PatriotOne
TECHNOLOGIES

Condensed Consolidated Interim Financial Statements
Three and nine months ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)
(Unaudited)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the interim financial statements by an entity's auditor.

"Karen Hersh"
____
Chief Financial Officer

"Peter Evans"
____
Director, Chief Executive Officer

June 10, 2021

Patriot One Technologies Inc.

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

	April 30, 2021	July 31, 2020
Assets		
Current assets		
Cash	$ 12,457,434	$ 22,407,251
Receivables (Note 5)	2,901,731	1,623,148
Prepaid expenses and deposits	488,644	956,615
Inventory (Note 6)	1,613,913	1,521,666
Investment in Sotech (Note 7)	3,685,500	4,021,200
	21,147,222	30,529,880
Property and equipment (Note 8)	1,616,434	1,537,783
Intangible assets (Note 9)	6,656,975	7,388,317
Right of use assets (Note 10)	1,012,110	972,448
Goodwill	25,582,433	25,582,433
Investment in EcoScreen (Note 9,11)	218,750	-
Total assets	$ 56,233,924	$ 66,010,861
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,339,590	$ 2,348,697
Deferred revenue (Note 13)	308,548	428,289
Current portion of lease liability (Note 10)	323,788	418,215
	1,971,926	3,195,201
Non-current portion of lease liability (Note 10)	739,861	595,211
	2,711,787	3,790,412
Shareholders' equity		
Share capital (Note 12)	114,597,731	114,597,731
Contributed surplus	11,479,713	10,507,920
Accumulated deficit	(72,555,307)	(62,885,202)
	53,522,137	62,220,449
Total liabilities and shareholders' equity	$ 56,233,924	$ 66,010,861

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

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

Approved on behalf of the Board:

"Peter Evans" ______________________________
Director, Chief Executive Officer

"Peter van der Gracht" ______________________________
Director, Chairman of the Board

Patriot One Technologies Inc.

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

	Three months ended April 30, 2021	Three months ended April 30, 2020	Nine months ended April 30, 2021	Nine months ended April 30, 2020
Revenue (Note 13)	$ 152,723	$ 1,167,668	$ 815,540	$ 1,686,259
Expenses				
Sales and marketing	284,389	672,649	1,135,896	3,246,284
Research and development	984,988	1,917,066	1,793,079	4,673,962
General and administration	23,659	388,675	1,029,860	1,615,073
Personnel costs	1,247,678	1,161,973	3,510,995	3,387,211
Professional fees	86,739	585,269	674,890	2,877,067
Hardware	28,054	194,097	28,054	194,097
Amortization (Note 9)	201,475	282,225	631,342	815,508
Depreciation (Notes 8,10)	250,611	342,092	736,406	897,630
Share-based compensation (Note 12,15)	266,211	789,030	971,793	1,918,158
	3,373,804	6,333,076	10,512,315	19,624,990
Loss from operations	3,221,081	5,165,408	9,696,775	17,938,731
Proportionate share of loss on investment	-	190,545	-	1,380,945
Unrealized loss on investments	148,500	-	291,950	-
Interest income	(55,722)	(136,470)	(148,734)	(447,642)
Loss before income taxes	3,313,859	5,219,483	9,839,991	18,872,034
Current tax recovery	(110,278)	-	(169,886)	(158,087)
Loss and comprehensive loss for the period	$ 3,203,581	$ 5,219,483	$ 9,670,105	$ 18,713,947
Weighted average number of shares	150,728,622	150,218,943	150,728,622	148,674,284
Basic and diluted loss per share	$ 0.02	$ 0.03	$ 0.06	$ 0.13

Change in classification (Note 2e)

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

Patriot One Technologies Inc.

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

	Share Capital								
	Number of shares		Amount		Contributed surplus		Accumulated deficit		Total
Balance - July 31, 2020	150,728,622	$	114,597,731	$	10,507,920	$	(62,885,202)	$	62,220,449
Share-based compensation (Notes 12,15)	-		-		971,793		-		971,793
Loss for the period	-		-		-		(9,670,105)		(9,670,105)
Balance - April 30, 2021	150,728,622	$	114,597,731	$	11,479,713	$	(72,555,307)	$	53,522,137
Balance - July 31, 2019	139,999,937	$	96,243,400	$	8,925,171	$	(37,758,807)	$	67,409,764
Shares issued on the exercise of warrants	534,942		2,327,282		(1,692,315)		-		634,967
Shares issued on the exercise of stock options	261,108		81,849		(27,823)		-		54,026
Shares issued on the acquisition of Xtract (Notes 4, 15)	9,422,956		16,867,090		-		-		16,867,090
Share-based compensation (Notes 12,15)	-		-		1,918,158		-		1,918,158
Loss for the period	-		-		-		(18,713,947)		(18,713,947)
Balance - April 30, 2020	150,218,943	$	115,519,621	$	9,123,191	$	(56,472,754)	$	68,170,058

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

PatriotOne TECHNOLOGIES

Patriot One Technologies Inc.

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

	Nine months ended April 30, 2021	2020
Cash flow used in operating activities		
Loss and comprehensive loss for the period	$ (9,670,105)	$ (18,713,947)
Adjustment for:		
Share-based compensation (Note 12,15)	971,793	1,918,158
Depreciation (Notes 8,10)	736,406	897,630
Amortization (Note 9)	631,342	815,508
Finance cost (Note 10)	78,409	(76,892)
Gain on lease terminations	(5,681)	-
Unrealized loss on joint venture investment (Note 7)	-	1,380,945
Unrealized net loss on investments	291,950	-
	(6,965,886)	(13,778,598)
Changes in non-cash working capital		
Receivables	(1,278,583)	817,137
Prepaid expenses and deposits	467,971	44,968
Inventory	(92,247)	(366,088)
Accounts payable and accrued liabilities	(1,009,107)	(1,288,177)
Deferred revenue	(119,741)	451,097
Cash used in operating activities	(8,997,593)	(14,119,661)
Cash flow used in investing activities		
Purchase of property and equipment (Note 8)	(482,280)	(1,098,525)
Recovery of costs relating to leasehold improvements (Note 8)	21,635	-
Cash payments and funding of Sotech investment	-	(3,449,627)
Development of intangible assets	-	(165,000)
Investment in EcoMine intellectual property (Note 9)	(75,000)	-
Cash consideration to acquire Xtract, net of cash received	-	(6,755,255)
Cash used in investing activities	(535,645)	(11,468,407)
Cash flow from (used in) financing activities		
Proceeds on issue of share capital, net of share issue costs	-	688,993
Lease liabilities, net of lease assets	-	114,903
Lease payments (Note 10)	(416,579)	-
Cash received from (used in) financing activities	(416,579)	803,896
Net decrease in cash for the period	$ (9,949,817)	$ (24,784,172)
Cash beginning of period	22,407,251	50,637,942
Cash end of period	$ 12,457,434	$ 25,853,770

Supplemental cash flow information (Note 15)

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

Patriot One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)
(Unaudited)

1. Reporting entity

Patriot One Technologies Inc. (the "Company") was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed under the trading symbol "PAT" on the Toronto Stock Exchange in Canada, "PTOTF" on the OTCQX in the United States, and "0PL" on the Frankfurt Stock Exchange in Germany. The Company's wholly-owned subsidiaries include Patriot One Detection Ltd. ("Patriot"), Patriot One (UK) Limited ("Patriot UK"), Patriot One Detection Technologies Inc. ("Patriot US"), EhEye Inc. ("EhEye") and Xtract Technologies Inc. ("Xtract"), which was acquired on September 6, 2019 (Note 4). The principal business of the Company is to commercialize an integrated, layered, multi-sensor platform of technologies, referred to as the "PATSCAN™ platform", with the aim of enhancing public health and safety.

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

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

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance with International Accounting Standard ("IAS 34"), *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on June 10, 2021.

(b) Principles of consolidation

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

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

(c) Functional and presentation currency

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

(d) Basis of measurement

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

(e) Change in classification

During the nine month period ended April 30, 2021, the Company modified the classification of certain operating expenses on the condensed consolidated interim statements of loss and comprehensive loss. Advertising and marketing, business development and conferences and tradeshows expenses were reclassified to sales and marketing to more appropriately reflect the Company's current operations. Licensing expense was reclassified to research and development to more appropriately reflect the nature of the expense. Hardware sold to customers during pilots and sales arrangements was reclassified from research and development to hardware expense. Current tax recovery was previously included as a general and administration expense and was reclassified to a separate line on the statement of loss and comprehensive loss. Comparative amounts in the condensed consolidated interim statements of loss and comprehensive loss were reclassified for consistency, which resulted in $672,649 and $3,246,284 being reclassified to sales and marketing, $30,543 and $59,440 being reclassified to research and development, $194,097 and $194,097 being reclassified from research and development to hardware expense for the three and nine month periods ended April 30, 2020, respectively. In addition, $158,087 was reclassified to current tax recovery for the nine month period ended April 30, 2020, respectively.

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

3. Significant accounting policies

The accounting policies, estimates and judgements used in the preparation of these condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended July 31, 2020 as these condensed consolidated interim financial statements follow the same accounting policies and methods of application.

(a) Significant accounting judgments, estimates and assumptions

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

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

Share-based payments

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

Treatment of development costs

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

Inventories

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

Impairment of goodwill

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

Business combinations

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

Control, joint control, or level of influence

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities. Information about these judgments is included in Note 7.

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

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

Right of use lease assets and liabilities

The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. The Company did not have any outstanding debt during the nine month period ended April 30, 2021; therefore, the rate was estimated based on comparable companies' borrowing rates. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

Revenue recognition

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

Fair value of investments

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

(b) New accounting standard adopted during the period

Definition of a business (Amendments to IFRS 3)

The Company has adopted new amendments to IFRS 3 effective August 1, 2020 to clarify the definition of a business for the purpose of determining whether a transaction should be accounted for as an asset acquisition or a business combination. The amendments:

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

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

4. Acquisition of Xtract

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

(Expressed in Canadian Dollars)

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

Consideration		
Cash	$	6,000,000
Working capital adjustment and option holder payout		1,546,526
Shares issued (Note 12,15)		16,867,090
Total consideration	$	24,413,616
Net assets acquired		
Cash	$	791,271
Accounts receivable and unbilled revenue		513,613
Property and equipment		8,806
Right of use assets		63,752
Government contracts		355,875
Accounts payable and accrued liabilities		(249,505)
Right of use liabilities		(64,015)
Goodwill		22,993,819
Total	$	24,413,616

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

5. Receivables

Receivables are comprised of:

		April 30, 2021		July 31, 2020
Trade receivables	$	101,799	$	372,803
ITB funding receivable (Note 16)		1,000,000		1,021,000
Taxes receivable		297,881		229,345
Other receivables		1,502,051		-
	$	2,901,731	$	1,623,148

As at April 30, 2021, the Company has not taken a provision for uncollectible accounts (July 31, 2020 - $nil).

Patriot One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)
(Unaudited)

6. Inventory

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

	April 30, 2021	July 31, 2020
Components and work-in-progress	$ 119,335	$ 244,939
Finished goods	1,494,578	1,276,727
	$ 1,613,913	$ 1,521,666

During the nine month period ended April 30, 2021, inventory in the amount of $28,054 was expensed to hardware expense (July 31, 2020 - $194,097). During the nine months ended April 30, 2021, the Company has not taken a provision for inventory write-downs (July 31, 2020 - $245,531).

7. Investment in Sotech Secure, LLC

As at April 30, 2021, the Company owned a 49% interest in Sotech Secure, LLC ("Sotech"), a Delaware Limited Liability Company with NanoBio Detection Systems LLC owning the remaining 51% interest.

During the year ended July 31, 2020, management determined that the Company no longer held significant influence or joint control over Sotech and discontinued the use of the equity method for the investment. The Company’s interest in Sotech has been recorded in the condensed consolidated interim financial statements at its expected fair value of $3,685,500 (USD $3,000,000), further explained in note 11. Despite the change in accounting treatment, management will continue to pursue all measures necessary to recover value from this investment.

The carrying value of the investment is Sotech is comprised of:

Carrying value at July 31, 2019	$ 3,386,390
Funding advances	3,184,254
Proportionate share of loss	(1,531,817)
Loss on investment upon fair value recognition	(1,017,627)
Carrying value at July 31, 2020	$ 4,021,200
Foreign exchange adjustment	(335,700)
Carrying value at April 30, 2021	$ 3,685,500

Patriot One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended April 30, 2021 and 2020
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(Unaudited)

8. Property and equipment

Details of the Company's property and equipment as at April 30, 2021 and July 31, 2020 are listed as follows:

	Office Equipment	Computer Hardware	Office Software	Furniture & Fixtures	Leasehold Improvements	Total
Cost						
Balance at July 31, 2020	$ 1,442,437	$ 321,218	$ 67,940	$ 398,624	$ 106,047	$ 2,336,266
Additions	209,635	109,092	18,538	-	145,015	482,280
Cost recovery from leasehold improvement	-	-	-	-	(21,635)	(21,635)
Balance at April 30, 2021	$ 1,652,072	$ 430,310	$ 86,478	$ 398,624	$ 229,427	$ 2,796,911
Accumulated Depreciation						
Balance at July 31, 2020	$ 421,238	$ 187,864	$ 47,491	$ 128,682	$ 13,208	$ 798,483
Depreciation	216,995	65,387	22,781	44,383	32,448	381,994
Balance at April 30, 2021	$ 638,233	$ 253,251	$ 70,272	$ 173,065	$ 45,656	$ 1,180,477
Carrying amount as at July 31, 2020	$ 1,021,199	$ 133,354	$ 20,449	$ 269,942	$ 92,839	$ 1,537,783
Carrying amount as at April 30, 2021	$ 1,013,839	$ 177,059	$ 16,206	$ 225,559	$ 183,771	$ 1,616,434

During the nine month period ended April 30, 2021, there were no disposals of property and equipment (2020 - $nil). The Company reviewed its fixed assets as of July 31, 2020 which resulted in the recategorization of certain property and equipment. The opening balances of property and equipment in aggregate were not impacted by the recategorization.

Patriot One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended April 30, 2021 and 2020
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9. Intangible assets

The carrying values of intangible assets are as follows:

	Quasar Licensed Distribution Rights	EhEye Intellectual Property	Xtract Government Contracts	EcoMine Intellectual Property Rights	Internally Developed Intellectual Property*	Total
Cost						
Balance at July 31, 2020	$ 6,574,000	$ 1,250,000	$ 355,875	$ 100,000	$ 235,000	$ 8,514,875
Additions	-	-	-	75,000	-	75,000
Converted into equity investment	-	-	-	(175,000)	-	(175,000)
Balance at April 30, 2021	$ 6,574,000	$ 1,250,000	$ 355,875	$ -	$ 235,000	$ 8,414,875
Accumulated amortization						
Balance at July 31, 2020	$ 686,225	$ 93,750	$ 328,958	$ -	$ 17,625	$ 1,126,558
Amortization	493,050	93,750	26,917	-	17,625	631,342
Balance at April 30, 2021	$ 1,179,275	$ 187,500	$ 355,875	$ -	$ 35,250	$ 1,757,900
Carrying amount as at July 31, 2020	$ 5,887,775	$ 1,156,250	$ 26,917	$ 100,000	$ 217,375	$ 7,388,317
Carrying amount as at April 30, 2021	$ 5,394,725	$ 1,062,500	$ -	$ -	$ 199,750	$ 6,656,975

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

Quasar - Licensed distribution rights

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

EhEye - Intellectual property

The Company has determined the fair value of the intellectual property acquired in connection with the acquisition of EhEye to be $1,250,000. 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.

(Expressed in Canadian Dollars)

Xtract - Government contracts

The Company determined the fair value of the government contracts acquired in connection with the acquisition of Xtract to be $355,875 (Note 4). The Company amortized the acquired contracts over their term.

EcoMine / EcoScreen

The Company entered into an agreement with EcoMine Technologies Inc. ("EcoMine") whereby the Company funded $175,000 towards specified research and development in exchange for the exclusive option to license the intellectual property developed. During the previous quarter, 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 2,187,500 common shares of EcoScreen which is now being accounted for as an investment recorded at a fair value of $218,750 (Note 11).

Internally developed intellectual property

In Fiscal 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 10 years.

10. 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 six properties for which the Company has entered into office lease agreements that have an initial term of one year or more. These leases have been classified as a single class of right of use assets under office leases.

Fiscal year	Amount
2021	$ 98,385
2022	375,455
2023	362,673
2024	250,138
2025	129,810
Effects of discounting	(152,812)
Right of use liabilities	$ 1,063,649
Current portion of right of use liabilities	(323,788)
Non-current portion of right of use liabilities	$ 739,861

(Expressed in Canadian Dollars)

The carrying amounts of the Company's right-of-use assets, liabilities and the movements during the nine month period ended April 30, 2021 are as follows:

	Right of use asset	Right of use liabilities
Adoption of IFRS 16	$ 1,172,544	$ 1,172,544
Additions	344,685	344,685
Additions through acquisition	63,752	64,015
Lease terminations	(81,959)	(83,449)
Depreciation	(526,574)	-
Finance costs	-	97,673
Lease payments	-	(582,042)
As at July 31, 2020	$ 972,448	$ 1,013,426
Additions (Note 15)	466,559	466,559
Lease terminations	(72,485)	(78,166)
Depreciation	(354,412)	-
Finance costs	-	78,409
Lease payments	-	(416,579)
As at April 30, 2021	$ 1,012,110	$ 1,063,649

11. Financial instruments and risk management

As at April 30, 2021, the Company’s financial instruments comprise cash, receivables, investment in Sotech, investment in EcoScreen, accounts payable and accrued liabilities. The carrying values of receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of the instrument. The Company’s other financial instruments, cash, investment in Sotech and investment in EcoScreen are carried at fair value. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

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

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

(Expressed in Canadian Dollars)

	As at April 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Cash	$ 12,457,434	$ -	$ -	$ 12,457,434
Investment in Sotech	-	3,685,500	-	3,685,500
Investment in EcoScreen	-	218,750	-	218,750
Balance end of year	$ 12,457,434	$ 3,904,250	$ -	$ 16,361,684

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

As at April 30, 2021, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy. The fair value of the investment in Sotech was based on Level 2 of the fair value hierarchy and was determined based the on fair value of the Company's 49% ownership. The investment in EcoScreen was based on Level 2 of the fair value hierarchy and was determined based on the fair value of the ownership stake held by the Company.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding or net income from operating activities will be required to meet long-term requirements. As at April 30, 2021, the Company had cash of $12,457,434 (July 31, 2020 - $22,407,251) to settle current liabilities of $1,971,926 (July 31, 2020 - $3,195,201). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

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

Market risk

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

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

Foreign currency risk
Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. Most of the Company's assets and liabilities are denominated in Canadian dollars. As at April 30, 2021, the Company did not have any material monetary assets or liabilities denominated in a foreign currency and consequently is not exposed to significant foreign currency risk. The Company holds an investment in Sotech at its expected fair value of $3,685,500 (USD $3,000,000) which is subject to foreign currency risk (Note 7).

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

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 is as follows:

	Nine months ended April 30, 2021		Year ended July 31, 2020	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	150,728,622	$ 114,597,731	139,999,937	$ 96,243,400
Shares issued on the exercise of warrants	-	-	617,192	1,208,459
Shares issued on the exercise of stock options	-	-	688,537	278,782
Shares issued for the acquisition of Xtract (Note 4)	-	-	9,422,956	16,867,090
Balance end of period	150,728,622	$ 114,597,731	150,728,622	$ 114,597,731

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Warrants

Warrant activity for the nine months ended April 30, 2021 and the year ended July 31, 2020 is as follows:

	Nine months ended April 30, 2021		Year ended July 31, 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	30,959,050	$ 2.79	35,963,432	$ 2.60
Exercised	-	-	(617,192)	1.16
Expired	(30,959,050)	2.79	(4,387,190)	1.40
Balance end of period	-	$ -	30,959,050	$ 2.79

Stock options

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

The stock option activity for the nine months ended April 30, 2021 and the year ended July 31, 2020 is as follows:

	Nine months ended April 30, 2021		Year ended July 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	9,873,631	$ 1.24	7,414,553	$ 1.15
Granted	1,475,000	0.64	3,712,963	1.26
Exercised	-	-	(688,537)	0.24
Forfeited / Expired	(1,440,611)	1.62	(565,348)	1.41
Balance end of period	9,908,020	$ 1.09	9,873,631	$ 1.24

(Expressed in Canadian Dollars)

During the nine month period ended April 30, 2021, the Company recognized share-based compensation related to stock options of $971,793 (2020 - $1,918,158). Fair value of options granted during the period were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine months ended April 30,	
	2021	2020
Expected life	3.8 years	4.6 years
Expected market volatility of shares (%)	85.0%	90.0%
Expected dividend rate	0%	0%
Risk-free interest rate	0.70%	1.32%
Weighted average fair value per option granted	$ 0.379	$ 0.856

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Details of the outstanding stock options as at April 30, 2021 are as follows:

Number of stock options outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)	Number of stock options exercisable	Weighted average exercise price
345,000	$ 1.30	June 22, 2021	1.8	323,334	$ 1.30
250,000	$ 1.35	July 10, 2021	2.4	250,000	$ 1.35
250,000	$ 0.30	August 1, 2021	3.1	250,000	$ 0.30
1,190,000	$ 0.28	October 3, 2021	5.2	1,190,000	$ 0.28
122,222	$ 0.70	December 15, 2021	7.6	99,294	$ 0.70
849,000	$ 0.65	May 18, 2022	12.8	849,000	$ 0.65
250,000	$ 2.00	May 29, 2022	13.1	170,000	$ 2.00
11,111	$ 0.70	June 20, 2022	13.9	7,634	$ 0.70
27,777	$ 0.70	August 9, 2022	15.5	17,350	$ 0.70
125,000	$ 0.65	September 5, 2022	16.4	125,000	$ 0.65
44,447	$ 0.70	September 14, 2022	16.7	34,710	$ 0.70
65,000	$ 1.47	November 1, 2022	18.3	65,000	$ 1.47
250,000	$ 1.29	January 1, 2023	20.4	170,000	$ 1.29
300,000	$ 1.49	February 7, 2023	21.6	203,334	$ 1.49
150,000	$ 1.82	March 22, 2023	23.0	150,000	$ 1.82
75,000	$ 1.61	April 4, 2023	23.5	75,000	$ 1.61
50,000	$ 1.62	August 27, 2023	28.3	50,000	$ 1.62
200,000	$ 1.80	September 1, 2023	28.5	100,000	$ 1.80
355,000	$ 2.48	October 15, 2023	29.9	355,000	$ 2.48
150,000	$ 2.01	December 11, 2023	31.8	112,500	$ 2.01
75,000	$ 1.80	June 18, 2024	38.2	37,500	$ 1.80
872,500	$ 1.81	July 3, 2024	38.7	725,000	$ 1.81
30,000	$ 1.83	July 25, 2024	39.4	15,000	$ 1.83
70,000	$ 1.81	September 6, 2024	40.8	35,000	$ 1.81
100,000	$ 1.47	November 12, 2024	43.1	50,000	$ 1.47
795,000	$ 1.21	December 23, 2024	44.4	397,500	$ 1.21
113,463	$ 1.31	January 20, 2025	45.4	65,482	$ 1.31
80,000	$ 1.37	January 21, 2025	45.4	40,000	$ 1.37
375,000	$ 1.49	February 7, 2025	46.0	225,000	$ 1.49
705,000	$ 0.76	April 13, 2025	48.1	352,500	$ 0.76
145,000	$ 0.69	May 11, 2025	49.1	36,250	$ 0.69
125,000	$ 1.16	June 9, 2025	50.0	31,250	$ 1.16
250,000	$ 0.97	August 10, 2025	52.1	37,500	$ 0.97
105,000	$ 0.69	September 15, 2025	53.3	26,250	$ 0.69
177,500	$ 0.56	October 29, 2025	54.8	72,500	$ 0.56
720,000	$ 0.57	November 11, 2025	55.2	180,000	$ 0.57
50,000	$ 0.51	December 10, 2025	56.2	12,500	$ 0.51
60,000	$ 0.49	March 22, 2026	59.6	60,000	$ 0.49
9,908,020	**$ 1.09**		**29.8**	**6,996,388**	**$ 1.10**

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three and nine month periods ended April 30, 2021 and 2020 as these instruments are anti-dilutive.

13. Revenue and deferred revenue

Revenue recognized during the three and nine month periods ended April 30, 2021 relates to Xtract and Patscan revenue.

The Company has recognized $748,012 (2020 - $960,734) in revenue from Xtract during the nine month period ended April 30, 2021. As at April 30, 2021, accounts receivable for work completed on contracts was $101,799 (2020 - $365,466). Most of the balance is receivable from the federal government and is not subject to significant collection risk. Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized ("contracted not yet recognized") and includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted not yet recognized as revenue was $215,116 as at April 30, 2021 (2020 – $744,705), of which the Company expects to recognize 100% as revenue over the next twelve months. Subsequent to quarter end, Xtract was awarded contracts totaling $2,198,540, of which we expect to recognize 100% as revenue over the next twenty-four months.

The Company has recognized $67,528 (2020 - $725,525) in revenue related to the sale of the PATSCAN platform during the nine month period ended April 30, 2021. The Company billed and collected cash for the sale of the PATSCAN product hardware and software licenses to a select number of early adopter resellers and end-user customers. The cash received on these sales was $308,548 (2020 - $308,594) and is recorded as deferred revenue on the consolidated interim statement of financial position as at April 30, 2021. Contracted not yet recognized revenue was $821,634 as at April 30, 2021 (2020 - $511,111), of which the Company expects to recognize approximately $600,000 over the next twelve months, with the remainder to follow in the subsequent twenty-four months.

14. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Key management compensation paid to officers and directors of the Company during the three and nine month period ended April 30, 2021 was $403,563 (2020 – $354,133) and $1,425,088 (2020 - $1,076,010), respectively. In addition, share-based compensation expense relating to officers and directors for the three and nine month period ended April 30, 2021 was $146,532 (2020 - $273,124) and $523,320 (2020 - $478,595), respectively.

As at April 30, 2021, there was $38,056 (2020 - $nil) in accounts payable and accrued liabilities due to officers and directors of the Company.

(Expressed in Canadian Dollars)

15. Supplemental cash flow information

Non-cash activities during the nine months ended April 30, 2021 were conducted by the Company as follows:

Additions to right of use assets for IFRS 16 (Note 10)	$ 466,559
Additions to right of use liabilities for IFRS 16 (Note 10)	$ 466,559
Transfer from EcoMine intellectual property to investment in EcoScreen (Note 9)	$ 175,000
Fair value of stock options granted	$ 971,793

Non-cash activities during the nine months ended April 30, 2020 were conducted by the Company as follows:

Fair value of shares issued on acquisition of Xtract (Note 4)	$16,867,090
Fair value of stock options granted	$ 1,918,158
Transfer of contributed surplus on exercise of warrants	$ 1,692,315
Transfer of contributed surplus on exercise of stock options	$ 27,823

No cash was paid towards taxes during the nine months ended April 30, 2021 and 2020. The Company paid interest expense imbedded in its lease payments of $78,409 during the nine months ended April 30, 2021 (2020 - $76,516).

16. Raytheon Canada Ltd. Funding

Raytheon Canada Ltd. ("Raytheon") agreed to provide the Company with $3,000,000 in non-dilutive cash financing for research and development through the Industrial and Technological Benefits program. The Company has received $2,000,000 in funding to date and is eligible to receive an additional $1,000,000 based on research and development performed in the calendar year ended December 31, 2020. As at April 30, 2021, the Company has accrued a receivable of $1,000,000 related to qualifying expenditures from January 1, 2020 through December 31, 2020 (Note 5). Research and development costs have been recorded net of the $478,700 accrued non-dilutive funding for the nine month period ended April 30, 2021 (2020 - $696,800).

17. Segmented information

Operating segments

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

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (Note 3). The Company currently has no intersegment sales. Xtract labour costs incurred in the development of Patriot technologies are allocated to the Patriot Threat Detection business unit at cost.
Segmented reporting information is presented for both Company's distinct operating units. The following tables summarize the operations and current financial position of each segment for the nine month periods ended April 30, 2021 and April 30, 2020.

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	For the nine months ended April 30, 2021		
	Patriot Threat Detection	Xtract	Total
Revenue	$ 67,528	$ 748,012	$ 815,540
Expenses			
Sales and marketing	969,571	166,325	1,135,896
Research and development	1,594,939	198,140	1,793,079
General and administration(1)	1,059,565	(29,705)	1,029,860
Personnel costs	3,084,035	426,960	3,510,995
Professional fees	625,414	49,476	674,890
Hardware	28,054	-	28,054
Amortization	631,342	-	631,342
Depreciation	637,939	98,467	736,406
Share-based compensation	815,245	156,548	971,793
	9,446,104	1,066,211	10,512,315
Loss from operations	9,378,576	318,199	9,696,775
Unrealized loss on fair value investment	291,950	-	291,950
Interest income	(148,734)	-	(148,734)
Loss before income taxes	$ 9,521,792	$ 318,199	$ 9,839,991
Current tax recovery	(169,886)	-	(169,886)
Loss and comprehensive loss for the period	$ 9,351,906	$ 318,199	$ 9,670,105
Non-current asset additions	$ 414,935	120,710	$ 535,645
Finance cost(2)	$ 52,118	26,291	$ 78,409
As at April 30, 2021			
Current assets	$ 20,315,405	$ 831,817	$ 21,147,222
Current liabilities	$ 1,668,829	$ 303,097	$ 1,971,926

Notes:
(1) General and administration expenses for the Xtract operating segment are reported net of grants which were larger than the gross expenses for the nine month period ended April 30, 2021 due to the timing of the grants received.
(2) Finance costs relate to imbedded interest in its office lease commitments (Note 10) and are included in general and administrative expenses.

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	For the nine months ended April 30, 2020		
	Patriot Threat Detection	Xtract	Total
Revenue	$ 725,525	$ 960,734	$ 1,686,259
Expenses			
Sales and Marketing	3,236,610	9,674	3,246,284
Research and development	4,362,645	311,317	4,673,962
General and administration	1,199,974	415,099	1,615,073
Personnel costs	3,387,211	-	3,387,211
Professional fees	2,518,040	359,027	2,877,067
Hardware	194,097	-	194,097
Amortization	815,508	-	815,508
Depreciation	843,443	54,187	897,630
Share-based compensation	1,918,158	-	1,918,158
	18,475,686	1,149,304	19,624,990
Loss from operations	17,750,161	188,570	17,938,731
Proportionate share of loss on investment	1,380,945	-	1,380,945
Interest income	(446,861)	(781)	(447,642)
Loss before income taxes	$ 18,684,245	$ 187,789	$ 18,872,034
Current tax recovery	(158,087)	-	(158,087)
Loss and comprehensive loss for the period	$ 18,526,158	$ 187,789	$ 18,713,947
Non-current asset additions	$ 1,077,510	$ 21,015	$ 1,098,525
Finance cost(1)	$ 74,011	$ 2,881	$ 76,892
As at April 30, 2020			
Current assets	$ 27,958,082	$ 1,104,542	$ 29,062,624
Current liabilities	$ 1,579,956	$ 301,082	$ 1,881,038

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

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Geographic Breakdown

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

	Nine month period ended April 30, 2021			As at April 30, 2021		
	Revenue			Non-current assets		
Geographic location	Patriot Threat Detection	Xtract	Total	Patriot Threat Detection	Xtract	Total
Canada	$ 67,528	$ 748,012	$ 815,540	$ 29,122,457	$ 505,834	$ 29,628,291
United States	-	-	-	5,458,411	-	5,458,411
Total	$ 67,528	$ 748,012	$ 815,540	$ 34,580,868	$ 505,834	$ 35,086,702

	Nine month period ended April 30, 2020			As at July 31, 2020		
	Revenue			Non-current assets		
Geographic location	Patriot Threat Detection	Xtract	Total	Patriot Threat Detection	Xtract	Total
Canada	$ 725,525	$ 960,734	$ 1,686,259	$ 29,424,902	$ 38,667	$ 29,463,569
United States	-	-	-	6,017,412	-	6,017,412
Total	$ 725,525	$ 960,734	$ 1,686,259	$ 35,442,314	$ 38,667	$ 35,480,981

Major Customers

The majority of revenue recognized during the three and nine month periods ended April 30, 2021 and 2020 were earned from the Canadian Federal Government.