141,374	-
Purchase of equipment	(1,627)	-
	139,747	-
Financing activities		
Proceeds from issuance of shares, net of share issuance costs	-	1,484,658
Proceeds from exercise of options	10,000	-
Lease payments	(939)	-
Capital withdrawal by non-controlling interest	(7,132)	-
	1,929	1,484,658
Effect of foreign exchange on cash	(19,589)	
Change in cash	(161,105)	1,436,221
Cash, beginning of period	1,289,855	205,724
Cash, end of period	\$ 1,128,750	\$ 1,641,945
Supplemental cash flow information:		
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for taxes	\$ 11,045	\$ -

During the three months ended October 31, 2021, the Company reallocated \$7,519 from reserves to share capital pursuant to the exercise of options.

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

Principal Technologies Inc.

(Formerly Connaught Ventures Inc.)

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is domiciled in Canada and was incorporated on April 3, 2018 under the laws of the Province of British Columbia. The address of the Company's registered and records office is 25th Floor, 700 W Georgia St., Vancouver, B.C., V7Y 1B3.

On August 4, 2021, the Company completed a qualifying transaction (the "Qualifying Transaction") pursuant to the policies of the TSX-V and commenced trading as a Tier 2 Life Sciences Issuer on TSXV on August 6, 2021 under the ticker symbol "PTEC" (Note 3). The Company is currently building a diverse portfolio of investments in healthcare technology companies with a focus on those with global distribution potential and have intellectual property capable of enhancing medical treatment quality and efficiency, cost efficiency, optimization of the patient pathway, and implementation of point of care technologies.

These unaudited condensed interim consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. While the Company has positive working capital of \$1,142,983 at October 31, 2021, it has a deficit of \$835,238 on this date and has not generated any revenue, creating significant doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on management's capacity to identify additional sources of capital and to raise sufficient resources in order to fund on-going expenditures and the Company's investment plan. Although management has been successful in the past, there is no assurance these initiatives will be successful in the future. These unaudited condensed interim consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These conditions cast significant doubt as to the Company's ability to continue as a going concern.

COVID-19 uncertainty

To the date of this report, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. These factors, among others, could have a significant impact on the Company's operations.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and, except as described below, they follow the same accounting policies and methods of application as the Company's most recent annual financial statements. Accordingly, they should be read in conjunction with the Company's most recent annual financial statements.

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2. BASIS OF PRESENTATION (Continued)

(b) Basis of measurement

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

(c) Functional and presentation currency

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The functional currency of the Company's subsidiaries, Principal Technologies Capital Management GmbH and E&E CRO Consulting GmbH is the Euro.

(d) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

	Incorporation	Functional currency	Percentage owned As at October 31, 2021
Principal Technologies Capital Management GmbH	Austria	EURO	100%
E&E CRO Consulting GmbH	Austria	EURO	80%

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Company's equity. The non-controlling interest consists of the non-controlling interest's portion of net assets and profit or loss.

(e) Significant accounting judgments and estimates

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.

Critical judgment

The preparation of these consolidated financial statements requires the Company to make judgments regarding the going concern of the Company as discussed in Note 1.

Classification of an acquisition as a business combination or an asset acquisition requires the Company to make judgement as discussed in Note 3.

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Notes to the Condensed Interim Consolidated Financial Statements

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2. BASIS OF PRESENTATION (Continued)

(e) *Significant accounting judgments and estimates (Continued)*

Key sources of estimation uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the Company's consolidated financial statements include:

Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management develop the fair value, using approximate valuation techniques, which are generally based on a forecast of the total expected future cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. When provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for up to one year from the acquisition date.

Deferred tax assets & liabilities

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

(f) *Recent accounting standards*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. There are no new standards which the Company reasonably expects are applicable to the Company and will significantly impact the Company.

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3. ACQUISITION OF E&E

On June 11, 2021, the Company entered into a definitive investment agreement (the “Investment Agreement”) with respect to the acquisition of an 80% interest (the “Investment”) in E&E CRO Consulting GmbH (“E&E”). E&E is a global contract research organization (“CRO”) based in Vienna, Austria, that specializes in tailored project management of international scale clinical studies primarily related to medical- device technologies.

On August 4, 2021, the Company completed the Investment. The Investment constitutes the Company’s Qualifying Transaction pursuant to the policies of the TSX-V. The Company commenced trading as a Tier 2 Life Sciences Issuer on TSXV on August 6, 2021 under the ticker symbol “PTEC”.

The Investment was structured as a share acquisition pursuant to which the Company will acquire 80% of the issued and outstanding securities of E&E in accordance with the Investment Agreement. As consideration for the Investment, the Company will pay the shareholder of E&E:

- i. aggregate upfront consideration of Euro €100,000 (\$147,880) (paid) (Note 6); plus
- ii. 1,000,000 common shares in the capital of the Company, (each, a “Common Share”) if E&E earns Euro €125,000 in profit before tax from the period from April 1, 2021 to March 31, 2022; plus
- iii. 250,000 common shares if E&E earns Euro €250,000 in profit before tax from the period from April 1, 2021 to March 31, 2022; plus
- iv. 250,000 common shares if E&E earns Euro €500,000 in profit before tax from the period from April 1, 2022 to March 31, 2023.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date. Any excess of the fair value of the net assets acquired over the assumed consideration paid is recognized as a gain in the consolidated statements of net loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

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

In accordance with IFRS 3, Business Combinations, the Investment meets the definition of a business combination and, accordingly, the assets acquired, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. Non-controlling interests (“NCI”) are recognized at the NCI’s proportionate share of E&E’s net assets. The Company has significant influence on overall operations of E&E and hence the results of E&E are included in the consolidated statements of net loss.

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3. ACQUISITION OF E&E (Continued)

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Consideration		Amount
Cash (Euro €100,000)	\$	147,880
	\$	147,880

Net assets acquired (liabilities assumed) as at date of acquisition August 4, 2021

Cash	\$	141,374
Amounts receivable		90,862
Deposit		8,742
Property and equipment		13,518
Amounts payable and accrued liabilities		(25,004)
Lease liabilities		(3,345)
Effect of foreign exchange		(791)
Non-controlling interest		(45,229)
	\$	180,127
Gain on acquisition	\$	32,247

4. AMOUNTS RECEIVABLE

		As at	As at
		October 31, 2021	July 31, 2021
Trade receivable	\$	20,839	\$ -
GST and VAT recoveries		57,188	578
Other receivables		3,628	-
	\$	81,655	\$ 578

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Notes to the Condensed Interim Consolidated Financial Statements

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5. PROPERTY AND EQUIPMENT

	Furniture and office equipment	Right-of-use asset	Total
Cost			
As at July 31, 2020, October 31, 2020, and July 31, 2021	\$ -	\$ -	\$ -
Additions on acquisition of E&E	9,994	3,524	13,518
Additions	1,627	-	1,627
As at October 31, 2021	\$ 11,621	\$ 3,524	\$ 15,145
Accumulated depreciation			
As at July 31, 2020, October 31, 2020, and July 31, 2021	\$ -	\$ -	\$ -
Charge for the period	565	1,258	1,823
As at October 31, 2021	\$ 565	\$ 1,258	\$ 1,823
Net book value			
As at October 31, 2021	\$ 11,056	\$ 2,266	\$ 13,322
As at July 31, 2020, October 31, 2020, and July 31, 2021	\$ -	\$ -	\$ -

6. DEPOSIT

In July 2021, the Company paid consideration of Euro €100,000 (\$147,880) pursuant to the acquisition of 80% of interest in E&E which completed in August 2021 (Note 3).

7. LEASE LIABILITY

As at October 31, 2021, the lease liability consisted of a vehicle lease with a lease period ending April 2022. The lease liability was measured at the present value of remaining lease payments, discounted at the Company's incremental borrowing rate as of the start date of the leases, which was estimated at 4%. The Company measured the right-of-use assets at an amount equal to the lease liability.

The carrying amount of the right-of-use asset is depreciated on a straight-line basis over the life of the leases, which have a remaining term of 0.5 years to April 2022 as at October 31, 2021.

The following table summarizes the Company's lease liability as at October 31, 2021:

Balance - July 31, 2020, October 31, 2020 and July 31, 2021	\$ -
Additions - acquisition of E&E	3,345
Lease payments	(939)
Finance expense	21
Balance - October 31, 2021	\$ 2,427

The Company's lease liability is held as current as at October 31, 2021.

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Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars)

(Unaudited)

8. EQUITY

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issued and fully paid common shares

As at October 31, 2021, there were 17,833,924 common shares issued and outstanding.

During the three months ended October 31, 2021, 100,000 shares were issued pursuant to the exercise of 100,000 share options for proceeds of \$10,000. Accordingly, the Company reallocated \$7,519 from reserves to share capital.

Year ended July 31, 2021:

During the year ended July 31, 2021, the Company completed a non-brokered private placement of 1,109,924 common shares at a price of \$0.16 per share for gross proceeds of \$177,588. The Company incurred share issuance cost of \$nil. The Company completed this non-brokered private placement concurrent to the Qualifying Transaction (Note 3).

During the year ended July 31, 2021, 100,000 shares were issued pursuant to the exercise of 100,000 share options for proceeds of \$10,000. Accordingly, the Company reallocated \$7,519 from reserves to share capital.

During the year ended July 31, 2020, the Company completed a non-brokered private placement of 12,500,000 common shares at a price of \$0.12 per share for gross proceeds of \$1,500,000. The Company incurred share issuance cost of \$15,342.

(c) Share options

The Company has established a rolling Share Option Plan (the "Plan"). Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The maximum term of each option shall not be greater than ten years. The exercise price of each option shall not be less than the market price of the Company's shares at the date of grant. Options granted to consultants performing investor relations activities shall vest over a minimum of 12 months with no more than 1/4 of such Options vesting in any three month period. All other options vest at the discretion of the Board of Directors.

There were no share options granted during the three months ended October 31, 2021 and 2020.

A summary of the changes in share options is presented below:

	Number of options	Weighted average exercise price
Balance, July 31, 2020 and October 31, 2020	400,000	\$ 0.10
Exercised	(100,000)	0.10
Balance, July 31, 2021	300,000	0.10
Exercised	(100,000)	0.10
Balance, October 31, 2021	200,000	\$ 0.10

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8. EQUITY (Continued)

(c) Share options (Continued)

The following table summarizes information about the share options outstanding and exercisable at October 31, 2021:

Outstanding and exercisable	Exercise price	Expiry date
200,000	\$ 0.10	October 28, 2023

The weighted average life of share options outstanding at October 31, 2021 is 2 years.

(d) Warrants

A summary of changes in warrants is presented below:

	Warrants outstanding	Weighted average exercise price
Balance, July 31, 2020 and October 31, 2020	176,000	\$ 0.10
Expired	(176,000)	0.10
Balance, July 31, 2021 and October 31, 2021	-	\$ -

(e) Escrow shares

As at October 31, 2021, 1,500,000 shares issued to the principals of the Company and 9,375,000 shares issued to an investor under the CPC agreements are subject to escrow conditions required by applicable securities laws and the TSX-V requirements.

9. NON-CONTROLLING INTEREST

The following table presents the summarized financial information for E&E, the Company's subsidiary which has a non-controlling interest. This information represents amounts before intercompany eliminations.

	October 31, 2021
Total current assets	\$ 118,410
Total current liabilities	(27,454)
Revenue for the three months ended	109,994
Net income for the three months ended	60,870

The net change in non-controlling interests is as follows:

Balance, July 31, 2020 and October 31, 2020	\$ -
Acquisition of E&E	45,229
Capital withdrawal by non-controlling interest	(7,132)
Share of income for the period	10,572
Balance, October 31, 2021	\$ 48,669

As at October 31, 2021, the Company held an 80% ownership interest in E&E, with \$48,669 non-controlling interest.

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10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties. The transactions were recorded at fair value. Balances outstanding are non-interest bearing, unsecured and have no specific terms of repayment.

- During the three months ended October 31, 2021, the Company paid a signing bonus of \$147,260 (EUR 100,000) and management fees of \$44,178 (EUR 30,000) to a company owned by the CEO of the Company.
- During the three months ended October 31, 2021, the non-controlling interest shareholder of E&E withdrew \$7,132 from E&E.

There were no related party transactions during the three months ended October 31, 2020.

Key Management Compensation

Key management personnel include those persons having 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 Company's Board of Directors and corporate officers.

11. SEGMENTED INFORMATION

As at October 31, 2021, the Company operates in one reportable operational segment, being its operations in health-care technology including the project management of international scale clinical studies primarily related to medical- device technologies.

During the three months ended October 31, 2021, the Company's total revenue was derived from sales of services from Austria.

12. FINANCIAL INSTRUMENTS

Financial Risk Management

Cash, amounts receivable, deposit, and amounts payable are recorded at amortized cost which approximates fair value due to the short-term nature of these instruments.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit Risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company is exposed to credit risk on cash and amounts receivable. The Company reduces its credit risk on cash by maintaining its bank account with a large international financial institution. The maximum exposure to credit risk is equal to the carrying value of its cash and amounts receivable. Credit risk is assessed as low.

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12. FINANCIAL INSTRUMENTS (Continued)

Financial Instrument Risk Exposure

Liquidity Risk

At October 31, 2021, the Company had cash of \$1,128,750 to settle current liabilities of \$90,330, and had working capital of \$1,142,983. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity issuances (Note 1). The Company manages its liquidity risk by forecasting cash flows required by operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments. Liquidity risk is assessed as high.

Market Risk

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

I. Interest Rate Risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Due to the short-term nature of the Company's financial instruments fluctuations in market rates do not have a significant impact on estimated fair values as of October 31, 2021. Future cash flows from interest income on cash will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the preservation of capital and liquidity. Interest rate risk is assessed as low.

II. Equity Price Risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company is not exposed to price risk.

13. CAPITAL MANAGEMENT

The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal as the Company does not generate cash flow from current operations. Accordingly, the Company is not subject to any externally imposed capital requirements.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this financing due to uncertain economic conditions. The Company believes that it will be able to raise sufficient funds from share issuances to fund its working capital for the coming year. There have been no changes to the Company's approach to capital management during the period.

Principal Technologies Inc.

(Formerly Connaught Ventures Inc.)

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

14. SUBSEQUENT EVENTS

On December 3, 2021, the Company granted an aggregate of 1,200,000 stock options under the Company's stock option plan to the directors, officers and consultants of the Company at a price of \$0.16 per stock option, exercisable until December 3, 2031.