



PATRIOT ONE TECHNOLOGIES INC.

Unaudited Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2019 and 2018

Notice of No Auditors Review of Interim Financial Statements

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

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

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

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Statements of Financial Position

	October 31, 2019	July 31, 2019
	(Unaudited)	(Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 38,229,629	\$ 50,637,942
Receivables	1,649,029	1,509,583
Prepaid expenses and deposits	615,515	694,114
Inventory	989,542	987,562
	<hr/> 41,483,715	<hr/> 53,829,201
Property, plant and equipment	2,085,910	1,620,488
Investment in joint venture (Note 5)	4,592,534	3,386,390
Intangible assets (Note 6)	8,134,992	7,915,175
Right of use assets (Note 7)	1,207,643	-
Goodwill	25,583,478	2,588,614
	<hr/> \$ 83,088,272	<hr/> \$ 69,339,868
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,794,907	\$ 1,930,104
Current portion of lease liability (Note 7)	519,098	-
	<hr/> 4,314,005	<hr/> 1,930,104
Non-Current Liabilities		
Non-current portion of lease liability (Note 7)	703,290	-
	<hr/> 5,017,295	<hr/> 1,930,104
Shareholders' equity		
Share capital (Note 8)	114,322,545	96,243,400
Contributed surplus	8,814,815	8,925,171
Accumulated deficit	(45,066,383)	(37,758,807)
	<hr/> 78,070,977	<hr/> 67,409,764
Total liabilities and shareholders' equity	<hr/> \$ 83,088,272	<hr/> \$ 69,339,868

Reporting entity (Note 1)
Basis of preparation (Note 2)
Subsequent event (Note 12)

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

Approved on behalf of the Board:

"Martin Cronin"

Director, Chief Executive Officer

"Peter van der Gracht"

Director, Acting Chairman of the Board

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss for the three months ended October 31,
(Unaudited)

	2019	2018
Revenue (Note 9)	\$ 116,574	\$ -
Expenses		
Advertising and marketing	628,513	668,941
Amortization	251,058	-
Depreciation	262,769	62,353
Business development	257,646	494,490
Conferences and trade shows	519,094	78,726
General and administration	692,639	395,204
Licensing	5,110	45,392
Personnel costs	940,756	489,425
Professional fees (Note 4)	1,894,140	247,511
Research and development	1,156,799	915,268
Share-based compensation (Note 8)	458,956	1,361,221
	7,067,480	4,758,531
Loss before undernoted items	(6,950,906)	(4,758,531)
Equity loss on joint venture (Note 5)	(561,161)	-
Interest income	204,490	156,290
Loss and comprehensive loss for the period	\$ (7,307,577)	\$ (4,602,241)
Weighted average number of shares	145,765,769	113,425,367
Basic and diluted loss per share	\$ (0.05)	\$ (0.04)

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

PATRIOT ONE TECHNOLOGIES INC.

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

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2019	139,999,937	\$ 96,243,400	\$ 8,925,171	\$ (37,758,806)	\$ 67,409,765
Shares issued on the acquisition of Xtract (Note 4)	9,422,956	16,867,090	-	-	16,867,090
Shares issued on the exercise of warrants	534,942	1,203,206	(568,239)	-	634,967
Shares issued on the exercise of stock options	11,108	8,849	(1,073)	-	7,776
Share-based compensation (Note 8)	-	-	458,956	-	458,956
Loss for the period	-	-	-	(7,307,577)	(7,307,577)
Balance - October 31, 2019	149,968,943	\$ 114,322,545	\$ 8,814,815	\$ (45,066,383)	\$ 78,070,977
Balance - July 31, 2018	110,957,029	\$ 49,232,014	\$ 4,628,954	\$ (20,326,840)	\$ 33,534,128
Shares issued on the exercise of warrants	5,106,665	1,563,331	(80,059)	-	1,483,272
Shares issued on the exercise of stock options	312,500	258,935	(38,826)	-	220,109
Share-based compensation (Note 8)	-	-	1,361,221	-	1,361,221
Loss for the period	-	-	-	(4,602,241)	(4,602,241)
Balance - October 31, 2018	116,376,194	\$ 51,054,280	\$ 5,871,290	\$ (24,929,081)	\$ 31,996,489

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

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Cash Flows for the three months ended October 31,
(Unaudited)

	2019	2018
Cash flow (used in) operating activities		
Loss and comprehensive loss for the period	\$ (7,307,577)	\$ (4,602,241)
Adjustment for:		
Share-based compensation (Note 8)	458,956	1,361,221
Depreciation	262,769	62,353
Amortization	251,058	-
Loss recognized on joint venture investment	561,161	-
	(5,773,633)	(3,178,667)
Changes in non-cash operating working capital		
Receivables	374,166	89,500
Prepaid expenses and deposits	78,599	(173,918)
Inventory	(1,980)	(13,016)
Accounts payable and accrued liabilities	1,559,034	655,373
Cash used in operating activities	(3,763,814)	(2,620,728)
Cash flow (to) from investing activities		
Purchase of property, plant and equipment	(655,633)	(106,413)
Cash consideration to acquire Xtract, net of cash received (Note 4)	(6,764,050)	-
Cash payments and funding of investment in joint venture (Note 5)	(1,767,305)	-
Capitlized development costs (Note 6)	(115,000)	-
Lease liabilities, net of lease assets	14,745	-
Redemption of guaranteed cash investment	-	9,995,083
Cash (used in) received from investing activities	(9,287,243)	9,888,670
Cash flow from financing activities		
Proceeds on issue of share capital, net of share issue costs	642,743	1,703,381
Cash received from financing activities	642,743	1,703,381
Increase (decrease) in cash and cash equivalents for the period	(12,408,314)	8,971,323
Cash and cash equivalents at beginning of period	50,637,942	17,576,735
Cash and cash equivalents at end of period	\$ 38,229,628	\$ 26,548,058
Cash and cash equivalents comprise:		
Cash	\$ 38,229,629	\$ 1,275,112
Cash equivalents	-	25,272,946
	\$ 38,229,629	\$ 26,548,058

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

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

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

1. Reporting entity

Patriot One Technologies Inc. (the "Company"), was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed on the Toronto Stock Exchange under the trading symbol "PAT". The Company's wholly owned subsidiaries include Patriot One Detection Ltd. ("Patriot"), Patriot One (UK) Limited ("Patriot UK"), Patriot One Detection Technologies Inc ("Patriot US"), EhEye Inc. ("EhEye") and Xtract Technologies Inc ("Xtract"), acquired on September 9, 2019 (Note 4). In addition, Patriot US has a 49% equity interest in Sotech Secure, LLC ("Sotech") (Note 5). The Company, through its subsidiaries is principally engaged in the development and commercialization of systems to detect concealed weapons.

The Company's registered 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 condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance with International Accounting Standard ("IAS 34"), *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the audited consolidated financial statements of the Company for the year ended July 31, 2019 and should be read in conjunction with those financial statements. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on December 16, 2019.

(b) Principles of consolidation

(i) Subsidiaries

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company which include Patriot One Detection Ltd., Patriot One (UK) Limited, Patriot One Detection Technologies Inc., EhEye Inc. and Xtract Technologies Inc.. 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.

(ii) Interests in equity-accounted investees

The Company's interests in equity-accounted investees comprise interests in a joint venture. A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Interests in the joint venture are accounted for using the equity method. They are initially recognized at cost. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit and loss and other comprehensive income of equity accounted investees, until the date on which significant influence of joint control ceases.

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

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Basis of measurement

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

(e) Accounting assumptions, estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results may differ from the estimates applied in the preparation of these condensed consolidated interim financial statements.

Significant areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: share-based payments, useful life of property, plant and equipment, impairment of long-lived assets, and the fair value of equity instruments issued in connection with private placements.

Critical judgments that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: assessment of transactions as asset acquisitions or business combinations, assessment of the Company's ability to continue as a going concern and determination of the classification of financial instruments.

3. Significant Accounting Policies

(a) Revenue Recognition

Revenue arising from providing customized research and software development is measured at the fair value of the consideration received or receivable. Contract revenue includes the initial contractual amount plus any variations in contract work, claims and incentive payments, to the extent that they are probable and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue is recognized in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

(b) Adoption of IFRS 16

The Company has adopted IFRS 16 with an initial adoption date of August 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations.

IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The Company's accounting policy under IFRS 16 is as follows:

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

3. Significant Accounting Policies (continued)

(b) Adoption of IFRS 16 (continued)

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The assets are depreciated over the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use asset. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

The carrying amounts of the company's right-of-use assets, lease liabilities and the movements during the period is as follows:

Impact on adoption

The effect of adoption of IFRS 16 as at August 1, 2019 was as follows:

Assets	
Right of use assets	\$ 1,216,544
Prepayments	(44,000)
Total Assets	\$ 1,172,544
Liabilities	
Lease liability	\$ 1,172,544

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

3. Significant Accounting Policies (continued)

The carrying amounts of the company's right-of-use assets, lease liabilities as at October 31, 2019 and the movements during the three months ended October 31, 2019 were as follows:

	Right of use asset	Lease Liability
As at August 1, 2019	\$ 1,172,544	\$ 1,172,544
Additions	150,071	150,071
Depreciation	(119,765)	-
Interest costs	-	24,830
Payments	-	(129,850)
Foreign exchange adjustments	4,793	4,793
As at October 31, 2019	\$ 1,207,643	\$ 1,222,388

Had this standard not been applied, assets and liabilities as at October 31, 2019 would have been reduced by \$1,207,643 and \$1,222,388 respectively.

4. Acquisition of Xtract Technologies Inc.

Effective September 9, 2019 the Company acquired 100% of the issued and outstanding shares of Xtract Technologies Inc. ("Xtract"), a private company incorporated in British Columbia. Xtract develops and commercializes artificial intelligence, machine learning, deep neural network and predictive solutions utilizing its proprietary technology for public institutions and private enterprises. The purchase price included a cash payment of \$6,000,000, a working capital adjustment and option holder payout of \$1,546,526 and the issuance of 9,422,956 common shares ("Consideration Shares") at a fair value of \$16,867,091. Subject to certain exceptions based on the business of the Company or the performance of the Company's common share price, the Consideration Shares will be subject to escrow restrictions and released on a quarterly basis over the next 12 consecutive fiscal quarters of the Company.

The consideration paid and the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed in the acquisition at September 9, 2019 are as follows:

Consideration		
Cash	\$	6,000,000
Working capital adjustment and option holder payout		1,546,526
Shares issued		16,867,091
<u>Total consideration</u>	<u>\$</u>	<u>24,413,617</u>
Net assets acquired		
Cash	\$	782,476
Accounts receivable & unbilled revenue		513,613
Property, plant and equipment		72,559
Government Contracts		355,875
Accounts payable and accrued liabilities		(305,769)
Goodwill		22,994,863
<u>Total</u>	<u>\$</u>	<u>24,413,617</u>

Amongst other things, the goodwill recognized reflects future cash flows from Xtract contracts, cost savings in development of the PATSCAN platform and expected growth in the underlying markets in which the Company operates. The goodwill is not tax deductible.

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

4. Acquisition of Xtract Technologies Inc. (continued)

During the three months ended October 31, 2019, the Company paid \$1,270,000 for a fairness opinion and other advisory services in connection with the acquisition of Xtract, which are included in professional fees.

As of the date of these condensed consolidated interim financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of the net assets acquired, specifically the fair value of intangible assets acquired, the fair value of the threat recognition software. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary fair value above and are subject to change within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

5. Investment in joint venture

As at October 31, 2019, the Company has a 49% interest in Sotech Secure, LLC ("Sotech"), a Delaware Limited Liability company and NanoBio Detection Systems LLC ("NanoBio") has a 51% interest. Pursuant to the underlying operating agreement NanoBio has the option to increase its interest in Sotech by an additional 19% at any time prior to January 18, 2020 by payment to the Company of an amount equal to the total of the funding by the Company as of the time of the option exercise. The Company's investment in Sotech, which is classified as a joint venture, is accounted for using the equity method.

As at October 31, 2019, the carrying value of the investment in Sotech is comprised of:

Initial capital contributions	\$ 2,629,600
Reduction in ownership interest on option exercise	(1,342)
Funding advances on demand line of credit	3,351,002
Share of net loss from continuing operations	(1,386,726)
Carrying value at October 31, 2019	\$ 4,592,534

The following table summarizes the financial information of Sotech in its own financial statements:

	October 31, 2019	July 31, 2019
Current assets	\$ 587,261	\$ 275,882
Non-current assets	5,256,800	5,256,800
Current liabilities	(159,877)	(210,146)
Non-current liabilities	(3,356,793)	(1,721,258)
Total net assets (100%)	\$ 2,327,391	\$ 3,601,278
Company's share of net assets (49%)	\$ 1,140,422	\$ 1,764,626
	Three months ended October 31, 2019	Period ended July 31, 2019
Personel and overhead expenses	\$ 1,145,226	\$ 806,801
Licensing fees	-	878,026
Loss and comprehensive loss (100%)	\$ 1,145,226	\$ 1,684,827
Company's share of loss and comprehensive loss (49%)	\$ 561,161	\$ 825,565

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

6. Intangible assets

Quasar Licensing Agreement

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

Intellectual Property Acquired and Capitalized Development Expenditures

The Company has determined the fair value of the intellectual property acquired in connection with the acquisition of EhEye to be \$1,250,000. In addition, the Company has determined \$235,000 of directly attributable development expenditures meet the criteria for capitalization, of which \$115,000 were capitalized in the three months ended October 31, 2019. The Company will begin amortizing when it is available for use.

Government Contracts

The Company has determined the fair value of the government contracts acquired in connection with the acquisition of Xtract outlined in Note 4 to be \$355,875. The Company is amortizing over the term of the contracts.

As at October 31, 2019, the carrying values are as follows:

	Cost	Accumulated amortization	Net book value
Licensed distribution rights	\$ 6,574,000	\$ (193,175)	\$ 6,380,825
Intellectual property	1,485,000	-	1,485,000
Government contracts	355,875	(86,708)	269,167
	<u>\$ 8,414,875</u>	<u>\$ (279,883)</u>	<u>\$ 8,134,992</u>

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

7. Right of Use Assets and Lease Liabilities

The Company has recorded Right of Use assets and Lease Liabilities in its statement of financial position related to eight properties for which the Company has entered into lease agreements. These leases are in a single class of Right of Use Assets, whose carrying value at October 31, 2019 is \$1,154,187. Rental payments on the Right of Use Assets are discounted using an 8% rate of interest and capitalized on the Consolidated Statement of Financial Position as Lease Liabilities. The value of the Right of Use Assets is determined at lease inception and include the capitalized lease liabilities, upfront costs and the value is depreciated over the term of the lease. For the three months ended October 31, 2019 the Company incurred interest expense of \$23,518 on the Lease Liabilities, recognized depreciation expense of \$101,946 on the Right of Use Assets and made total rental payments of \$111,250. Additions to Right of Use Assets during the quarter was \$78,797, which relates to a lease agreement that starts on October 1, 2019.

The following table summarizes payments on lease liabilities as at October 31, 2019:

<u>Fiscal years</u>	<u>Amount</u>
2020	\$ 417,745
2021	\$ 421,774
2022	\$ 262,586
2023	\$ 194,665
2024	\$ 92,938
Less: Interest expense	\$ (167,320)
Lease liability	\$ 1,222,388
Current portion of lease liabilities	\$ 519,098
Non-current portion of lease liabilities	\$ 703,290

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

8. Share capital

Authorized, Issued and Outstanding

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:

	Three months ended October 31, 2019		Year ended July 31, 2019	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of the period	139,999,937	\$ 96,243,400	110,957,029	\$ 49,232,014
Shares issued for the acquisition of Xract (Note 5)	9,422,956	16,867,090	-	-
Shares issued on the exercise of warrants	534,942	1,203,206	7,789,582	2,348,866
Shares issued on the exercise of stock options	11,108	8,849	1,216,970	809,536
Shares issued for cash, net of share issue costs	-	-	18,400,000	40,465,727
Shares issued for the acquisition of EhEye	-	-	1,636,356	3,387,257
Balance at end of period	149,968,943	\$ 114,322,545	139,999,937	\$ 96,243,400

Warrants

Warrant activity for the three months ended October 31, 2019 and the year ended July 31, 2019 is as follows:

	Three months ended October 31, 2019		Year ended July 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of the period	35,963,432	\$ 2.60	24,095,014	\$ 1.35
Issued	-	-	19,688,000	3.20
Exercised	(534,942)	1.19	(7,789,582)	0.28
Expired	(172,051)	1.20	(30,000)	0.25
Balance at end of the period	35,256,439	\$ 2.62	35,963,432	\$ 2.60

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

8. Share capital (continued)

Warrants (continued)

As at October 31, 2019, outstanding warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
885,500	\$ 2.00	February 16, 2020	3.5
3,278,200	\$ 1.25	July 13, 2020	8.5
133,689	\$ 1.00	July 13, 2020	8.5
4,796,150	\$ 1.70	October 31, 2020	12.0
150,000	\$ 1.00	November 18, 2020	12.5
1,288,000	\$ 2.50	November 21, 2020	12.5
18,400,000	\$ 3.25	November 21, 2020	12.5
6,324,900	\$ 2.40	February 16, 2021	15.5
35,256,439	\$ 2.62		12.4

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 three months ended October 31, 2019 and year ended July 31, 2019 is as follow:

	Three months ended October 31, 2019		Year ended July 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the period	7,414,553	\$ 1.15	6,030,000	\$ 0.62
Granted	445,000	1.77	2,992,775	1.92
Exercised	(11,108)	0.70	(1,216,970)	0.45
Cancelled / Expired	-	-	(391,252)	1.330
Balance at end of the period	7,848,445	\$ 1.18	7,414,553	\$ 1.15

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

8. Share capital (continued)

Stock options (continued)

Details of the outstanding stock options as at October 31, 2019 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
50,000	\$ 1.00	September 15, 2020	10.5	50,000	\$ 1.00
200,000	\$ 1.44	December 14, 2020	13.5	200,000	\$ 1.44
150,000	\$ 1.71	February 22, 2021	15.1	150,000	\$ 1.71
345,000	\$ 1.30	June 22, 2021	19.5	301,667	\$ 1.30
250,000	\$ 1.35	July 10, 2021	20.5	250,000	\$ 1.35
250,000	\$ 0.30	August 1, 2021	21.0	250,000	\$ 0.30
850,000	\$ 0.185	October 3, 2021	23.0	850,000	\$ 0.185
965,000	\$ 0.30	October 3, 2021	23.0	965,000	\$ 0.30
133,333	\$ 0.70	December 15, 2021	25.5	75,009	\$ 0.70
1,114,000	\$ 0.65	May 18, 2022	30.5	1,114,000	\$ 0.65
250,000	\$ 2.00	May 29, 2022	31.0	187,500	\$ 2.00
22,222	\$ 0.70	June 20, 2022	31.5	15,282	\$ 0.70
33,332	\$ 0.70	August 9, 2022	33.5	25,004	\$ 0.70
125,000	\$ 0.65	September 5, 2022	34.0	125,000	\$ 0.65
55,558	\$ 0.70	September 14, 2022	34.5	50,006	\$ 0.70
75,000	\$ 1.47	November 1, 2022	36.0	75,000	\$ 1.47
150,000	\$ 1.82	March 22, 2023	40.5	75,000	\$ 1.82
75,000	\$ 1.61	April 4, 2023	41.0	75,000	\$ 1.61
50,000	\$ 1.62	August 27, 2023	46.0	50,000	\$ 1.62
555,000	\$ 2.48	October 15, 2023	47.5	555,000	\$ 2.48
370,000	\$ 2.01	December 11, 2023	49.5	307,501	\$ 2.01
75,000	\$ 1.80	June 18, 2024	55.5	56,250	\$ 1.80
1,200,000	\$ 1.81	July 3, 2024	56.0	975,000	\$ 1.81
60,000	\$ 1.83	July 25, 2024	57.0	45,000	\$ 1.83
75,000	\$ 1.78	August 22, 2024	58.0	56,250	\$ 1.78
200,000	\$ 1.80	September 1, 2023	58.0	150,000	\$ 1.80
70,000	\$ 1.81	September 6, 2024	58.0	52,500	\$ 1.81
50,000	\$ 1.43	October 15, 2024	59.5	37,500	\$ 1.43
50,000	\$ 1.88	October 29, 2024	60.0	37,500	\$ 1.88
7,848,445	\$ 1.18		34.3	7,155,969	\$ 1.14

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

8. Share Capital (continued)

During the three months ended October, 2019, the Company recognized share-based compensation related to stock options of \$458,956 (2018 - \$1,361,221). 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:

	Three months ended	
	2019	2018
Expected life	4.4 years	5.0 years
Expected volatility in market price of shares	90.0%	100.0%
Expected dividend rate	0%	0%
Risk-free interest rate	1.29%	1.64%
Weighted average fair value per option granted	\$ 1.162	\$ 1.810

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three months ended October 31, 2019 and 2018 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 security holders 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 October 31, 2019, 1,675,651 common shares and 165,000 stock options of the Company were being held in escrow, all of which were released on November 10, 2019.

9. Revenue

The Company's revenue recognized during the quarter relates to Xtract contract revenue. Xtract was acquired on September 9, 2019 (as described in Note 4) and Patriot has recognized \$116,574 in revenue earned subsequent to this acquisition up until October 31, 2019. As at October 31, 2019, accounts receivable for work completed on contracts was \$362,985. This entire balance is receivable from the federal government and is not subject to significant collection risk. Xtract has a backlog of approved projects worth an additional \$600,000 and has bid on a number of significant contracts.

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2019 and 2018
(Unaudited)

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 three months October 31, 2019 was \$273,662 (2018 - \$199,730).

As at October 31, 2019 accounts payable and accrued liabilities includes \$6,667 (July 31, 2019 - \$33,571) due to officers and directors of the Company or to companies controlled by directors and officers of the Company.

11. Supplemental Cash Flow Information

Non-cash activities during the three months ended October 31, 2019 were conducted by the Company as follows:

Fair value of shares issued on acquisition of Xtract	\$16,867,091
Fair value of stock options granted	\$ 458,789
Transfer of contributed surplus on exercise of broker warrants	\$ 422,789
Transfer of contributed surplus on broker warrants forfeited	\$ 145,450
Transfer of contributed surplus on exercise of stock options	\$ 1,073

Non-cash activities during the three months ended October 31, 2018 were conducted by the Company as follows:

Transfer of contributed surplus on exercise of broker warrants	\$ 38,826
Transfer of contributed surplus on exercise of stock options	\$ 80,059

No cash was paid towards taxes or interest during the three month periods ending October 31, 2019 and 2018.

12. Subsequent event

Subsequent to October, 2019, the Company granted stock options to allow the holders to acquire 100,000 common shares at 1.47 per share and 37,000 common shares at \$1.46 per share for a term of five years.