



PATRIOT ONE TECHNOLOGIES INC.
(formerly Clear Mountain Resource Corp.)

Consolidated Financial Statements

Year ended July 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Patriot One Technologies Inc. (formerly Clear Mountain Resource Corp.)

We have audited the accompanying consolidated financial statements of Patriot One Technologies Inc. (formerly Clear Mountain Resource Corp.), which comprise the consolidated statements of financial position as at July 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Patriot One Technologies Inc. (formerly Clear Mountain Resource Corp.) as at July 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

November 24, 2017



PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resource Corp.)

Consolidated Statements of Financial Position as at July 31,

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash	\$ 5,184,904	\$ 195,090
Receivables	180,926	30,166
Prepaid expenses and deposits	67,446	101
Inventory	164,138	-
Deferred financing costs (Note 15c)	579,299	-
Total assets	\$ 6,176,713	\$ 225,357
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 665,258	\$ 229,109
Shareholders' equity (deficiency)		
Share capital (Note 7)	7,110,602	475,625
Share subscriptions (Note 15c)	4,628,750	124,865
Contributed surplus	2,113,167	-
Accumulated deficit	(8,341,064)	(604,242)
	5,511,455	(3,752)
Total liabilities and shareholders' equity (deficiency)	\$ 6,176,713	\$ 225,357

Reporting entity and going concern (Note 1)

Commitments (Note 14)

Subsequent events (Note 15)

Approved on behalf of the Board:

"Martin Cronin"

Director, Chief Executive Officer

"Scott Shepherd"

Director

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

PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resource Corp.)

Consolidated Statements of Loss and Comprehensive Loss

	Year ended July 31, 2017	Period from date of incorporation, March 7, 2016, to July 31, 2016
Expenses		
Advertising and marketing	\$ 364,067	\$ -
Business development	422,095	-
Conferences and trade shows	352,465	-
General and administrative	199,697	76,177
Licensing	92,244	148,000
Listing costs (Note 5)	2,625,184	-
Personnel costs	982,702	129,080
Professional fees	219,717	-
Research and development	1,192,263	250,985
Share-based compensation (Note 7)	1,286,388	-
Loss and comprehensive loss for the periods	\$ 7,736,822	\$ 604,242
Weighted average number of shares	46,154,571	3,423,837
Basic and diluted loss per share	\$ 0.17	\$ 0.18

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

PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resource Corp.)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

	Share Capital		Share Subscriptions	Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount				
Balance - July 31, 2016	17,885,001	\$ 475,625	\$ 124,865	\$ -	\$ (604,242)	\$ (3,752)
Shares issued for cash, net of share issue costs (Note 7)	20,775,589	2,801,631	(124,865)	65,500	-	2,742,266
Fair value of shares issued on Transaction (Note 5)	10,862,216	1,629,332	-	-	-	1,629,332
Fair value of warrants issued on Transaction (Note 5)	-	-	-	769,679	-	769,679
Fair value of stock options issued on Transaction (Note 5)	-	-	-	26,514	-	26,514
Shares issued on the exercise of warrants	10,874,410	2,131,774	-	(13,724)	-	2,118,050
Shares issued on the exercise of stock options	208,500	72,240	-	(21,190)	-	51,050
Share subscriptions received (Note 15c)	-	-	4,628,750	-	-	4,628,750
Share-based compensation (Note 7)	-	-	-	1,286,388	-	1,286,388
Net loss for the year	-	-	-	-	(7,736,822)	(7,736,822)
Balance - July 31, 2017	60,605,716	\$ 7,110,602	\$ 4,628,750	\$ 2,113,167	\$ (8,341,064)	\$ 5,511,455

	Share Capital		Share Subscriptions	Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount				
Balance - March 7, 2016	-	\$ -	\$ -	\$ -	\$ -	\$ -
Share capital issued for cash, net of share issue costs (Note 7)	16,325,001	397,625	-	-	-	397,625
Share subscriptions, net of cash received	-	-	124,865	-	-	124,865
Shares issued for licensing agreement (Note 6)	1,560,000	78,000	-	-	-	78,000
Net loss for the period	-	-	-	-	(604,242)	(604,242)
Balance - July 31, 2016	17,885,001	\$ 475,625	\$ 124,865	\$ -	\$ (604,242)	\$ (3,752)

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

PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resource Corp.)
Consolidated Statements of Cash Flows

	Year ended July 31, 2017	Period from the date of incorporation, March 7, 2016, to July 31, 2016
Cash flow (used in) operating activities		
Loss for the period	\$ (7,736,822)	\$ (604,242)
Adjustment for:		
Listing cost - fair value of securities issued on Transaction (Note 5)	2,603,010	-
Share-based compensation (Note 7)	1,286,388	-
License fees (Note 6)	-	78,000
	(3,847,424)	(526,242)
Changes in non-cash operating working capital		
Receivables	(141,280)	(30,166)
Prepaid expenses	(58,012)	(101)
Inventory	(164,138)	-
Accounts payable and accrued liabilities	82,572	221,109
	(4,128,282)	(335,400)
Cash used in operating activities	(4,128,282)	(335,400)
Cash flow from investing activities		
Cash received on Transaction (Note 5)	2,303	-
Cash flow from financing activities		
Proceeds on issue of share capital, net of share issue costs	4,911,366	232,250
Share subscriptions received, less deferred financing costs	4,204,427	298,240
	9,115,793	530,490
Cash received from financing activities	9,115,793	530,490
Increase in cash for the period	4,989,814	195,090
Cash at beginning of period	195,090	-
Cash at end of period	\$ 5,184,904	\$ 195,090

SUPPLEMENTAL CASH FLOW INFORMATION (Note 9)

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

PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resources Corp.)

Notes to Consolidated Financial Statements

For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

1. Reporting entity

Patriot One Technologies Inc. (the "Company"), formerly Clear Mountain Resources Corp., was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed on the TSX Venture Exchange ("TSX-V") as a Tier 2 issuer under the trading symbol "PAT". The Company, through its wholly owned subsidiary Patriot One Detection Ltd. ("Patriot"), is principally engaged in the commercialization of a system to detect concealed weapons utilizing radar technologies. During the year ended July 31, 2017, the Company completed the acquisition of Patriot by way of reverse take-over (Note 5). The Company's primary office is located at 750-1095 West Pender Street, Vancouver, British Columbia, Canada, V6E 2M6 and its registered and records office is located at 400-725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

These consolidated financial statements have been prepared on a going concern basis and do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in a manner other than in the normal course of business and at amounts different from those reflected in the consolidated financial statements. The Company estimates that it has sufficient funds to continue operations for the next 12 months.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements, including the comparative period, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements were approved for issuance by the Board of Directors on November 24, 2017.

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Patriot One Detection Ltd. 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 fully 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 Patriot is the Canadian dollar and these consolidated financial statements are presented in Canadian dollars.

(d) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, using the accrual basis of accounting, except for cash flow information.

PATRIOT ONE TECHNOLOGIES INC.

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Notes to Consolidated Financial Statements

For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

2. Basis of preparation (continued)

(e) Comparative figures

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

3. Significant accounting policies

(a) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: held-to-maturity, fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or loss

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in this category of financial assets.

Loans and receivables

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method. Accounts and other receivables are included in the category of financial assets.

Held-to-maturity

Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. The Company has no assets classified as held-to-maturity.

Available-for-sale

AFS financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. The Company has no assets classified as AFS.

PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resources Corp.)

Notes to Consolidated Financial Statements

For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL)

This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the profit and loss statement over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

The Company's financial instruments classified as Level 1 in the fair value hierarchy is cash.

(iv) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired for all financial assets, except those classified as FVTPL. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

PATRIOT ONE TECHNOLOGIES INC.

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Notes to Consolidated Financial Statements

For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

3. Significant accounting policies (continued)

(b) Intangible assets

(i) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company has the intention and sufficient resources to complete development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

In subsequent periods, capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its estimated residual value.

Amortization is recognized in profit or loss on a sales-based rate, other than intangible assets arising from a service concession arrangement that are amortized according to the unit of production method, over the estimated useful lives of the intangible assets from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Internally generated intangible assets are not systematically amortized as long as they are not available for use (i.e. they are not yet on site or in working condition for their intended use). Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

Amortization method is sales based rate, and the Company examines the estimated sales forecast at the end of each reporting period.

The Company examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

PATRIOT ONE TECHNOLOGIES INC.

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Notes to Consolidated Financial Statements

For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

3. Significant accounting policies (continued)

(c) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(d) Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of comprehensive loss.

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

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

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

(e) Cash

Cash consist of balances and investments in highly liquid short-term deposits, which may be converted into cash within 24 hours. As at July 31, 2017 and 2016, the Company did not hold any cash equivalents.

PATRIOT ONE TECHNOLOGIES INC.

(formerly Clear Mountain Resources Corp.)

Notes to Consolidated Financial Statements

For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

3. Significant accounting policies (continued)

(f) Capital stock

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Proceeds from unit placements are allocated between shares and warrants using the residual value method which first allocates value to the more easily measurable component, common shares, as determined by the closing market price on the date of announcement. The balance is then allocated to the attached warrants.

(g) Share-based compensation

The Company may grant stock options of the Company to allow directors, officers, employees and consultants to acquire common shares of the Company. Stock options granted to directors, officers and employees are measured at their fair values determined on the date of grant using the Black-Scholes option pricing model, and recognized as an expense over the vesting periods of the options. Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from these parties, or at their Black-Scholes fair values if the fair value of the goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

(h) Significant accounting judgments, estimates and assumptions

The preparation of these 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 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 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 which are recognized.

PATRIOT ONE TECHNOLOGIES INC.

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For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

3. Significant accounting policies (continued)

(h) Significant accounting judgments, estimates and assumptions (continued)

Deferred income tax assets & liabilities.

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

Treatment of development costs

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any development costs as at July 31, 2017.

4. New standards and interpretations not yet adopted

At the date of approval of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. These standards will be adopted at the effective date. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first year beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have an impact on the Company's consolidated financial statements.

Amendments to IAS 7 - Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7. These amendments require entities to provide disclosures that help users of the financial statements to better understand changes in liabilities that arise from financing activities, including both changes arising from cash flow and non-cash changes. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

PATRIOT ONE TECHNOLOGIES INC.

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For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

4. New standards and interpretations not yet adopted (continued)

IFRS 9 – Financial Instruments ("IFRS 9")

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 16 - Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers – ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. The standard also provides guidance relating to recognition of customer acquisition costs. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. This standard will be effective January 1, 2018 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Amendments to IFRS 2 - Share Based Payments ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements for accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early adoption is allowed and specific transitional provisions apply. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting these amendments on the consolidated financial statements.

PATRIOT ONE TECHNOLOGIES INC.

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For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

4. New standards and interpretations not yet adopted (continued)

Amendments to IAS 12 - Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12. The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

5. Acquisition of Patriot by way of Reverse take-over

On November 9, 2016, the Company completed the acquisition (the "Transaction") of Patriot, a private company principally engaged in the commercialization of a system to detect concealed weapons utilizing radar technologies. Prior to the Transaction the Company consolidated its shares on a 20 for 1 basis from 24,468,337 common shares to 1,223,416 common shares and changed its name from Clear Mountain Resources Corp. to Patriot One Technologies Inc. Under the terms of the Transaction, shareholders of Patriot exchanged 100% of the issued and outstanding shares in Patriot in exchange for 10,862,216 common shares of the Company with a fair value of \$1,629,332. In addition, at the time of the Transaction the Company had warrants and options to purchase 9,838,800 and 250,000 common shares, respectively, the fair value of which was \$769,679 and \$26,514, respectively. Following the completion of the Transaction, the former shareholders of Patriot acquired control of the Company as they own a majority of the outstanding shares of the Company upon completion of the Transaction. Therefore, the Transaction constitutes a reverse take-over and Patriot is deemed to be the acquirer for accounting purposes with the net assets of the Company being recorded at fair value at the date of the Transaction. The historical consolidated financial performance prior to the Transaction is that of Patriot.

Consideration paid	
Share capital	\$ 1,629,332
Fair value of warrants and stock options	796,193
	<hr/>
	2,425,525
Net assets (liabilities) acquired	
Cash	2,303
Other receivables	9,480
Prepaid expenses	9,333
Trade and other payables	(198,601)
	<hr/>
	(177,485)
Listing costs - non cash	2,603,010
Listing costs - fees paid	22,174
	<hr/>
Listing costs	2,625,184

As the Transaction was not considered a business combination, the excess of fair value of the consideration over the net assets of the Company is included in the consolidated statement of operations and comprehensive loss as listing costs for the year ended July 31, 2017.

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For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

6. License, Assignment and Option Fees

On April 29, 2016, Patriot entered into an agreement with Bullrun Capital Inc. ("Bullrun") wherein Bullrun agreed to assign to Patriot its option (the "Option Agreement") to obtain from McMaster University ("McMaster") a worldwide exclusive license to use or cause to be used certain radar technology used to detect concealed weapons (the "License Agreement") invented, developed and/or acquired by McMaster. As consideration for the Option Agreement, Patriot paid Bullrun a fee of \$60,000 and granted Bullrun a 2% royalty (the "Bullrun Royalty") to be paid on net sales of all commercial products developed under the License Agreement between McMaster and the Company. This royalty payable to Bullrun would be in addition to any royalties to be paid to McMaster by the Company.

The Company exercised its option and entered into the License Agreement with McMaster. In consideration for the License Agreement, the Company paid an up-front license fee of \$10,000 and issued 1,560,000 common shares with a fair value of \$78,000 (Note 7). In addition, the Company agreed to pay a royalty of 3.5% on net sales and from time to time, issue common shares of the Company to McMaster so that in the aggregate, shares held by McMaster represent 5% of the Company's issued and outstanding common shares calculated on a fully diluted basis. Such issuance shall continue until and including the date upon which a total of \$2,000,000 in cash shall be received by the Company in exchange for the Company's capital stock. Thereafter, no additional shares shall be due to McMaster. As at July 31, 2017, the Company had met this requirement and no additional shares will be issued to McMaster. In addition, the Company agreed to make minimum annual royalty payments as follows:

- first and second year \$2,500
- third year \$5,000
- fourth and subsequent years \$7,500

On October 26, 2016, Patriot entered into an amended agreement with Bullrun wherein both parties set out their mutual understandings and conclusively recorded the terms and conditions with respect to the Bullrun Royalty. In the amended agreement, Bullrun agreed to an equal division of the Bullrun Royalty between Bullrun and Rajni Singhera ("Singhera") to be paid on net sales of the licensed product in a calendar year, the amount of which is to be accrued and paid annually on March 31 of the following year. Payment of the Bullrun Royalty is subject to a minimum royalty threshold of \$100,000, the first payment of which is not payable until March 31, 2019 and then annually thereafter.

In the case where the Company's Board of Directors determines that the payment of the Bullrun Royalty would impact the ongoing operations of the Company, the annual payment for that year will be satisfied by the issuance of notes payable to Bullrun and Singhera which notes will mature two years from the date of issue and accrue interest at the Bank of Canada prime rate plus 3% per annum.

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7. Share capital

Authorized

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

Issued and outstanding

The issued and outstanding share capital is as follows:

	Year ended July 31, 2017		Period from date of incorporation, March 7, 2016, to July 31, 2016	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of period	17,885,001	\$ 475,625	-	\$ -
Share issued for cash of incorporation	-	-	1	-
Shares issued for cash, net of share issue costs	20,775,589	2,801,631	16,325,000	397,625
Fair value of shares issued on Transaction (Note 5)	10,862,216	1,629,332	-	-
Shares issued on the exercise of warrants	10,874,410	2,131,774	-	-
Shares issued on the exercise of stock options	208,500	72,240	-	-
Shares issued for licensing fee	-	-	1,560,000	78,000
Balance at end of period	60,605,716	\$ 7,110,602	17,885,001	\$ 475,625

On March 7, 2016, Patriot issued 1 common share at a price of \$0.005 in connection with the incorporation of the Company.

On April 7, 2016, Patriot issued 100,000 common shares at a price of \$0.005 per common share for total proceeds of \$500.

On June 9, 2016, Patriot issued 9,025,000 common shares at a price of \$0.005 per common share for total proceeds of \$45,125.

On July 28, 2016, Patriot issued 1,560,000 common shares with a fair value of \$78,000 to McMaster University for licensing fees (Note 6).

On July 29, 2016, Patriot issued 7,200,000 units at a price of \$0.05 per unit for total proceeds of \$360,000. Each unit is comprised of one common share and one share purchase warrant. Each common share purchase warrant is exercisable at \$0.10 per common share for a period of two years.

On August 22, 2016, Patriot issued 5,074,924 units at a price of \$0.15 per unit for total proceeds of \$761,240. Each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.30 per common share for a period of two years. The Company paid broker fees of \$64,899 and the cost of the financing was deducted from the value of the common shares.

Pursuant to the Transaction, (Note 5) the Company issued 10,862,216 common shares with a fair value of \$1,629,332.

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7. Share capital (continued)

Pursuant to the Transaction (Note 5) the Company completed a non-brokered private placement of 15,700,665 units at an issue price of \$0.15 per unit, for aggregate gross proceeds of \$2,355,100 (the "Financing"). Each unit is comprised of one common share of the Company and one Company share purchase warrant entitling the holder to acquire one Company common share at a price of \$0.30 for a period of two years, subject to certain acceleration conditions at the option of the Company. The Company paid broker fees of \$184,310 and issued 1,224,852 broker warrants exercisable at \$0.30 per common share for a period of two years with a fair value of \$65,500. The cost of the Financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100.0%
Expected dividend rate	0%
Risk-free interest rate	0.62%
Weighted average fair value per warrant granted	\$ 0.054

Warrants

Warrant activity is as follow:

	Year ended July 31, 2017		Period from date of incorporation, March 7, 2016, to July 31, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of period	7,200,000	\$ 0.10	-	\$ -
Issued	31,839,241	0.27	7,200,000	0.10
Exercised	(10,874,410)	0.19	-	-
Balance at end of period	28,164,831	\$ 0.26	7,200,000	\$ 0.10

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7. Share capital (continued)

Warrants (continued)

As at July 31, 2017, outstanding warrants are as follows:

Number of Warrants Outstanding	Weighted Average Exercise Price	Expiry Date	Weighted Average Life Remaining (months)
3,660,000	\$0.10	29-Jul-18	12.0
4,351,621	\$0.30	22-Aug-18	12.5
14,677,185	\$0.30	09-Nov-18	15.5
5,276,055	\$0.20	27-Jun-19	23.0
200,000	\$1.00	18-Nov-20	39.5
<u>28,164,861</u>			<u>16.2</u>

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 is as follow:

	Year ended July 31, 2017	Period from date of incorporation, March 7, 2016, to July 31, 2016		
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	-	\$ -	-	\$ -
Granted	5,765,000	0.40	-	-
Exercised	(208,500)	0.24	-	-
Cancelled	(200,000)	0.185	-	-
Balance at end of period	<u>5,356,500</u>	<u>\$ 0.41</u>	<u>-</u>	<u>\$ -</u>

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For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

7. Share capital (continued)

Stock options (continued)

Details of the outstanding stock options as at July 31, 2017 are as follows:

<u>Exercise price</u>	<u>Number of options outstanding at July 31, 2017</u>	<u>Weighted average remaining life (months)</u>	<u>Expiry Date</u>
\$ 0.80	75,000	36.0	July 19, 2020
\$ 1.44	200,000	40.5	December 14, 2020
\$ 0.30	650,000	48.0	August 1, 2021
\$ 0.185	1,150,000	50.0	October 3, 2021
\$ 0.30	1,866,500	50.0	October 3, 2021
\$ 0.65	1,415,000	57.5	May 18, 2022
	<u>5,356,500</u>	<u>51.2</u>	

During the year ended July 31, 2017 and period from date of incorporation, March 7, 2016, to July 31, 2016, the Company recognized share-based compensation related to stock options of \$1,286,388 and \$Nil, respectively. The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	4.9 years
Expected volatility in market price of shares	100.0%
Expected dividend rate	0%
Risk-free interest rate	0.87%
<u>Weighted average fair value per option granted</u>	<u>\$ 0.23</u>

As at July 31, 2017 all stock options were fully vested with the exception of stock options to purchase 50,000 common shares at an exercise price of \$1.44 per share which vest in equal amounts on September 14, 2017 and December 14, 2017.

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016 as these instruments are anti-dilutive.

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For the year ended July 31, 2017 and the period from the date of incorporation, March 7, 2016, to July 31, 2016

7. Share capital (continued)

Escrow securities

Pursuant to a TSX-V Form 5D Escrow Agreement among the Company, TSX Trust Company and certain securityholders of the Company, a total of 10,148,001 shares, 1,023,000 share purchase warrants, and 2,100,000 incentive stock options of the Company (collectively the "Escrowed Securities") were to be held in escrow. The Escrowed Securities are to be released at 10% on the date of the Transaction and an additional 15% every six months thereafter with the final tranche being released on November 10, 2019. As at July 31, 2017, 7,686,001 common shares, 767,250 share purchase warrants, and 1,350,000 stock options of the Company are being held in escrow.

8. 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 incurred with officers and directors of the Company or to companies controlled by officers and directors of the Company during the year ended July 31, 2017 was \$584,813. In addition, share-based compensation expense relating to officers and directors was \$297,622 for the year ended July 31, 2017.

For the period March 7, 2016 to July 31, 2016, the Company paid \$81,080 for management fees to directors and officers or companies controlled by directors or officers and \$60,000 to a company controlled by a director for relating to option fee (Note 6).

As at July 31, 2017 accounts payable and accrued liabilities includes \$37,200 (2016 - \$141,640) due to officers and directors of the Company or to companies controlled by directors and officers of the Company. As at July 31, 2017 accounts and other receivables includes \$Nil (July 31, 2016 - \$30,166) due from a company controlled by a former director of the Company for expenses paid by the Company.

9. Supplemental Cash Flow Information

Non-cash activities during the year ended July 31, 2017 were conducted by the Company as follows:

Fair value of 10,862,216 common shares issued (Note 5)	\$1,629,332
Fair value of 9,838,800 share purchase warrants issued (Note 5)	\$ 769,679
Fair value of 250,000 stock options issued (Note 5)	\$ 26,514
Fair value of broker warrants	\$ 65,500
Transfer of contributed surplus on exercise of broker warrants	\$ 13,724
Transfer of contributed surplus on exercise of stock options	\$ 21,190
Deferred financing costs included in accounts payable	\$ 154,976

Non-cash activities during the period from the date of incorporation, March 7, 2016, to July 31, 2016 were conducted by the Company as follows:

Fair value of 1,560,000 common shares issued for licensing fees (Note 6)	\$ 78,000
Share issue costs included in accounts payable and accrued liabilities	\$ 8,000

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10. Financial Instruments and Risk Management

As at July 31, 2017, the Company's financial instruments comprise cash and cash equivalents, accounts and other receivables and accounts payable and accrued liabilities. The fair values of accounts and other receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. 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).

As at July 31, 2017, the fair value of cash and cash equivalents held by the Company was based on Level 1 of the fair value hierarchy.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order 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 July 31, 2017, the Company had cash and cash equivalents of \$5,184,904 to settle current liabilities of \$587,776. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and 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 amounts receivable. 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. The Company's accounts receivable consists of sales tax refundable from the Canada Revenue Agency and is not subject to significant credit risk.

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10. Financial Instruments and Risk Management (continued)

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 commodity and equity prices.

i. 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.

ii. Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. Substantially all of the Company's assets, liabilities and operations are denominated in Canadian dollars. As at July 31, 2017 and 2016, 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.

iii. 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.

11. Capital Management

The Company defines its capital as its shareholders' equity. It manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the research, development and commercialization of its systems to detect concealed weapons utilizing radar technologies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage and, as a result, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's capital management objectives, policies and processes have not been changed over the period presented. The Company is not subject to any externally imposed capital requirements.

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12. Income Taxes

The reconciliation of the combined federal and provincial income tax rate to the income tax expenses presented in the consolidated statement of operations and comprehensive loss is as follows:

	Year ended July 31, 2017	Period from date of incorporation, March 7, 2016, to July 31, 2016
Loss for the period before income taxes	\$ (7,736,822)	\$ (604,242)
<u>Combined Canadian federal and provincial statutory rate</u>	<u>26.0%</u>	<u>26.0%</u>
Income tax expense (recovery) at statutory rate	(2,012,000)	(157,000)
Reconciliation of effective rate		
Change in unrecognized deductible temporary differences	1,208,000	137,000
Permanent differences	867,000	20,000
Share issue costs	(67,000)	(2,000)
Other	4,000	2,000
<u>Income tax expense (recovery)</u>	<u>\$ -</u>	<u>\$ -</u>

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	<u>July 31, 2017</u>		<u>July 31, 2016</u>	
	Amount	Expiry	Amount	Expiry
Non-Capital losses	\$ 7,311,000	2027 - 2037	\$ 518,000	2036
Share issue costs	215,000	2038 - 2041	6,000	2040
	<u>\$ 7,526,000</u>		<u>\$ 524,000</u>	

13. Segmented Information

The Company currently operates in one business segment, being the research, development and commercialization a system to detect concealed weapons using radar technologies.

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14. Commitments

Operating lease commitments

The Company is committed to various operating leases for office premises with remaining terms up to January 2019. For the fiscal years ended July 31, the future minimum lease payments under these operating leases are as follows:

2018	\$	96,559
2019		56,794
		<hr/>
	\$	153,353

15. Subsequent events

Subsequent to July 31, 2017, the Company:

- granted stock options to allow the holders to acquire 125,000 common shares at \$0.65 per share, 150,000 common shares at \$1.00 per share, 100,000 common shares at \$0.73 per share and 190,000 common shares at \$1.47. Each of these options was granted for a term of five years;
- issued 212,000 common shares for cash of \$63,600 on the exercise of stock options and issued 6,396,929 common shares for cash of \$1,691,027 on the exercise of warrants;
- issued 6,612,500 units (the "Units") for gross proceeds of \$4,628,750 pursuant to a brokered private placement. Each unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 3,306,500 Warrants allow the holders to acquire an additional common share at \$1.25 per share until July 13, 2020. In addition, the Company issued the agents 32,250 common shares valued at \$22,575 and 16,125 warrants which allow the holder to purchase an additional 16,125 common shares at an exercise price of \$1.25 per share until July 13, 2020. Further, the agents received an additional 53,571 common shares as a corporate finance fee and 462,875 warrants (the "Broker Warrants"). The Broker Warrants may be converted into 462,875 common shares at an exercise price of \$1.00 per share until July 13, 2020. Finally, the Company paid the agents a cash commission of \$301,438, a corporate finance fee of \$37,500 and \$65,500 for legal costs of the agents; and
- issued 9,602,500 units (the "Units") for gross proceeds of \$11,523,000 pursuant to a bought deal equity financing. Each Unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 4,801,250 Warrants allow the holders to acquire an additional common share at \$1.70 per share until October 31, 2020. In addition, the agents received 672,175 agent warrants that allow holders to acquire 672,175 common shares at \$1.20 per share until October 31, 2019. Finally, the Company paid the agents a cash commission of \$806,610 and \$84,143 for legal costs of the agents.