



**PATRIOT ONE TECHNOLOGIES INC.**

Consolidated Financial Statements

Year ended July 31, 2018 and 2017

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Patriot One Technologies Inc.

We have audited the accompanying consolidated financial statements of Patriot One Technologies Inc., which comprise the consolidated statements of financial position as at July 31, 2018 and 2017, 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. as at July 31, 2018 and 2017 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  
November 28, 2018

Chartered Professional Accountants



# PATRIOT ONE TECHNOLOGIES INC.

Consolidated Statements of Financial Position as at July 31,

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 17,576,735	\$ 5,184,904
Short term investments (Note 7)	15,060,055	-
Receivables	482,898	180,926
Prepaid expenses and deposits	403,437	67,446
Inventory	204,165	164,138
Deferred financing costs	-	579,299
	<hr/> 33,727,290	<hr/> 6,176,713
Property, plant and Equipment (Note 8)	564,662	-
<b>Total assets</b>	<hr/> <b>\$ 34,291,952</b>	<hr/> <b>\$ 6,176,713</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 757,824	\$ 665,258
<b>Shareholders' equity</b>		
Share capital (Note 9)	49,232,014	7,110,602
Share subscriptions	-	4,628,750
Contributed surplus	4,628,954	2,113,167
Accumulated deficit	(20,326,840)	(8,341,064)
	<hr/> 33,534,128	<hr/> 5,511,455
<b>Total liabilities and shareholders' equity</b>	<hr/> <b>\$ 34,291,952</b>	<hr/> <b>\$ 6,176,713</b>
Reporting entity (Note 1)		
Commitments (Note 16)		
Subsequent events (Note 17)		

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.

Consolidated Statements of Loss and Comprehensive Loss for the years ended July 31,

	<u>2018</u>	<u>2017</u>
<b>Expenses</b>		
Advertising and marketing	\$ 1,024,121	\$ 364,067
Business development	868,675	422,095
Conferences and trade shows	714,387	352,465
Depreciation (Note 8)	34,304	-
General and administrative	833,393	199,697
Licensing	175,401	92,244
Listing costs (Note 5)	-	2,625,184
Personnel costs	1,940,015	536,418
Professional fees	427,621	219,717
Research and development	4,750,193	1,638,547
Share-based compensation (Note 9)	1,217,666	1,286,388
<b>Loss and comprehensive loss for the year</b>	<b>\$ 11,985,776</b>	<b>\$ 7,736,822</b>
<b>Weighted average number of shares</b>	<b>89,217,039</b>	<b>46,154,571</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.13</b>	<b>\$ 0.17</b>

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

## PATRIOT ONE TECHNOLOGIES INC.

### Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

	Share Capital		Share Subscriptions	Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount				
Balance - July 31, 2017	60,605,716	\$ 7,110,602	\$ 4,628,750	\$ 2,113,167	\$ (8,341,064)	\$ 5,511,455
Shares issued on prospectus financings, net of share issue costs (Note 9)	28,950,821	35,813,867	(4,628,750)	1,886,367	-	33,071,484
Shares issued on the exercise of warrants	20,538,992	5,774,506	-	(414,932)	-	5,359,574
Shares issued on the exercise of stock options	861,500	533,039	-	(173,314)	-	359,725
Share-based compensation (Note 9)	-	-	-	1,217,666	-	1,217,666
Net loss for the year	-	-	-	-	(11,985,776)	(11,985,776)
<b>Balance - July 31, 2018</b>	<b>110,957,029</b>	<b>\$ 49,232,014</b>	<b>\$ -</b>	<b>\$ 4,628,954</b>	<b>\$ (20,326,840)</b>	<b>\$ 33,534,128</b>
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 9)	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	-	-	4,628,750	-	-	4,628,750
Share-based compensation (Note 9)	-	-	-	1,286,388	-	1,286,388
Net loss for the year	-	-	-	-	(7,736,822)	(7,736,822)
<b>Balance - July 31, 2017</b>	<b>60,605,716</b>	<b>\$ 7,110,602</b>	<b>\$ 4,628,750</b>	<b>\$ 2,113,167</b>	<b>\$ (8,341,064)</b>	<b>\$ 5,511,455</b>

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

## PATRIOT ONE TECHNOLOGIES INC.

Consolidated Statements of Cash Flows for the years ended July 31,

	2018	2017
<b>Cash flow (used in) operating activities</b>		
Loss for the year	\$ (11,985,776)	\$ (7,736,822)
Adjustment for:		
Share-based compensation (Note 9)	1,217,666	1,286,388
Depreciation	34,304	-
Listing cost - fair value of securities issued on Transaction (Note 5)	-	2,603,010
	(10,733,806)	(3,847,424)
Changes in non-cash operating working capital		
Receivables	(301,972)	(141,280)
Prepaid expenses and deposits	(335,991)	(58,012)
Inventory	(40,027)	(164,138)
Accounts payable and accrued liabilities	92,566	82,572
Cash used in operating activities	(11,319,230)	(4,128,282)
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment (Note 8)	(598,966)	-
Investment in guaranteed cash investment securities	(15,060,055)	-
Cash received on Transaction (Note 5)	-	2,303
Cash (used) received in investing activities	(15,659,021)	2,303
<b>Cash flow from financing activities</b>		
Proceeds on issue of share capital, net of share issue costs	39,370,082	4,911,366
Share subscriptions received, less deferred financing costs	-	4,204,427
Cash received from financing activities	39,370,082	9,115,793
<b>Increase in cash and cash equivalents for the year</b>	12,391,831	4,989,814
<b>Cash and cash equivalents at beginning of year</b>	5,184,904	195,090
<b>Cash and cash equivalents at end of year</b>	\$ 17,576,735	\$ 5,184,904
<b>Cash and cash equivalents comprise:</b>		
Cash	\$ 2,525,272	\$ 5,184,904
Cash equivalents	15,051,463	-
	\$ 17,576,735	\$ 5,184,904

### SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

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

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 1. Reporting entity

Patriot One Technologies Inc. (the "Company"), 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") and Patriot One (UK) Limited, 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.

## 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 28, 2018.

### *(b) Principles of consolidation*

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

### *(d) Basis of measurement*

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments classified as fair value through profit and loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### *(e) Comparative figures*

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

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## **3. Significant accounting policies**

### *(f) 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.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 3. Significant accounting policies (continued)

### (f) 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 and cash equivalents and short term investments.

#### (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.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 3. Significant accounting policies (continued)

### *(g) 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.**

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## **3. Significant accounting policies (continued)**

### *(h) 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.

### *(i) 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.

### *(j) Cash and cash equivalents*

Cash and cash equivalents consist of balances and investments in highly liquid short-term deposits, which may be converted into cash within 24 hours. Deposits with banks and short-term interest bearing investments with original term to maturity greater than three months but less than one year are presented as short-term investments.

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 3. Significant accounting policies (continued)

### *(k) 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.

#### *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, 2018.

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 3. Significant accounting policies (continued)

### *(l) 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.

### *(m) 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.

### *(n) Property, plant and equipment*

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated to write-off the cost of items of property, plant and equipment less the estimated residual value over the estimated useful lives of the assets on a declining balance basis and is recognized in profit or loss. The depreciation rates are as follows:

Furniture and fixtures	20%
Machinery and equipment	25%
Office equipment	55%
Office software	100%

Depreciation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income in profit or loss.

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## **4. New standards and interpretations not yet adopted**

New accounting standards and interpretations not yet effective The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards. Effective (proposed) for annual years beginning on or after January 1, 2018:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. The Company will adopt IFRS 9 on August 1, 2018 retrospectively and has determined that no differences of any significance have been noted in relation to the adoption of the standard with the exception of increased disclosure.

IFRS 15, Revenue from Contracts with Customers: IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. The amended standard will be adopted on August 1, 2018 and the Company has determined it will not have an impact on the consolidated financial statements.

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lease 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Company has not yet completed the process of assessing the impact of IFRS 16 will have on its consolidated financial statements, or whether to early adopt this new requirement. The Company will adopt IFRS 16 on August 1, 2019. The Company is still assessing the impact of this standard.

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

### 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.

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## **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. 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.

## **7. Short term investments**

Short term investments consist guaranteed investment certificates which as at the date of acquisition had a maturity date of more than three months. Subsequent to July 31, 2018, certificates with a carrying value of \$10,037,699 became eligible for redemption and the balance may be redeemed in May 2019.

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 8. Property, plant and equipment

	Office Equipment	Office Software	Furniture & Fixtures	Machinery & Equipment	Total
Cost					
Balance at July 31, 2017 and 2016	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	183,841	58,808	178,959	177,358	598,966
Balance at July 31, 2018	183,841	\$ 58,808	178,959	177,358	598,966
Accumulated depreciation					
Balance at July 31, 2017 and 2016	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation & amortization	14,530	9,523	4,668	5,583	34,304
Balance at July 31, 2018	14,530	9,523	4,668	5,583	34,304
Carrying amount at July 31, 2018	\$ 169,311	\$ 49,285	\$ 174,291	\$ 171,775	\$ 564,662
Carrying amount as at July 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -

## 9. 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 for the years ended July 31, is as follows:

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	60,605,716	\$ 7,110,602	17,885,001	\$ 475,625
Shares issued for cash, net of share issue costs	28,865,000	35,753,792	20,775,589	2,801,631
Shares issued for agency fees	32,250	22,575	-	-
Shares issued for corporate finance fees	53,571	37,500	-	-
Shares issued on the exercise of warrants	20,538,992	5,774,506	10,874,410	2,131,774
Shares issued on the exercise of stock options	861,500	533,039	208,500	72,240
Shares issued on Transaction at fair value (Note 4)	-	-	10,862,216	1,629,332
Balance at end of year	110,957,029	\$ 49,232,014	60,605,716	\$ 7,110,602

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 9. Share capital (continued)

On February 22, 2018, the Company issued 12,650,000 units (the "Units") for gross proceeds of \$25,300,000 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 6,325,000 Warrants allow the holders to acquire an additional common share at \$2.40 per share until February 16, 2021. The Company paid the agents a cash commission of \$1,771,000 and \$97,120 for legal costs of the agents.

The Company issued 885,500 broker warrants exercisable at \$2.00 per share until February 16, 2020. The fair value of these broker warrants was \$1,124,076, which along with the other costs of this financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100%
Expected dividend rate	0%
Risk-free interest rate	1.82%
<hr/>	
Weighted average fair value per warrant granted	\$ 1.2694

On October 31, 2017, the Company 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. The Company paid the agents a cash commission of \$806,610 and \$84,143 for legal costs of the agents.

The Company issued 672,175 broker warrants exercisable at \$1.20 per share until October 31, 2019. The fair value of these broker warrants was \$568,239, which along with the other costs of this financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100%
Expected dividend rate	0%
Risk-free interest rate	1.39%
<hr/>	
Weighted average fair value per warrant granted	\$ 0.8454

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

### 9. Share capital (continued)

On August 29, 2017, the Company 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 3,306,250 Warrants allow the holders to acquire an additional common share at \$1.25 per share until July 13, 2020. 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. In addition, the Company issued 32,250 common shares valued at \$22,575 as an agency fee and 53,571 common shares valued at \$37,500 as a corporate finance fee.

The Company incurred additional costs of \$648,280 with respect to shares issued during the year ended July 31, 2018, of which \$579,299 were included in deferred financing costs as at July 31, 2017.

The Company issued 462,875 broker warrants exercisable at \$1.00 per common share until July 13, 2020 and 16,125 agency fee warrants exercisable at \$1.25 per common share until July 12, 2020. The fair value of the broker warrants was \$188,036 and the fair value of the agency fee warrants was \$6,016, which along with the other costs of this financing have 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:

	<u>Broker warrants</u>	<u>Agency fee warrants</u>
Expected life	3 years	3 years
Expected volatility in market price of shares	100%	100%
Expected dividend rate	0%	0%
Risk-free interest rate	0.87%	0.87%
<b>Weighted average fair value per warrant granted</b>	<b>\$ 0.4062</b>	<b>\$ 0.3731</b>

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.

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

### 9. Share capital (continued)

On November 9, 2016, 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%
<b>Weighted average fair value per warrant granted</b>	<b>\$ 0.054</b>

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

#### *Warrants*

Warrant activity for the years ended July 31, is as follow:

	2018		2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of the year	28,164,831	\$ 0.26	7,200,000	\$ 0.10
Issued	16,469,175	1.85	31,839,241	0.27
Exercised	(20,538,992)	0.26	(10,874,410)	0.19
<b>Balance at end of the year</b>	<b>24,095,014</b>	<b>\$ 1.35</b>	<b>28,164,831</b>	<b>\$ 0.26</b>

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

### 9. Share capital (continued)

As at July 31, 2018, outstanding warrants are as follows:

Number of Warrants Outstanding	Weighted Average Exercise Price	Expiry Date	Weighted Average Life Remaining (months)
98,600	\$0.30	August 22, 2018	0.7
5,610,040	\$0.30	November 9, 2018	3.3
2,066,370	\$0.20	June 27, 2019	10.9
672,175	\$1.20	October 31, 2019	15.0
885,500	\$2.00	February 16, 2020	18.6
3,310,675	\$1.25	July 13, 2020	23.4
180,404	\$1.00	July 13, 2020	23.4
4,796,250	\$1.70	October 31, 2020	27.0
150,000	\$1.00	November 18, 2020	27.7
6,325,000	\$2.40	February 16, 2021	30.6
<u>24,095,014</u>	<u>\$1.35</u>		<u>19.8</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 for the years ended July 31 is as follow:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the year	5,356,500	\$ 0.41	-	\$ -
Granted	1,535,000	1.32	5,765,000	0.40
Exercised	(861,500)	0.42	(208,500)	0.24
Cancelled	-	-	(200,000)	0.185
Balance at end of the year	<u>6,030,000</u>	<u>\$ 0.62</u>	<u>5,356,500</u>	<u>\$ 0.41</u>

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

### 9. Share capital (continued)

Details of the outstanding stock options as at July 31, 2018 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
125,000	\$ 1.00	September 15, 2020	25.5	125,000	\$ 1.00
200,000	\$ 1.44	December 14, 2020	28.5	200,000	\$ 1.44
150,000	\$ 1.71	February 22, 2021	30.8	150,000	\$ 1.71
345,000	\$ 1.30	June 22, 2021	34.8	280,000	\$ 1.30
250,000	\$ 1.35	July 10, 2021	35.3	250,000	\$ 1.35
550,000	\$ 0.30	August 1, 2021	36.0	550,000	\$ 0.30
985,000	\$ 0.185	October 3, 2021	38.1	985,000	\$ 0.19
1,545,000	\$ 0.30	October 3, 2021	38.1	1,545,000	\$ 0.30
1,290,000	\$ 0.65	May 18, 2022	45.6	1,290,000	\$ 0.65
125,000	\$ 0.65	September 5, 2022	49.2	125,000	\$ 0.65
50,000	\$ 0.73	October 2, 2022	50.1	25,000	\$ 0.73
190,000	\$ 1.47	November 1, 2022	51.1	190,000	\$ 1.47
150,000	\$ 1.82	March 22, 2023	55.7	18,750	\$ 1.82
75,000	\$ 1.61	April 4, 2023	56.2	75,000	\$ 1.61
<b>6,030,000</b>	<b>\$ 0.62</b>		<b>39.9</b>	<b>5,808,750</b>	<b>\$ 0.58</b>

During the year ended July 31, 2018, the Company recognized share-based compensation related to stock options of \$1,217,666 (2017 - \$1,286,388). 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:

	<b>2018</b>	<b>2017</b>
Expected life	3.8 years	4.9 years
Expected volatility in market price of shares	100.0%	100.0%
Expected dividend rate	0%	0%
Risk-free interest rate	1.86%	0.87%
<b>Weighted average fair value per option granted</b>	<b>\$ 0.90</b>	<b>\$ 0.23</b>

#### *Loss per share*

Stock options and warrants are not included in the determination of fully diluted loss per share for the years ended July 31, 2018 and 2017 as these instruments are anti-dilutive.

#### *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 10,248,001 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, 2018, 4,611,601 common shares, 460,350 share purchase warrants, and 810,000 stock options of the Company are being held in escrow.

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 10. 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, 2018 was \$965,338 (2017 - \$584,813). In addition, share-based compensation expense relating to officers and directors for the year ended July 31, 2018 was \$271,725 (2017 - \$297,622).

As at July 31, 2018 accounts payable and accrued liabilities includes \$Nil (2017 - \$37,200) due to officers and directors of the Company or to companies controlled by directors and officers of the Company.

During the year ended July 31, 2018, the Company incurred research and development related expenses of \$694,921 (2017 - \$484,640) with a company for which a director and former officer of the Company became an officer in May 2018, of which \$11,707 is included in accounts payable and accrued liabilities as at July 31, 2018 (2017 - \$72,386).

## 11. Supplemental Cash Flow Information

Non-cash activities during the year ended July 31, 2018 were conducted by the Company as follows:

Fair value of 53,371 common shares issued as corporate finance fee	\$ 37,500
Fair value of 32,250 common shares issued for agency fee	\$ 22,575
Fair value of 672,175 warrants issued for broker fees	\$ 568,239
Fair value of 462,875 warrants issued for broker fees	\$ 188,036
Fair value of 16,125 warrants issued for agency fee	\$ 6,015
Fair value of 885,500 warrants issued for broker fees	\$1,124,076
Transfer of contributed surplus on exercise of broker warrants	\$ 414,932
Transfer of contributed surplus on exercise of stock options	\$ 173,314
Transfer of deferred acquisition costs to share capital	\$ 579,299

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

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## **12. Financial Instruments and Risk Management**

As at July 31, 2018, the Company's financial instruments comprise cash and cash equivalents, short term investments, receivables and accounts payable and accrued liabilities. The fair values of 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, 2018, the fair value of cash and cash equivalents and short term investments 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, 2018, the Company had cash and cash equivalents of \$17,576,735 to settle current liabilities of \$757,824. 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.

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## **12. 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, 2018 and 2017, 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.

## **13. 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.

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 14. 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:

	<u>2018</u>	<u>2017</u>
Loss for the period before income taxes	\$ (11,985,776)	\$ (7,736,822)
<u>Combined Canadian federal and provincial statutory rate</u>	<u>27.0%</u>	<u>26.0%</u>
Income tax expense (recovery) at statutory rate	(3,236,000)	(2,012,000)
Reconciliation of effective rate		
Change in unrecognized deductible temporary differences	(92,000)	1,208,000
Permanent differences	341,000	867,000
Share issue costs	(998,000)	(67,000)
Adjustment to prior year provision versus statutory tax return	108,000	-
Changes in unrecognized deductible temporary timing differences and other items	3,877,000	4,000
<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, 2018</u>		<u>July 31, 2017</u>	
	Amount	Expiry	Amount	Expiry
Non-Capital losses - Canada	\$ 17,930,000	2029 - 2039	\$ 7,311,000	2027 - 2037
Non-Capital losses - United Kingdom	456,000	indefinite	-	
Share issue costs	3,164,000	2039 - 2042	215,000	2038 - 2041
	<u>\$ 21,550,000</u>		<u>\$ 7,526,000</u>	

## 15. 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. Details on a geographical basis for total non-current assets are as follows:

	<u>July 31, 2018</u>	<u>July 31, 2017</u>
Canada	\$ 521,000	\$ -
United Kingdom	43,662	-
	<u>\$ 564,662</u>	<u>\$ -</u>

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
For the years ended July 31, 2018 and 2017

## 16. 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:

2019	183,175
2020	125,458
2021	61,675
	<hr/>
	\$ 370,308

## 17. Subsequent events

Subsequent to July 31, 2018, the Company:

- a. granted stock options to allow the holders to acquire 675,000 common shares at \$2.48 per share and 50,000 common shares at \$1.62 per share. Each of these options was granted for a term of five years;
- b. issued 347,500 common shares for cash of \$178,875 on the exercise of stock options and issued 6,128,515 common shares for cash of \$1,882,512 on the exercise of warrants;
- c. had warrants to purchase 15,000 common shares at \$0.30 per share expire unexercised;
- d. issued 18,400,000 units (the "Units") for gross proceeds of \$46,000,000 pursuant to a bought deal equity financing. Each Unit consisted of one common share and one common share purchase warrant. These 18,400,000 warrants allow the holders to acquire an additional common share at \$3.25 per share until November 21, 2020. In addition, the agents received 885,500 agent warrants that allow holders to acquire 1,288,000 common shares at \$2.50 per share until November 20, 2020. Finally, the Company paid the agents a cash commission of \$3,220,000 and \$95,851 for legal fees and underwriters' costs of the agents: and
- e. entered into an agreement to acquire 100% of the issued and outstanding shares of EhEye Inc., a company incorporated under the laws of New Brunswick, Canada for consideration of 1,636,363 common shares of the Company (the "Transaction"). EhEye Inc. has developed video threat recognition software that automates the detection of weapons, disturbances and suspicious behaviours through existing camera infrastructure, which the Company believes this will compliment its covert weapon detection system. The Transaction is subject to a number of standard closing conditions, including any required approvals of the TSX Venture Exchange.