



Condensed Consolidated Interim Financial Statements

For three months ended October 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Financial Position
(Formerly Patriot One Technologies Inc.)
(Expressed in Canadian Dollars)
(Unaudited)

	October 31, 2022	July 31, 2022
Assets		
Current assets		
Cash	\$ 2,206,084	\$ 6,277,321
Receivables (Note 4)	1,900,504	1,895,156
Prepaid expenses and deposits	433,131	668,650
Inventory (Note 5)	1,369,968	1,106,034
	5,909,687	9,947,161
Property and equipment (Note 6)	1,494,049	1,477,841
Intangible assets (Note 7)	5,448,125	5,649,600
Right of use assets (Note 8)	514,073	589,832
Investment in Gemina Labs (Note 13)	328,125	393,750
Total assets	\$ 13,694,059	\$ 18,058,184
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,160,739	\$ 2,639,082
Deferred revenue (Note 9)	158,761	196,651
Current portion of lease liability (Note 8)	329,065	320,435
	3,648,565	3,156,168
Non-current portion of lease liability (Note 8)	268,032	356,841
	3,916,597	3,513,009
Shareholders' equity		
Share capital (Note 10)	119,796,584	119,796,584
Contributed surplus	14,063,287	13,912,816
Accumulated deficit	(124,082,409)	(119,164,225)
	9,777,462	14,545,175
Total liabilities and shareholders' equity	\$ 13,694,059	\$ 18,058,184

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Formerly Patriot One Technologies Inc.)
(Expressed in Canadian Dollars)
(Unaudited)

	Three months ended October 31,	
	2022	2021
Revenue (Note 9)	\$ 646,806	\$ 709,460
Expenses		
Sales and marketing	789,147	320,530
Research and development	2,000,697	(445,846)
General and administration	393,909	350,656
Personnel costs	1,571,864	1,004,302
Professional fees	92,440	194,664
Hardware	150,278	24,197
Amortization (Note 7)	201,475	201,475
Depreciation (Notes 6, 8)	160,746	194,144
Share-based compensation (Note 10)	150,471	57,682
	5,511,027	1,901,804
Loss from operations	4,864,221	1,192,344
Unrealized loss (gain) on investments	65,625	(102,083)
Interest income	(11,662)	(2,182)
Loss and comprehensive loss for the period	\$ 4,918,184	\$ 1,088,079
Weighted average number of shares	163,179,222	150,860,622
Basic and diluted loss per share	\$ 0.03	\$ 0.01

Grant Funding (Note 14)

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Formerly Patriot One Technologies Inc.)
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(Unaudited)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2022	163,179,222	\$ 119,796,584	\$ 13,912,816	\$ (119,164,225)	\$ 14,545,175
Share-based compensation (Note 10)	-	-	150,471	-	150,471
Loss for the period	-	-	-	(4,918,184)	(4,918,184)
Balance - October 31, 2022	163,179,222	\$ 119,796,584	\$ 14,063,287	\$ (124,082,409)	\$ 9,777,462
Balance - July 31, 2021	150,728,622	\$ 114,597,731	\$ 11,688,151	\$ (79,447,536)	\$ 46,838,346
Shares issued on the exercise of stock options	400,000	158,640	(38,640)	-	120,000
Share-based compensation (Note 10)	-	-	57,682	-	57,682
Loss for the period	-	-	-	(1,088,079)	(1,088,079)
Balance - Oct 31, 2021	151,128,622	\$ 114,756,371	\$ 11,707,193	\$ (80,535,615)	\$ 45,927,949

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Formerly Patriot One Technologies Inc.)
(Expressed in Canadian Dollars)
(Unaudited)

	Three months ended October 31,	
	2022	2021
Cash flow used in operating activities		
Loss and comprehensive loss for the period	\$ (4,918,184)	\$ (1,088,079)
Adjustment for:		
Share-based compensation (Note 10)	150,471	57,682
Depreciation (Notes 6,8)	194,267	194,144
Amortization (Note 7)	201,475	201,475
Finance cost (Note 8)	13,013	19,129
Unrealized loss (gain) on investments	65,625	(102,083)
	(4,293,333)	(717,732)
Changes in non-cash working capital		
Receivables	(5,348)	(1,456,696)
Prepaid expenses and deposits	235,519	14,246
Inventory	(366,111)	(166,436)
Accounts payable and accrued liabilities	521,657	(225,674)
Deferred revenue	(37,890)	(90,116)
Cash used in operating activities	(3,945,506)	(2,642,408)
Cash flow used in investing activities		
Purchase of property and equipment (Note 6)	(32,539)	(38,781)
Cash used in investing activities	(32,539)	(38,781)
Cash flow from financing activities		
Proceeds on exercise of stock options	-	120,000
Lease payments (Note 8)	(93,192)	(104,366)
Cash received from (used in) financing activities	(93,192)	15,634
Net decrease in cash for the period	\$ (4,071,237)	\$ (2,665,555)
Cash beginning of the period	6,277,321	9,652,493
Cash end of the period	\$ 2,206,084	\$ 6,986,938

Supplemental cash flow information (Note 12)

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



Xtract One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended October 31, 2022, and 2021
(Formerly Patriot One Technologies Inc.)
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1. Reporting entity

Xtract One Technologies Inc. (the "Company") (formerly Patriot One Technologies Inc.) was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed under the trading symbol "XTRA" on the Toronto Stock Exchange in Canada, "XTRAF" on the OTCQX in the United States, and "OPL" on the Frankfurt Stock Exchange in Germany. On December 1, 2022, the Company changed its name from "Patriot One Technologies Inc." to "Xtract One Technologies Inc.". As indicated herein, certain subsidiaries concurrently changed their names. The Company's wholly owned subsidiaries include Xtract One Detection Ltd. ("Xtract Detection") (formerly Patriot One Detection Ltd.), Patriot One (UK) Limited ("Patriot UK"), Xtract One (US) Technologies Inc. ("Xtract US") (formerly Patriot One Detection Technologies Inc.), 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.

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 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, and therefore, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements as at July 31, 2022. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on December 6, 2022.

(b) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, Xtract Detection, Patriot UK, Xtract US, EhEye, and Xtract. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity directly or indirectly so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into 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.



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(c) Functional and presentation currency

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

(d) Basis of measurement

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

3. Significant accounting policies

The accounting policies, estimates, and judgments used in the preparation of these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended July 31, 2022, 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 judgments include:

Share-based compensation

The fair value of stock options granted is measured using the Black-Scholes option pricing model. Measurement inputs include the 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 compensation.

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 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





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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 assesses based on the attributes of the development project, perceived user needs, industry trends, and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible.

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

Revenue recognition

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

Going concern

The preparation of the Company's condensed consolidated interim 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



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and discharge its liabilities in the ordinary course of operations. A 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 judgments and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing.

These condensed consolidated interim 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 condensed consolidated interim 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.

(b) New accounting standards issued but not yet in effect

Classification of liabilities as current or non-current (Amendments to IAS 1)

The IASB has published the Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarified the guidance on whether a liability should be classified as either current or non-current.

The amendments:

- i. Clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- ii. Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- iii. Make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The Company does not expect the adoption of this new amendment to have a significant impact on the consolidated financial statements.



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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 judgments 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, provide 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 is to be applied prospectively. Earlier application is permitted. The Company is currently assessing the impact of this amendment on the consolidated financial statements disclosures.

4. Receivables

Receivables are comprised of the following:

	<u>October 31, 2022</u>	<u>July 31, 2022</u>
Trade receivables	\$ 648,240	\$ 724,605
ITB funding receivable	1,000,000	1,000,000
Taxes receivable	252,264	170,551
	<u>\$ 1,900,504</u>	<u>\$ 1,895,156</u>

As at October 31, 2022, the Company has not taken a provision for uncollectible accounts (July 31, 2022 - \$nil).

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 Government of Canada's Industrial and Technological Benefits ("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. The Company has accrued a receivable of \$1,000,000 related to qualifying expenditures from January 1, 2020, through December 31, 2020.



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5. Inventory

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

	October 31, 2022	July 31, 2022
Components and work-in-progress	\$ 465,978	\$ 379,244
Finished goods	903,990	726,790
	\$ 1,369,968	\$ 1,106,034

During the three months ended October 31, 2022, the Company recorded total inventory sold of \$116,757 (2021 - \$24,197) under hardware expense. The Company has reclassified inventory in the amount of \$102,177 (October 31, 2021 - \$nil) to subscription and demo assets under property and equipment. The Company has not taken a provision for inventory write-downs for the three months ended October 31, 2022 (2021 - \$nil).

6. Property and equipment

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

	Office equipment	Computer hardware	Office software	Furniture & fixtures	Subscription & demo assets	Leasehold improvements	Total
Cost							
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	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
Additions	-	-	-	-	-	32,539	32,539
Reclassification	-	-	-	-	102,177	-	102,177
Balance at October 31, 2022	\$ 1,701,290	\$ 534,589	\$ 86,478	\$ 398,624	\$ 453,322	\$ 244,178	\$ 3,418,481
Accumulated depreciation							
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
Depreciation	46,826	16,953	-	9,016	33,521	12,192	118,508
Balance at October 31, 2022	\$ 998,861	\$ 423,346	\$ 86,478	\$ 243,667	\$ 73,303	\$ 98,777	\$ 1,924,432
Carrying amount as at July 31, 2022	\$ 749,255	\$ 128,196	\$ -	\$ 163,973	\$ 311,363	\$ 125,054	\$ 1,477,841
Carrying amount as at October 31, 2022	\$ 702,429	\$ 111,243	\$ -	\$ 154,957	\$ 380,019	\$ 145,401	\$ 1,494,049

During the three months ended October 31, 2022, there were no disposals of property and equipment (2021 - \$nil). The Company recorded depreciation of subscription and demo assets in the amount of \$33,521 (2021 - \$1,983) under hardware expense.



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7. Intangible assets

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

	Quasar licensed distribution rights	EhEye intellectual property	Internally developed intellectual property	Total
Cost				
Balance at July 31, 2022 and October 31, 2022	6,574,000	1,250,000	235,000	8,059,000
Accumulated amortization				
Balance at July 31, 2022	\$ 2,001,025	\$ 343,750	\$ 64,625	\$ 2,409,400
Amortization	164,350	31,250	5,875	201,475
Balance at October 31, 2022	2,165,375	375,000	70,500	2,610,875
Carrying amount as at July 31, 2022	\$ 4,572,975	\$ 906,250	\$ 170,375	\$ 5,649,600
Carrying amount as at October 31, 2022	\$ 4,408,625	\$ 875,000	\$ 164,500	\$ 5,448,125

Quasar - Licensed distribution rights

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

EhEye - Intellectual property

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

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



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development costs over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately seven years.

8. Right of use assets and lease liabilities

The Company has recorded right of use assets and lease liabilities in its statements 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 three months ended and the year ended July 31, 2022, are as follows:

	Right of use asset	Right of use liabilities
As at July 31, 2021	\$ 913,269	\$ 985,920
Lease terminations	(6,917)	(7,624)
Depreciation	(316,520)	-
Finance costs	-	66,632
Lease payments	-	(367,652)
As at July 31, 2022	\$ 589,832	\$ 677,276
Depreciation	(75,759)	-
Finance costs (Note 12)	-	13,013
Lease payments	-	(93,192)
As at October 31, 2022	\$ 514,073	\$ 597,097

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

Fiscal year	Amount
2023	\$ 269,480
2024	250,140
2025	129,810
Effects of discounting	(52,333)
Right of use liabilities	\$ 597,097
Current portion of right of use liabilities	(329,065)
Non-current portion of right of use liabilities	\$ 268,032

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



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9. Revenue

Revenue recognized during the three months ended October 31, 2022 relates to Xtract and Platform revenue.

The Company has recognized \$220,268 (2021 - \$520,208) in revenue from Xtract during the three months ended October 31, 2022. As at October 31, 2022, accounts receivable for work completed on contracts was \$234,855 (2021 - \$526,801) and there was no deferred revenue recorded (2021 - \$nil). The majority of the receivable balance is due from the federal government and is not subject to significant collection risk.

The Company has recognized \$426,538 (2021 - \$189,252) in revenue related to the sale of or subscription to use the Platform during the three months ended October 31, 2022. As at October 31, 2022, accounts receivable for Platform revenue was \$413,385 (2021 - \$53,784) and deferred revenue was \$158,761 (July 31, 2022 - \$196,651).

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:

			Total backlog October 31,	
	Less than one year	Greater than one year	2022	2021
Platform revenue	\$ 838,979	\$ 1,036,475	\$ 1,875,454	\$ 1,019,078
Xtract revenue	247,478	440,372	687,850	2,034,682
Total backlog*	\$ 1,086,457	\$ 1,476,847	\$ 2,563,304	\$ 3,053,760

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

10. Share capital

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.



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Share Capital

The issued and outstanding share capital is as follows:

	Three months ended October 31, 2022		Year ended July 31, 2022	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	163,179,222	\$ 119,796,584	150,728,622	\$ 114,597,731
Shares issued on prospectus financing, 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 period	163,179,222	\$ 119,796,584	163,179,222	\$ 119,796,584

Warrants

Warrant activity for the three months ended October 31, 2022, and the year ended July 31, 2022, is as follows:

	Three months ended October 31, 2022		Year ended July 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	12,253,561	0.74	-	\$ -
Issued	-	-	12,253,561	0.74
Balance end of period	12,253,561	\$ 0.74	12,253,561	\$ 0.74

As at October 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	16.60
11,471,850	\$ 0.75	March 17, 2025	28.60
12,253,561	\$ 0.74		27.8

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



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(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 three months ended October 31, 2022, and the year ended July 31, 2022, other than stock options as discussed herein, no other incentive awards were issued or outstanding pursuant to the Omnibus Plan.

The stock option activity for the three months ended October 31, 2022, and the year ended July 31, 2022, is as follows:

	Three months ended October 31, 2022		Year ended July 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	9,758,579	\$ 0.91	10,024,270	\$ 1.00
Granted	1,256,000	0.38	4,563,750	0.64
Exercised	-	-	(978,750)	0.27
Forfeited / Expired	(1,002,016)	1.07	(3,850,691)	1.00
Balance end of period	10,012,563	\$ 0.83	9,758,579	\$ 0.91

During the three months ended October 31, 2022, the Company recognized share-based compensation related to stock options of \$150,471 (2021 - \$57,682).

Fair value of options granted during the period were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended October 31,	
	2022	2021
Expected life	3.8 years	3.8 years
Expected market volatility of shares (%)	79.0%	68.0%
Share price	\$ 0.38	\$ 0.43
Expected dividend rate	0%	0%
Risk-free interest rate	3.14%	1.65%
Weighted average fair value per option granted	\$ 0.215	\$ 0.213



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Details of the outstanding stock options as at October 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
30,000	\$ 1.47	November 1, 2022*	0.0	30,000	\$ 1.47
250,000	\$ 1.29	January 1, 2023	2.0	250,000	\$ 1.29
300,000	\$ 1.49	February 7, 2023	3.2	300,000	\$ 1.49
150,000	\$ 1.82	March 22, 2023	4.7	150,000	\$ 1.82
50,000	\$ 1.62	August 27, 2023	9.9	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	10.0	200,000	\$ 1.80
305,000	\$ 2.48	October 15, 2023	11.5	305,000	\$ 2.48
355,000	\$ 1.81	July 3, 2024	20.1	355,000	\$ 1.81
30,000	\$ 1.83	July 25, 2024	20.8	30,000	\$ 1.83
70,000	\$ 1.81	September 6, 2024	22.2	70,000	\$ 1.81
330,000	\$ 1.21	December 23, 2024	25.8	247,500	\$ 1.21
75,000	\$ 1.37	January 21, 2025	26.7	56,250	\$ 1.37
80,000	\$ 0.76	April 13, 2025	29.4	60,000	\$ 0.76
138,750	\$ 0.69	May 11, 2025	30.4	108,750	\$ 0.69
125,000	\$ 1.16	June 9, 2025	31.3	93,750	\$ 1.16
250,000	\$ 0.97	August 10, 2025	33.3	187,500	\$ 0.97
105,000	\$ 0.69	September 15, 2025	34.5	78,750	\$ 0.69
110,000	\$ 0.56	October 29, 2025	36.0	82,500	\$ 0.56
720,000	\$ 0.57	November 11, 2025	36.4	360,000	\$ 0.57
60,000	\$ 0.49	March 22, 2026	40.7	60,000	\$ 0.49
1,090,000	\$ 0.52	June 15, 2026	43.5	545,000	\$ 0.52
281,250	\$ 0.43	October 25, 2026	47.8	141,250	\$ 0.43
20,000	\$ 0.44	November 1, 2026	48.0	5,000	\$ 0.44
135,000	\$ 0.44	December 8, 2026	49.3	135,000	\$ 0.44
2,152,813	\$ 0.73	February 16, 2027	51.5	575,001	\$ 0.73
100,000	\$ 0.54	April 1, 2027	53.0	25,000	\$ 0.54
150,000	\$ 0.54	April 4, 2027	53.1	37,500	\$ 0.54
37,500	\$ 0.56	April 6, 2027	53.2	18,750	\$ 0.56
700,000	\$ 0.57	April 13, 2027	53.4	175,000	\$ 0.57
250,000	\$ 0.46	June 14, 2027	55.5	250,000	\$ 0.46
125,000	\$ 0.42	July 11, 2027	56.4	125,000	\$ 0.42
1,237,250	\$ 0.38	October 3, 2027	59.1	314,000	\$ 0.38
10,012,563	\$ 0.82		40.9	5,421,501	\$ 1.01

* Options were unexercised and expired subsequent to period end.

Loss per share

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



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11. Related party transactions

Key management personnel includes 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 months ended October 31, 2022, was \$311,870 (2021 - \$297,487). In addition, share-based compensation expense relating to key management for the three months ended October 31, 2022, was \$57,674 (2021 - \$78,511).

As at October 31, 2022, \$69,895 (July 31, 2022 - \$nil) in accounts payable and accrued liabilities is due to officers and directors of the Company or to companies controlled by directors and officers of the Company. There were no other related party transactions during the three months ended October 31, 2022.

12. Supplemental cash flow information

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

Transfer of property and equipment to inventory	\$	102,177
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Non-cash financing and investing activities during the three months ended October 31, 2021, were conducted by the Company as follows:

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

No cash was paid toward taxes during the three months ended October 31, 2022, and 2021. The Company paid interest expense embedded in its lease payments of \$13,013 during the three months ended October 31, 2022 (2021 - \$19,129).

13. Financial instruments and risk management

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;



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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 Oct 31, 2022				Total
	Level 1	Level 2	Level 3		
Cash	\$ 2,206,084	\$ -	\$ -	\$	2,206,084
Investment in Gemina Labs	328,125	-	-		328,125
Balance end of period	\$ 2,534,209	\$ -	\$ -	\$	2,534,209

	As at July 31, 2022				Total
	Level 1	Level 2	Level 3		
Cash	\$ 6,277,321	\$ -	\$ -	\$	6,277,321
Investment in Gemina Labs	393,750	-	-		393,750
Balance end of year	\$ 6,671,071	\$ -	\$ -	\$	6,671,071

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. As at October 31, 2022, the Company had current assets of \$5,909,687 (July 31, 2022 - \$9,947,161) to settle current liabilities of \$3,648,565 (July 31, 2022 - \$3,156,168). 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, trade receivable and accounts receivable under the 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.



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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 October 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 October 31, 2022, so its exposure to price risk is insignificant.

14. Grant funding

Non-dilutive funding received by the Company for the three months ended October 31, 2022, and October 31, 2021, are as follows:

	Three months ended October 31,	
	2022	2021
Raytheon ITB program	\$ -	\$ 1,767,826
Supercluster	-	410,530
COVID-19 relief programs	-	317,240
Total non-dilutive grants	\$ -	\$ 2,495,596

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 three months ended October 31, 2022, is unaffected at \$4,918,184, compared to a revised amount of \$3,583,675 for the same period ended October 31, 2021.



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15. 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 three months ended October 31, 2022, and October 31, 2021.



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	For the three months ended October 31, 2022		
	Platform	Xtract	Total
Revenue	\$ 426,538	\$ 220,268	\$ 646,806
Expenses			
Sales and marketing	789,147	-	789,147
Research and development	1,755,594	245,103	2,000,697
General and administration	393,710	199	393,909
Personnel costs	1,406,876	164,988	1,571,864
Professional fees	88,494	3,946	92,440
Hardware	150,278	-	150,278
Amortization	201,475	-	201,475
Depreciation	129,883	30,863	160,746
Share-based compensation	138,858	11,613	150,471
	5,054,315	456,712	5,511,027
Loss from operations	4,627,777	236,444	4,864,221
Unrealized loss on fair value investment	65,625	-	65,625
Interest income	(11,662)	-	(11,662)
Loss and comprehensive loss for the period	\$ 4,681,740	\$ 236,444	\$ 4,918,184
Non-current asset additions	\$ -	\$ 32,539	\$ 32,539
Finance cost ⁽¹⁾	\$ 6,620	\$ 6,393	\$ 13,013
As at October 31, 2022			
Current assets	\$ 4,902,629	\$ 1,007,058	\$ 5,909,687
Current liabilities	\$ 2,234,077	\$ 1,414,488	\$ 3,648,565

(1) Finance costs relate to an embedded interest in its office lease commitments (Note 8) and are included in general and administrative expenses.



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

(1) Finance costs relate to an embedded interest in its office lease commitments (Note 8) and are included in general and administrative expenses.



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Geographic Breakdown

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

	For three months ended October 31, 2022			As at October 31, 2022		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ -	\$ 220,268	\$ 220,268	\$ 2,626,152	\$ 352,701	\$ 2,978,853
United States	426,538	-	426,538	4,805,519	-	4,805,519
Total	\$ 426,538	\$ 220,268	\$ 646,806	\$ 7,431,671	\$ 352,701	\$ 7,784,372

	For three months ended October 31, 2021			As at July 31, 2022		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	\$ 73,237	\$ 520,208	\$ 593,445	\$ 2,857,177	\$ 351,025	\$ 3,208,202
United States	116,015	-	116,015	4,902,821	-	4,902,821
Total	\$ 189,252	\$ 520,208	\$ 709,460	\$ 7,759,998	\$ 351,025	\$ 8,111,023