

December 9, 2019

**Form 51-102F4**  
***Business Acquisition Report***

This Business Acquisition Report has been prepared by Patriot One Technologies Inc. (the “Company” or “Patriot One”) regarding its acquisition of Xtract Technologies Inc. (“Xtract”) on September 6, 2019 pursuant to a Share Purchase Agreement between Patriot One, Xtract, the shareholders of Xtract and Kevin O’Neill as the representative of the Xtract shareholders.

**ITEM 1 – IDENTITY OF COMPANY**

**1.1 Name and Address of Company**

*State the full name of your company and the address of its principal office in Canada.*

Patriot One Technologies Inc.  
750 – 1095 West Pender Street  
Vancouver, BC  
V6E 2M6

**1.2 Executive Officer**

*Give the name and business telephone number of an executive officer of your company who is knowledgeable about the significant acquisition and the Report, or the name of an officer through whom such executive officer may be contacted.*

Martin Cronin, Director and Chief Executive Officer  
1 (888) 728-1832

**ITEM 2 – DETAILS OF ACQUISITION**

**2.1 Nature of Business Acquired**

*Describe the nature of the business acquired.*

Xtract develops and commercializes artificial intelligence, machine learning, deep neural network and predictive solutions utilizing its proprietary technology for public institutions and private enterprise.

**2.2 Acquisition Date**

*State the acquisition date used for accounting purposes.*

The acquisition of Xtract by Patriot One closed on September 6, 2019.

**2.3 Consideration**

*Disclose the type and amount of consideration, both monetary and non-monetary, paid or payable by your company in connection with the significant acquisition, including contingent consideration. Identify the source of funds used by your company for the acquisition, including a description of any financing associated with the acquisition.*

Patriot One paid \$6,000,000 in cash plus a closing adjustment of \$1,103,926.79, and issued 9,422,956 Patriot One common shares (the “Consideration Shares”) to Xtract’s former shareholders. Subject to certain exceptions based on the business of the Company or the performance of the Company’s common share price, the Consideration Shares are subject to escrow restrictions and released on a quarterly basis over the next twelve consecutive fiscal quarter ends of Patriot One.

The cash component of the purchase price was paid from the current working capital of Patriot One.

## **2.4 Effect on Financial Position**

*Describe any plans or proposals for material changes in your business affairs or the affairs of the acquired business which may have a significant effect on the financial performance and financial position of your company. Examples include any proposal to liquidate the business, to sell, lease or exchange all or a substantial part of its assets, to amalgamate the business with any other business organization or to make any material changes to your business or the business acquired such as changes in corporate structure, management or personnel.*

Jeff Tindale has resigned from the Patriot One Board.

Elliot Holtham entered into a consulting agreement with the Company on an independent contractor basis (through Holtham Consulting Inc., a company owned and controlled by Elliot Holtham) dated September 9, 2019 with a term to August 31, 2021 and pursuant to which he has agreed to provide consulting services to the Company on an as-needed basis in consideration of \$13,333 plus GST per month.

See the unaudited pro forma financial statements and the accompanying notes thereto included in this Business Acquisition Report and attached as Schedule “A” hereto. The unaudited pro forma financial statements are presented for informational purposes only and are not necessarily indicative of what the Company’s results of operations and financial position would have been had the acquisition of Xtract been completed on the dates indicated. In addition, the unaudited pro forma financial statements do not purport to project the future results of operations or financial position of the Company.

There are no further plans with respect to the acquisition of Xtract by Patriot One which may impact Patriot One’s financial position or business affairs.

## **2.5 Prior Valuations**

*Describe in sufficient detail any valuation opinion obtained within the last 12 months by the acquired business or your company required by securities legislation or a Canadian exchange or market to support the consideration paid by your company or any of its subsidiaries for the business, including the name of the author, the date of the opinion, the business to which the opinion relates, the value attributed to the business and the valuation methodologies used.*

Patriot One has not obtained any valuation opinion within the last 12 months required by securities legislation or a Canadian exchange or market in relation to Xtract.

## 2.6 Parties to Transaction

*State whether the transaction is with an informed person, associate or affiliate of your company and, if so, the identity and the relationship of the other parties to your company.*

This transaction and purchase price were negotiated between arms-length parties and did not involve an informed person, associate, or affiliate of the Company as defined under National Instrument 51-102 – *Continuous Disclosure Obligations* (“**NI 51-102**”).

## 2.7 Date of Report

December 9, 2019.

## ITEM 3 - FINANCIAL STATEMENTS AND OTHER INFORMATION

*Include the financial statements or other information required by Part 8 of NI 51-102. If applicable, disclose that the auditors have not given their consent to include their audit report in this Report.*

The following financial statements required by Part 8 of NI 51-102 are included in this Business Acquisition Report and attached as Schedule “A” hereto:

1. Audited annual financial statements of Xtract, the notes thereto and the auditor’s report thereon as at and for the years ended December 31, 2018 and 2017;
2. Unaudited interim financial statements of Xtract and the notes thereto as of and for the six-month period ended June 30, 2019; and
3. Unaudited pro forma combined financial statements of the Company and notes thereto as of and for the twelve months ended July 31, 2019 that give effect to the acquisition of Xtract.

**SCHEDULE "A"**

**XTRACT TECHNOLOGIES INC.**

Financial Statements

Years ended December 31, 2018 and 2017

## INDEPENDENT AUDITOR'S REPORT

To the Directors of  
Xtract Technologies Inc.

### *Opinion*

We have audited the accompanying financial statements of Xtract Technologies Inc. (the “Company”), which comprise the statement of financial position as at December 31, 2018, and the statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes the Business Acquisition Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Business Acquisition Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

December 9, 2019

# XTRACT TECHNOLOGIES INC.

Statements of Financial Position  
(Expressed in Canadian Dollars)  
As at December 31,

	2018	2017 (unaudited)
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 171,079	\$ 192,151
Receivables (Note 6)	260,541	85,147
Prepaid expenses	5,145	21,923
	436,765	299,221
Property, plant and equipment (Note 7)	5,113	11,362
Patents	-	22,306
	\$ 441,878	\$ 332,889
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 30,815	\$ 18,940
Safe notes (Note 9)	75,000	612,500
Note Payable (Note 8)	418,154	-
	523,969	631,440
<b>Shareholders' equity</b>		
Share capital (Note 10)	37,550	50
Contributed surplus (Note 10)	3	2
Accumulated deficit	(119,644)	(298,603)
	(82,091)	(298,551)
<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 441,878</b>	<b>\$ 332,889</b>

Nature of operations and going concern (Note 1)  
Commitments (Note 13)  
Subsequent events (Note 15)

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

Approved on behalf of the Board:

**"Martin Cronin"**

Director

**"Peter van der Gracht"**

Director

## XTRACT TECHNOLOGIES INC.

Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

For the years ended December 31,

	<u>2018</u>	<u>2017</u> (unaudited)
Revenue (note 6)	\$ 524,301	\$ 4,175
Expenses		
Depreciation (Note 7)	6,249	4,104
General and administration	44,046	63,862
Professional fees	101,935	163,023
Wages and benefits	214,535	185,301
Share-based compensation (Note 10)	1	2
	<u>366,766</u>	<u>416,292</u>
Income (Loss) from operations	157,535	(412,117)
SRED recoverable	93,945	89,340
Grants and awards	33,148	59,073
Loss on modification of debt (Note 8)	(71,342)	-
Write-off of patents	(32,820)	-
Interest income (expense)	(1,507)	3,184
	<u>21,424</u>	<u>151,597</u>
Income (loss) and comprehensive income (loss) for the year	<u>\$ 178,959</u>	<u>\$ (260,520)</u>
Weighted average number of shares	12,219,178	12,000,000

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

**XTRACT TECHNOLOGIES INC.**Statements of Changes in Shareholders' Deficiency  
(Expressed in Canadian Dollars)

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - December 31, 2016 (unaudited)	12,000,000	\$ 50	\$ -	\$ (38,083)	\$ (38,033)
Share-based compensation (Note 10)	-	-	2	-	2
Loss for the year	-	-	-	(260,520)	(260,520)
Balance - December 31, 2017 (unaudited)	12,000,000	\$ 50	\$ 2	\$ (298,603)	\$ (298,551)
Conversion of Safe Notes	8,000,000	37,500	-	-	37,500
Share-based compensation (Note 10)	-	-	1	-	1
Net income	-	-	-	178,959	178,959
Balance - December 31, 2018	20,000,000	\$ 37,550	\$ 3	\$ (119,644)	\$ (82,091)

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

# XTRACT TECHNOLOGIES INC.

Statements of Cash Flows  
(Expressed in Canadian Dollars)  
For the years ended December 31,

	<u>2018</u>	<u>2017</u> (unaudited)
<b>Cash flows from operating activities</b>		
Income (Loss) and comprehensive income (loss) for the year	\$ 178,959	\$ (260,520)
Adjustment for:		
Share-based compensation (Note 10)	1	2
Write-off of patents	32,820	-
Interest expense	2,551	-
Depreciation (Note 7)	6,249	4,104
	<hr/> 220,580	<hr/> (256,414)
Changes in non-cash operating working capital		
Receivables	(175,394)	(84,040)
Prepaid expenses and deposits	16,778	(17,423)
Accounts payable and accrued liabilities	11,875	13,896
	<hr/> 73,839	<hr/> (343,981)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment (Note 7)	-	(14,516)
Acquisition of patents	(10,514)	(22,306)
	<hr/> (10,514)	<hr/> (36,822)
<b>Cash flows from financing activities</b>		
Partial repayment of note payable	(84,397)	-
	<hr/> (84,397)	<hr/> -
<b>Changes in cash for the year</b>	(21,072)	(380,803)
<b>Cash at beginning of year</b>	192,151	572,954
<b>Cash at end of year</b>	<hr/> \$ 171,079	<hr/> \$ 192,151

During the year ended December 31, 2018, the Company paid \$nil of interest (2017 – \$nil (unaudited)).

During the year ended December 31, 2018, the Company paid \$nil in corporate taxes (2017 - \$nil (unaudited)).

The accompanying notes form an integral part of these financial statements

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 1. Nature of Operations and Going Concern

Xtract Technologies Inc. (the "Company"), was incorporated under the Canada Business Corporations Acts on October 3, 2016 and has continued into British Columbia on April 29, 2019. The Company is principally engaged in providing Artificial Intelligence software solutions to its clients.

Subsequent to December 31, 2018, the Company completed a share split of its Voting Common Shares on a basis of 2.4 to 1. The share split has been reflected retrospectively in these financial statements and all references to share, options and per share amount have been restated.

The Company's registered office is located at 503 – 1505 West 2<sup>nd</sup> Avenue, Vancouver, British Columbia, Canada, V6H 3Y4 and its registered and records office is located at 400-725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

These audited financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. As at December 31, 2018, the Company had a working capital deficiency of \$87,204 and a deficit of \$119,644. These conditions raise significant doubt about the Company's ability to continue as a going concern.

The Company's future operations are dependent upon many factors, including the ability of the Company to generate sufficient profit and cash flows from operations. The decision to fund the Company is ultimately at the lenders' or investors' discretion, and there is no guarantee that funds will be provided at reasonable rates, or at all. These audited financial statements do not reflect adjustments to the carrying values of assets and liabilities and the classifications used on the audited statement of financial position that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

On September 9, 2019, the Company was purchased by Patriot One Technologies Inc.

## 2. Basis of preparation

### *(a) Statement of compliance*

These 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 financial statements were approved for issuance by the Board of Directors on December 9, 2019.

### *(b) Functional and presentation currency*

The functional currency of the Company is the Canadian dollar and these financial statements are presented in Canadian dollars.

### *(c) Basis of measurement*

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

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 3. Significant accounting policies

### (a) *Financial instruments*

#### (i) *Financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and cash equivalent and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss.

#### (ii) *Impairment*

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### (iii) *Financial liabilities*

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified and carried on the statement of financial position at amortized cost.

As at December 31, 2018, the Company's SAFE Notes contained a derivative financial liabilities which was determined to have a fair value of \$nil.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued)

### *(b) Government assistance*

Government assistance is recognized where there is reasonable assurance that the assistance will be received and any attached conditions will be complied with. When the assistance relates to an expense item, it is recognized as income over the period necessary to match the amount to the costs that it is intended to compensate. When the assistance relates to an asset, it is recognized as deferred government assistance and released to income over the expected useful life of the related asset.

Non-repayable government assistance relating to research and development is recorded as a reduction of expenditures when directly related to such expenditures. Assistance in excess of expenditures are deferred to future periods, to be offset against any future expenditure to be incurred or credited to development costs if they exceed future expenditures on that project.

### *(c) Income (loss) per share*

Basic income (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 income (loss) per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

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

### *(d) Revenue*

Revenue from providing customized software development is measured at the fair value of the consideration received or receivable. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue is recognized in profit or loss 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.

Unbilled trade receivable represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position.

The Company adopted the new revenue standard (IFRS 15- Revenue from Contracts with Customers), effective January 1, 2018 using the modified retrospective method under which previously presented financial statements are not restated and the cumulative effect of adopting the new revenue standard on contracts in process is recognized by an adjustment to deficit at the effective date. The adoption of the new revenue standard did not change the Company's recognized revenue in any of its contracts in process and had no impact on revenues recognized in prior years.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued)

### *(e) 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.

### *(f) Capital Stock*

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

### *(g) Share-based compensation*

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

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued)

### *(h) 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:

Machinery and equipment	55%
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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.

### *(i) Patents*

Capitalized patent costs represent legal costs incurred to establish patents. When patents reach a mature stage, any associated legal costs are comprised mostly of maintenance fees and are expensed as incurred. Patents are amortized on a straight-line basis over the remaining life of the patent once the patents have been granted. As at December 31, 2017 and 2018, all capitalized costs are for patents in application stage, and as such, no amortization has been taken.

The carrying value of patents are reviewed for impairment by management of the Company at least annually or upon the occurrence of an event which may indicate that the carrying amount may be less than its fair value. In addition, the useful life of the intangible assets will be evaluated by management at least annually or upon the occurrence of an event which may indicate that the useful life may have changed.

During the year ended December 31, 2018, management decided not to proceed with the patent applications and wrote-off the balance of the capitalized patents to profit and loss.

### *(j) Derivative financial instruments*

The Company values derivative liabilities by reference to their fair value at the date at which the instrument is granted. Estimating fair value requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the valuation model and making assumptions about them. Changes in the input assumptions can materially affect the fair value estimate.

### *(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.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued)

*(k) Significant accounting judgments, estimates and assumptions (continued)*

Significant areas requiring the use of management estimates include:

*Revenue recognition:*

Determining the amount of revenue to be recognized for certain contracts requires estimating the amount of the contract that has been completed during the reporting period.

*Derivative financial instruments*

Determining the fair value of the derivative financial instruments requires judgement in determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the valuation model.

*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.

## 4. New accounting standards and interpretations

*(a) New accounting standards adopted during the year*

*IFRS 9 – Financial Instruments ("IFRS 9")*

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 4. New accounting standards and interpretations (continued)

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.

The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

*(a) New accounting standards adopted during the year (continued)*

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

In May 2014, the IASB issued IFRS 15 to replace IAS 18 – Revenue, which establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The amended standard was adopted on January 1, 2018 and did not have an impact on the financial statements.

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

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. 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 the IFRS 16 approach to lessor accounting substantially unchanged from its predecessor policy IAS 17. The Company does not expect to record a right of use asset as the Company's office lease is less than 12 months and considered short term.

## 5. Segmented Information

The Company operates in one reportable segment being the provision of services related to artificial intelligence software solutions.

As at December 31, 2018 all of the Company's long-term asset were held in Canada.

During the year ended December 31, 2018, 56% (2017 – 8% (unaudited)) of revenues were generated from contracts with customers in Canada with the balances generated from contracts with customers in the United-States. Further, during the year ended December 31, 2018 93% (2018 - 92% (unaudited)) of revenues were generated from contracts with two customers.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

## 6. Accounts Receivable

	2018	2017
	(unaudited)	
Trade receivable	\$ 98,196	\$ 7,076
SR&ED receivable	93,945	78,071
Accrued receivables	68,400	-
<b>Total</b>	<b>\$ 260,541</b>	<b>\$ 85,147</b>

## 7. Property, plant and equipment

	Machinery & Equipment
<b>Cost</b>	
Balance at December 31, 2016 (unaudited)	\$ 1,266
Additions	14,516
Balance at December 31, 2017 (unaudited)	15,782
Additions	-
Balance at December 31, 2018	\$ 15,782
<b>Accumulated depreciation</b>	
Balance at December 31, 2016 (unaudited)	\$ 316
Depreciation and amortization	4,104
Balance at December 31, 2017 (unaudited)	4,420
Additions	6,249
Balance at December 31, 2018	\$ 10,669
<b>Carrying amount as at December 31, 2017 (unaudited)</b>	<b>\$ 11,362</b>
<b>Carrying amount as at December 31, 2018</b>	<b>\$ 5,113</b>

## 8. Note Payable

On November 29, 2018, the Company entered into a SAFE Repayment Agreement whereby \$500,000 in SAFE Notes (Note 9) were converted into Notes Payable. In connection with the SAFE Repayment Agreement the Company recorded \$71,342 as a loss on modification of debt which was a catch up of interest from the original date of the SAFE Note at a rate of 7%.

The Note Payable bears interest at 7% per annum and requires four fixed payments on November 29, 2018, February 27, 2019, May 28, 2019, and August 26, 2019.

On February 6, 2019, the Company entered into a terminated the Note Payable and repaid the full balance.

Balance, December 31, 2016 and 2017 (unaudited)	\$ -
Additions	500,000
Repayment	(84,397)
Accrued Interest	2,551
Balance, December 31, 2018	\$ 418,154

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 9. SAFE Notes

During the year ended December 31, 2017, the Company entered into six separate Simple Agreements for Future Equity ("SAFE Notes") for total proceeds of \$612,500.

The terms of the SAFE Notes provide for the automatic conversion into Safe Preferred Shares of the Company on at the completion of an equity financing whereby the number of Safe Preferred Shares issued to the holder would be equal to either: (i) a number of Standard Preferred Shares sold in the equity financing equal to the value of the SAFE Note divided by the price per share of the Standard Preferred Shares, if the pre-money valuation is less than or equal \$1,500,000; or (ii) a number of Safe Preferred Shares equal to the value of the SAFE Note divided by the price per share equal to \$1,500,000 divided by the total number of outstanding shares of the Company and all other convertible securities outstanding.

In addition, if there is a change in control or an initial public offering, the holder of the SAFE notes has the option to (i) receive a cash payment equal to the value of the SAFE Note, or (ii) receive a number of Voting Common Shares equal to the value of the SAFE Note divided by \$1,500,000 dividend by the total number of outstanding shares of the company and all other convertible securities outstanding.

On December 1, 2018, \$37,500 in SAFE Notes were amended to include an option for the holder to convert the shares at a price of \$0.00468750 and were converted into a total of 8,000,000 Voting Common Shares of the Company.

Subsequent to December 31, 2018, \$75,000 in SAFE Notes were amended to include an option for the holder to convert the shares at a price of \$0.075 and were converted into a total of 999,999 Voting Common Shares of the Company.

During the year ended December 31, 2018, \$500,000 in SAFE Notes were converted into a Note Payable (Note 9).

As at December 31, 2018, a total of \$75,000 (2017 - \$612,500) in SAFE Notes were outstanding.

## 10. 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*

Subsequent to December 31, 2018, the Company's shares were split on a basis of 2.4 to 1. All shares, options, and per share information has been retroactively restated.

As at December 31, 2018, there were 20,000,000 Voting Common shares outstanding.

During the year ended December 31, 2018, 8,000,000 common shares were issued in connection with the conversion of SAFE Notes (note 9). There were no shares issued during the year ended December 31, 2017.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

## 10. Share Capital (continued)

### Stock options

The Company offers an incentive stock option plan that provides for the granting of options up to 405,405 shares to directors, officers, employees and consultants. The exercise price of each option issued is equal \$0.00001 and the maximum term is ten years. Vesting terms, if any, are set at the discretion of the Board.

### Stock options (continued)

The stock option activity for the period ended:

	December 31, 2018		December 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	of options		of options	
Balance at beginning of the year	384,847	\$0.000004	454,053	\$ 0.000004
Granted	62,865	0.000004	323,566	0.000004
Cancelled / Expired	(36,000)	0.000004	(392,772)	0.000004
Balance at end of the year	411,712	\$0.000004	384,847	\$ 0.000004

At December 31, 2018, 187,658 (2017 – 37,838) options were exercisable. The weighted average remaining contractual life of the options outstanding is 8.4 years (2017 – 9.2).

#### (a) Valuation of share options:

The fair values of all share-based payments were measured based on the Black-Scholes option-pricing model. Expected volatility was calculated based on the Company's stock price. The inputs used in the measurement of the fair values at grant dates of the share-based payments as at December 31, 2018 and December 31, 2017 are the following:

	2018	2017
Expected volatility	100%	100%
Expected life of options	10 years	10 years
Dividend yield	0.0%	0.0%
Risk free interest rate	2.36%	2.36%
Fair value per share	\$0.000004	\$0.000004
Forfeiture rate	0%	0%

#### (b) Total stock-based compensation expense:

Total stock-based compensation expense for the year ended December 31, 2018 was \$1 (2017 – \$2 (unaudited)).

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 11. Financial Instruments and Risk Management

As at December 31, 2018, the Company's financial instruments comprise cash, receivables and accounts payable, accrued liabilities, Note payable and Safe Notes. 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).

The Company values derivative liabilities by reference to their fair value at the date at which the instrument is granted. Estimating fair value requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life and volatility and making assumptions about them. Changes in the input assumptions can materially affect the fair value estimate.

As at December 31, 2018, the fair value of cash 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 December 31, 2018, the Company had cash of \$171,079 to settle current liabilities of \$523,969. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and receivables. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper. The Company's receivables consists of SRED refundable from the Canada Revenue Agency and trade receivables.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 11. 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 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 does not account for any fixed rate financial assets and liabilities at fair value through profit or loss; therefore, a change in interest rates at the reporting date would not affect profit or loss results from a fair value change.

#### *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 December 31, 2018, the Company did not have any material monetary assets or liabilities denominated in a foreign currency and consequently is not exposed to significant foreign currency risk.

The Company 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 Company is generating revenue but is also dependent upon external financing to fund activities. In order to carry out planned research and development 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.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

## 12. Income Taxes

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

	2018	2017
Income (Loss) for the year	\$178,959	\$ (260,520)
Expected income tax (recovery)	\$ 21,000	\$ (33,000)
Change in statutory rates and other	3,000	-
Change in unrecognized deductible temporary differences	(24,000)	33,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

The federal government decreased the small business income tax rate to 10% (from 10.5%) effective January 1, 2018. The rate will further decrease to 9% effective January 1, 2019. The relevant deferred tax balances have been re-measured to reflect the decrease in the Company's combined Federal and Provincial (BC) small business income tax rate from 12% to 11%.

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

	2018	Expiry Date Range	2017	Expiry Date Range
<b>Temporary Differences</b>				
Property and equipment	\$ 24,000	No expiry date	\$ 19,000	No expiry date
Non-capital losses available for future periods	176,000	2027	365,000	2026 to 2027

## 13. Commitments

The Company is committed to an operating lease for an office premises with remaining terms up to February 2020. The future minimum lease payments under these operating leases total \$21,168 for the ended December 31, 2019 and \$1,764 for the year ended December 31, 2020.

## 14. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of senior management, executive and non-executive members of the Board of Directors and corporate officers. Key management compensation incurred during the year ended December 31, 2019 was \$33,311 (2018 - \$43,107 (unaudited)).

As at December 31, 2018 amounts due to key management of the Company totaled \$5,594 (2017 - \$nil (unaudited)) and was included in accounts payable and accrued liabilities.

As at December 31, 2018, the Company had \$418,154 (2017 - \$nil (unaudited)) in notes payable outstanding to a company controlled by a director of the Company.

# XTRACT TECHNOLOGIES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

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## 15. Subsequent Events

Subsequent to December 31, 2018:

- The Company entered into convertible promissory notes for a total of \$525,000. The convertible promissory notes had a 5 year term, with a 5% interest rate, calculated on a daily basis and was convertible at \$0.25 per common share post share split. The convertible promissory note and accrued interest was subsequently converted into a total of 2,161,945 common shares of the Company;
- The Company entered into Amendment Agreements to convert the SAFE notes to common shares of the Company at \$0.075 per common share and issued a total of 999,999 common shares on conversion;
- 1,250,000 warrants were issued to directors of the Company entitling the holder to acquire one common share at a price of \$0.20 per common share for a period of 60 months following the issuance date;
- 1,044,828 common shares were issued on the exercise of warrants at a price of \$0.20 per share;
- 50,469 common shares were issued to a shareholder of the Company at \$0.000004 per share through the exercise the Company stock options; and
- Patriot One Technologies Inc. ("Patriot"), a company incorporated in British Columbia with its common shares listed on the Toronto Stock Exchange under the trading symbol "PAT", acquired 100% of the issued and outstanding shares of the Company. The purchase price included a cash payment of \$6,000,000 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 Patriot's common share price, the Consideration Shares will be subject to escrow restrictions and released on a quarterly basis over the next twelve consecutive fiscal quarters of the Company.

**XTRACT TECHNOLOGIES INC.**

Unaudited Condensed Interim Financial Statements

Six Months ended June 30, 2019 and June 30, 2018

# XTRACT TECHNOLOGIES INC.

## Condensed Statements of Financial Position

	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 479,218	\$ 171,079
Receivables (Note 5)	399,332	260,541
Prepaid expenses and deposits	5,145	5,145
	883,695	436,765
Property, plant and equipment (Note 6)	9,587	5,113
<b>Total assets</b>	<b>\$ 893,282</b>	<b>\$ 441,878</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 35,052	\$ 30,815
Safe notes (Note 8)	-	75,000
Note payable (Note 7)	-	418,154
	35,052	523,969
Convertible note payable (Note 8)	481,496	-
	516,548	523,969
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 10)	112,550	37,550
Contributed surplus (Note 10)	111,069	3
Accumulated deficit	153,115	(119,644)
	376,734	(82,091)
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 893,282</b>	<b>\$ 441,878</b>

Nature of operations (Note 1)

Commitments (Note 12)

Subsequent events (Note 14)

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

Approved on behalf of the Board:

**"Martin Cronin"**

Director

**"Peter van der Gracht"**

Director

## XTRACT TECHNOLOGIES INC.

Condensed Interim Statements of Income and Comprehensive Income for the six months ended June 30,  
(Unaudited)

	<u>2019</u>	<u>2018</u>
Revenue	\$ 694,423	\$ 192,688
Expenses		
Depreciation (Note 6)	\$ 2,343	\$ 3,125
General and administration	54,938	26,887
Professional fees	83,731	69,889
Share-based compensation	56,682	-
Wages and benefits	211,858	67,207
	<u>409,552</u>	<u>167,108</u>
Income from operations	284,871	25,580
Other expenses (income)		
Interest expense (income)	12,112	(323)
<b>Income and comprehensive income for the period</b>	<b>\$ 272,759</b>	<b>\$ 25,903</b>
<b>Weighted average number of shares</b>	<b>20,828,728</b>	<b>12,000,000</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>

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

## XTRACT TECHNOLOGIES INC.

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

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - December 31, 2017	12,000,000	\$ 50	\$ 2	\$(298,603)	\$(298,551)
Income for the period	-	-	-	25,903	25,903
Balance - June 30, 2018	12,000,000	\$ 50	\$ 2	\$(272,700)	\$(272,648)
Balance - December 31, 2018	20,000,000	\$ 37,550	\$ 3	\$(119,644)	\$(82,091)
Conversion of SAFE	999,999	75,000	-	-	75,000
Share-based compensation	-	-	56,682	-	56,682
Issuance of convertible note payable (Note 8)	-	-	54,384	-	54,384
Income for the period	-	-	-	272,759	272,759
Balance - June 30, 2019	20,999,999	\$ 112,550	\$ 111,069	\$ 153,115	\$ 376,734

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

## XTRACT TECHNOLOGIES INC.

Condensed Interim Statements of Cash Flows for the six months ended June 30, :  
(Unaudited)

	2019	2018
<b>Cash flow from (used in) operating activities</b>		
Income and comprehensive income for the period	\$ 272,759	\$ 25,903
Adjustment for:		
Depreciation	2,343	3,124
Share-based compensation	56,682	-
Interest Expense	8,329	-
	340,113	29,027
Changes in non-cash operating working capital		
Receivables	(138,791)	(115,473)
Prepaid expenses and deposits	-	21,923
Accounts payable and accrued liabilities	4,237	(8,001)
	205,559	(72,524)
<b>Cash flow (to) from investing activities</b>		
Purchase of property, plant and equipment (Note 6)	(6,817)	-
Acquisition of patents	-	(10,514)
	(6,817)	(10,514)
<b>Cash flow from financing activities</b>		
Proceeds from convertible note payable (Note 8)	525,000	-
Repayment of note payable (Note 7)	(415,603)	-
	109,397	-
<b>Increase in cash and cash equivalents for the period</b>	308,139	(83,038)
<b>Cash and cash equivalents at beginning of period</b>	\$ 171,079	192,151
<b>Cash and cash equivalents at period end</b>	\$ 479,218	\$ 109,113

During the six months ended June 30, 2019 and 2018, the Company paid \$Nil for interest expense.

During the six months ended June 30, 2019 and 2018, the Company paid \$Nil in corporate income taxes.

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

# XTRACT TECHNOLOGIES INC.

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

## 1. Nature of Operations

Xtract Technologies Inc. (the "Company"), was incorporated under the Canada Business Corporations Acts on October 3, 2016 and has continued into British Columbia on April 29, 2019. The Company is principally engaged in providing Artificial Intelligence software solutions to its clients.

On December 20, 2018, the Company completed a share split of its Voting Common Shares on a basis of 2.4 to 1. The share split has been reflected retrospectively in these financial statements and all references to share, options and per share amount have been restated.

The Company's registered office is located at 503 – 1505 West 2<sup>nd</sup> Avenue, Vancouver, British Columbia, Canada, V6H 3Y4 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 unaudited condensed 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 unaudited condensed interim financial statements were prepared using the same accounting policies and methods as those used in the audited financial statements of the Company for the year ended December 31, 2018 and should be read in conjunction with those financial statements.

### *(b) Functional and presentation currency*

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

### *(c) Basis of measurement*

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

### *(d) Significant accounting judgments, estimates and assumptions*

The preparation of these unaudited condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities and contingent liabilities at the date of the 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:

# **XTRACT TECHNOLOGIES INC.**

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

## **2. Basis of preparation (continued)**

### *Revenue recognition:*

Determining the amount of revenue to be recognized for certain contracts requires estimating the amount of the contract that has been completed during the reporting period.

### *Convertible promissory notes:*

Determining the fair value of the convertible debentures and the allocation of its value between equity and liabilities.

### *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.

### *Derivative financial instruments*

Determining the fair value of the requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life and volatility and making assumptions about them.

## **3. New accounting standards and interpretations**

### *(a) New accounting standards adopted during the year*

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. 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 the IFRS 16 approach to lessor accounting substantially unchanged from its predecessor policy IAS 17. The Company has not recorded a right to use as the Company's office has a term that is less than 12 months.

## **4. Segmented Information**

The Company operates in one reportable segment being the provision of services related to artificial intelligence software solutions.

As at June 30, 2019 and June 30, 2018 all of the Company's long-term asset were held in Canada.

During the six months ended June 30, 2019, 100% (June 30 2018 – 0%) of revenues were generated from contracts with customers in Canada with the balances generated from contracts with customers in the United-States. Further, during the six months ended June 30, 2019, 100% (June 30, 2018 - 100% (unaudited)) of revenues were generated from contracts with two customers.

## XTRACT TECHNOLOGIES INC.

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

### 5. Accounts Receivable

	June 30 2019	December 31, 2018
Trade receivable	\$ 305,387	\$ 98,196
Accrued receivable	-	68,400
SR&ED receivable	93,945	93,945
<b>Total</b>	<b>\$ 399,332</b>	<b>\$ 260,541</b>

### 6. Property, plant and equipment

	Machinery & Equipment
Cost	
Balance at December 31, 2017	\$ 15,782
Additions	-
<b>Balance at December 31, 2018</b>	<b>15,782</b>
Additions	6,817
<b>Balance at June 30, 2019</b>	<b>\$ 22,599</b>
Accumulated depreciation	
Balance at December 31, 2017	\$ 4,420
Depreciation and amortization	6,249
<b>Balance at December 31, 2018</b>	<b>10,669</b>
Depreciation and amortization	2,343
<b>Balance at June 30, 2019</b>	<b>\$ 13,012</b>
<b>Carrying amount as at December 31, 2018</b>	<b>\$ 5,113</b>
<b>Carrying amount as at June 30, 2019</b>	<b>\$ 9,587</b>

### 7. Note Payable

On November 29, 2018, the Company entered into a SAFE Repayment Agreement whereby \$500,000 in SAFE Notes (Note 9) were converted into Notes Payable. In connection with the SAFE Repayment Agreement the Company recorded \$71,342 as a loss on modification of debt which was a catch up of interest from the original date of the SAFE Note at a rate of 7%.

The Note Payable bears interest at 7% per annum and requires four fixed payments on November 29, 2018, February 27, 2019, May 28, 2019, and August 26, 2019.

On February 6, 2019, the Company entered into a Note Payable termination agreement and repaid the full balance.

### 8. Convertible Note Payable

On January 30, 2019, the Company entered into convertible promissory notes for a total of \$525,000. The convertible promissory notes have a 5 year term, with a 5% interest rate, calculated on a daily basis and is convertible at \$0.25 per common share. On the date of issuance the convertible promissory note was accounted for at fair value with \$54,384 recorded in equity and \$445,616 as the fair value of the liability portion of the convertible promissory note.

As at June 30, 2019, the carrying amount of the convertible promissory notes and interest was \$481,496.

## **XTRACT TECHNOLOGIES INC.**

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

### **9. Simple Agreement for Future Equity**

During the year ended December 31, 2017, the Company entered into six separate Simple Agreements for Future Equity ("SAFE Notes") for total proceeds of \$612,500.

The terms of the SAFE Notes provide for the automatic conversion into Safe Preferred Shares of the Company on at the completion of an equity financing whereby the number of Safe Preferred Shares issued to the holder would be equal to either: (i) a number of Standard Preferred Shares sold in the equity financing equal to the value of the SAFE Note divided by the price per share of the Standard Preferred Shares, if the pre-money valuation is less than or equal \$1,500,000; or (ii) a number of Safe

Preferred Shares equal to the value of the SAFE Note divided by the price per share equal to \$1,500,000 divided by the total number of outstanding shares of the Company and all other convertible securities outstanding.

In addition, if there is a change in control or an initial public offering, the holder of the SAFE notes has the option to (i) receive a cash payment equal to the value of the SAFE Note, or (ii) receive a number of Voting Common Shares equal to the value of the SAFE Note divided by \$1,500,000 dividend by the total number of outstanding shares of the company and all other convertible securities outstanding.

On December 1, 2018, \$37,500 in SAFE Notes were amended to include an option for the holder to convert the shares at a price of \$0.00468750 and were converted into a total of 8,000,000 Voting Common Shares of the Company.

During the year ended December 31, 2018, \$500,000 in SAFE Notes were converted into a Note Payable (Note 7).

During the six months ended June 30, 2019, \$75,000 in SAFE Notes were amended to include an option for the holder to convert the shares at a price of \$0.075 and were converted into a total of 999,999 Voting Common Shares of the Company.

### **10. 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*

During the six months ended June 30, 2019, the Company's shares were split on a basis of 2.4 to 1. All shares, options, and per share information has been retroactively restated.

The issued and outstanding share capital for the period ended:

As at June 30, 2019, there were 20,999,999 Voting Common shares outstanding. During the six months ended June 30, 2019, 999,999 common shares were issued in connection with the conversion of SAFE Notes (note 9). There were no shares issued during the six months ended June 30, 2018.

## XTRACT TECHNOLOGIES INC.

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

### 10. Share capital (continued)

#### Warrants

Warrant activity from January 1, 2018 to June 30, 2019 is as follows:

	Common shares warrants	Weighted average exercise price
Outstanding, December 31, 2017 and 2018	-	\$ 0.00
Warrant Issuance	1,250,000	\$ 0.20
Outstanding, June 30, 2019	1,250,000	\$ 0.20

The weighted average remaining contractual life of the warrants outstanding is 4.8 years (2018 – 0 years).

The fair values of all warrants issued were measured based on the Black-Scholes option-pricing model and was recorded in contributed surplus. No warrants were issued during the six months ended June 30, 2018. The inputs used in the measurement of the fair values at issuance dates of warrants as at June 30, 2019 were as follows:

	June 30, 2019	June 30, 2018
Volatility	100%	N/A
Expected life of warrants	5.0	N/A
Dividend yield	0.00%	N/A
Risk free interest rate	1.58%	N/A

## XTRACT TECHNOLOGIES INC.

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

### 10. Share capital (continued)

#### *Stock options*

The Company offers an incentive stock option plan that provides for the granting of options up to 405,405 shares to directors, officers, employees and consultants. The exercise price of each option issued is equal \$0.00001 and the maximum term is ten years. Vesting terms, if any, are set at the discretion of the Board.

The stock option activity for the period ended:

	June 30, 2019		December 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the year	411,712	\$0.000004	384,847	\$ 0.000004
Granted	-	-	62,865	0.000004
Cancelled / Expired	-	-	(36,000)	0.000004
Balance at end of the year	411,712	\$0.000004	411,712	\$ 0.000004

At June 30, 2019, 257,226 (December 31, 2018 – 187,658) options were exercisable. The weighted average remaining contractual life of the options outstanding is 7.9 years (June 30, 2018 – 8.9).

The fair values of all share-based payments were measured based on the Black-Scholes option-pricing model. Expected volatility was calculated based on the Company's stock price. The inputs used in the measurement of the fair values at grant dates of the share-based payments as at June 30, 2019 and June 30, 2018 are the following:

	June 30, 2019	June 30, 2018
Expected Volatility	-	100.0%
Expected life of options	-	10 years
Dividend yield	-	0.0%
Risk free interest rate	-	2.36%
Fair value per share	-	\$ 0.000004

# XTRACT TECHNOLOGIES INC.

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

## 11. Financial Instruments and Risk Management

As at June 30, 2019, 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 June 30, 2019, the fair value of cash and cash equivalents held by the Company was based on Level 1 of the fair value hierarchy.

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

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding or net income from operating activities will be required to meet long-term requirements. As at June 30, 2019, the Company had cash of \$479,218 to settle current liabilities of \$35,052. 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 accounts receivable from government of Canada and are not subject to significant credit risk.

### Market risk

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

#### *i. Interest rate risk*

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently only has fixed-rate financial instrument, 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 June 30, 2019, 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.

## XTRACT TECHNOLOGIES INC.

Notes to the Unaudited Condensed Interim Financial Statements  
For the six months ended June 30, 2019 and 2018

### 12. Commitments

#### *Operating lease commitments*

The Company is committed to an operating lease for an office premises with remaining terms up to February 2020. For the period ended June 30, 2019, the future minimum lease payments under these operating leases are as follows:

2019	\$	10,585
2020		1,764
		<hr/>
	\$	12,349

### 13. 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 senior management, executive and non-executive members of the Board of Directors and corporate officers.

As at June 30, 2019 amounts due to key management of the Company totaled \$1,416 (December 31, 2018 - \$5,594) and was included in accounts payable and accrued liabilities.

### 14. Subsequent Events

Subsequent to June 30, 2019:

The convertible promissory note (Note 8) and accrued interest was converted into a total of 2,161,945 common shares of the Company.

- 1,044,828 common shares were issued on the exercise of warrants at a price of \$0.20 per share.
- 50,469 common shares were issued to a shareholder of the Company at \$0.000004 per share through the exercise the Company stock options.
- Patriot One Technologies Inc. ("Patriot"), a company incorporated in British Columbia with its common shares listed on the Toronto Stock Exchange under the trading symbol "PAT", acquired 100% of the issued and outstanding shares of the Company. The purchase price included a cash payment of \$6,000,000 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 Patriot's common share price, the Consideration Shares will be subject to escrow restrictions and released on a quarterly basis over the next twelve consecutive fiscal quarters of the Company.



**PATRIOT ONE TECHNOLOGIES INC.**

Unaudited Pro Forma Consolidated Financial Statements

(expressed in Canadian Dollars)

# PATRIOT ONE TECHNOLOGIES INC.

Unaudited Pro Forma Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)

	<b>Patriot One</b> as at July 31, 2019	<b>Xtract</b> as June 30, 2019	Notes	Pro-Forma Adjustments	Pro-Forma Balance
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 50,637,942	\$ 479,218	4(b) 4(c) 4(c)	\$ 208,966 (6,000,000) (1,300,000)	\$ 44,026,126
Receivables	1,509,583	399,332			1,908,915
Prepaid expenses and deposits	694,114	5,145			699,259
Inventory	987,562	-			987,562
	53,829,201	883,695			47,621,862
Property, plant and equipment	1,620,488	9,587			1,630,075
Investment in joint venture	3,386,390	-			3,386,390
Intangible assets	7,915,175	-			7,915,175
Goodwill	2,588,614	-	4(c)	21,799,895	24,388,509
<b>Total assets</b>	<b>\$ 69,339,868</b>	<b>\$ 893,282</b>			<b>\$ 84,942,011</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	\$ 1,930,104	\$ 35,052			\$ 1,965,156
<b>Non-Current Liabilities</b>					
Convertible Note Payable	-	481,496	4(a)	(481,496)	-
<b>Total Liabilities</b>	<b>1,930,104</b>	<b>516,548</b>			<b>1,965,156</b>
<b>Shareholders' equity</b>					
Share capital	96,243,400	112,550	4(a) 4(b) 4(c) 4(c)	535,880 257,311 (905,741) 16,867,091	113,110,491
Contributed surplus	8,925,171	111,069	4(a) 4(b) 4(c)	(54,384) (48,345) (8,340)	8,925,171
Accumulated (deficit) earnings	(37,758,807)	153,115	4(c) 4(c)	(153,115) (1,300,000)	(39,058,807)
	67,409,764	376,734			82,976,855
<b>Total liabilities and shareholders' equity</b>	<b>\$ 69,339,868</b>	<b>\$ 893,282</b>			<b>\$ 84,942,011</b>

## PATRIOT ONE TECHNOLOGIES INC.

Unaudited Consolidated Statements of Loss and Comprehensive Loss  
(Expressed in Canadian dollars)

	Patriot One 12 months ended July 31, 2019	Xtract 12 months ended June 30, 2019	Notes	Pro-Forma Adjustments	Pro-Forma Balance
<b>Revenue</b>	\$ -	\$ 1,026,036			\$ 1,026,036
<b>Expenses</b>					
Advertising and marketing	1,788,717	-			1,788,717
Amortization	28,825	5,467			34,292
Business development	1,759,998	-			1,759,998
Conferences and trade shows	1,269,720	-			1,269,720
Depreciation and amortization	467,008	-			467,008
General and administration	1,889,106	72,097			1,961,203
Licensing	429,245	-			429,245
Personnel costs	2,838,672	415,868			3,254,540
Professional fees	1,263,672	115,777	4(c)	1,300,000	2,679,449
Research and development	2,772,645	-			2,772,645
Share-based compensation	3,080,807	-			3,080,807
	17,588,415	609,209			19,497,624
<b>Income (loss) before undernoted items</b>	(17,588,415)	416,827			(18,471,588)
Interest revenue	862,013	(12,112)			849,901
Loss on investment	(825,565)	-			(825,565)
<b>Income (loss) before income taxes</b>	(17,551,967)	404,715			(18,447,252)
Deferred income tax recovery	120,000	-			120,000
<b>Net income (loss) for the period</b>	\$ (17,431,967)	\$ 404,715			\$ (18,327,252)

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Unaudited Pro Forma Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **1. Acquisition of Xtract Technologies Inc.**

Patriot One Technologies Inc. ("Patriot" or 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 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.

Effective September 9, 2019, the Company acquired all of the issued and outstanding shares of Xtract Technologies Inc. ("Xtract") for total consideration of \$22,867,091, which was comprised of a cash payment of \$6,000,000 and the issuance of 9,422,956 common shares at a fair value of \$16,867,091 (the "Transaction").

## **2. Basis of preparation**

The unaudited pro-forma consolidated financial statements give effect to the Transaction as described above.

As operations of Xtract meet the definition of a business under International Financial Reporting Standards ("IFRS"), the unaudited pro forma consolidated financial statements have been prepared using the acquisition method of accounting in accordance with IFRS 3 "Business Combinations". Accordingly, the purchase price calculation and purchase price allocation are dependent upon fair value estimates and assumptions as at the Transaction date.

The unaudited pro-forma consolidated financial statements have been prepared to show the effects of the Transaction wherein Patriot has acquired all of the issued and outstanding shares of Xtract.

The unaudited pro-forma consolidated financial information is not intended to reflect the financial position that will exist following the Transaction, nor the statement of loss and comprehensive loss that may be obtained in the future. Actual amounts recorded should the Transaction take place will likely differ from those recorded in the unaudited pro-forma consolidated financial information. Any potential synergies that may be realized and integration costs that may be incurred upon consummation of the Transaction have been excluded from the unaudited pro-forma consolidated financial information.

The unaudited pro-forma consolidated financial statements should be read in conjunction with July 31, 2019 audited annual consolidated financial statements of the Company, the December 31, 2018 audited financial statements of Xtract, and the June 30, 2019 unaudited condensed interim financial statements of Xtract.

The unaudited pro-forma consolidated financial statements of the Company have been compiled from, and include:

- Patriot audited consolidated financial statements for the year ended July 31, 2019;
- Xtract's audited financial statements for the year-ended December 31, 2018;
- Xtract's unaudited condensed interim statements for the six months ended June 30, 2019 and 2018;and
- The additional information set out in Notes 3 and 4 of these unaudited consolidated pro-forma financial statements.

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Unaudited Pro Forma Consolidated Financial Statements  
(Expressed in Canadian dollars)

## 3. XTRACT INCOME STATEMENT RECONCILIATION

The significant accounting policies used in the preparation of the unaudited pro-forma consolidated financial information are based on those set out in Xtracts' audited consolidated financial statements for the year ended December 31, 2018.

Xtract's fiscal year is December 31, 2018. As such, Xtract's loss and comprehensive loss was compiled using their unaudited condensed interim financial statements for the six months ended June 30, 2019 and 2018, and their audited annual financial statements for the year ended December 31, 2019. A reconciliation of periods to coincide with a 12 month period ending June 30, 2019 is located on the attached Schedule A.

## 4. UNAUDITED PRO-FORMA ASSUMPTIONS AND ADJUSTMENTS

The unaudited pro-forma consolidated statement of financial position gives effect to the completion of the Transaction incorporating the assumptions within Note 1, as if it had occurred on the date presented being July 31, 2019. The unaudited pro-forma consolidated statement of loss and comprehensive loss gives effect to the Transaction as if it occurred on August 1, 2018.

The unaudited pro-forma consolidated financial statements have been prepared based on the following assumptions:

- a. Xtract's Convertible Note Payable was converted into 2,161,945 common shares of Xtract;
- b. Xtract issued 1,044,828 common shares for cash of \$208,966 on the exercise warrants resulting in the reclassification of \$48,345 in contributed surplus;
- c. The Transaction will be accounted for as an acquisition that constitute a business combination. Accordingly, the total purchase price, is allocated to the assets acquired and liabilities assumed based on their respective fair values with any excess allocated to goodwill. Transaction costs are expensed as incurred.

The purchase price allocation is based on management's best estimate of the fair value of assets acquired and liabilities assumed. Management expects that the actual fair values for each identifiable asset will vary from the pro-forma amounts and that difference could be significant.

The preliminary allocation of estimated consideration transferred is subject to change and is summarized as follows:

### **Net assets acquired:**

Cash and cash equivalents	\$ 688,184
Receivables	399,332
Prepaid expenses and deposits	5,145
Property, plant and equipment	9,587
Accounts payable and accrued liabilities	(35,052)
	<u>1,067,196</u>
Goodwill	<u>21,799,895</u>
	<b><u>\$ 22,867,091</u></b>

### **Consideration:**

Cash payment	\$ 6,000,000
Common shares	16,867,091
	<b><u>\$ 22,867,091</u></b>

# PATRIOT ONE TECHNOLOGIES INC.

Notes to Unaudited Pro Forma Consolidated Financial Statements  
(Expressed in Canadian dollars)

## 4. UNAUDITED PRO-FORMA ASSUMPTIONS AND ADJUSTMENTS (continued)

The pro-forma adjustments and allocations of the estimated consideration transferred are based in part on estimates of the fair value of assets to be acquired and liabilities to be assumed. The final determination of the consideration transferred and the related allocation of the fair value of the Xtract's net assets to be acquired pursuant to the Transaction will ultimately be determined after the closing of the transaction. It is likely that the final determination of the consideration transferred and the related allocation of the fair value of the assets acquired and liabilities assumed will vary from the amounts present in the unaudited pro-forma consolidated financial information and that those differences may be material.

## 5. SHARE CAPITAL AND RESERVES

	Number of Shares	Share Capital \$	Reserves \$
Authorized			
Unlimited common shares without par value			
Issued			
Common shares of Patriot as set out at July 31, 2019	139,999,937	96,243,400	8,925,171
Shares issued to Xtract on transaction close (Note 4(c))	9,422,956	16,867,091	-
	149,422,893	113,110,491	8,925,171

# PATRIOT ONE TECHNOLOGIES INC.

Notes to the Unaudited Pro-forma Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Schedule A

Reconciliation of the Xtract's statement of loss and comprehensive loss for the 12 month period ended June 30, 2019:

	(a) 6 months ended 30-Jun-19	(b) 12 months ended 31-Dec-18	(c) 6 months ended 30-Jun-18	(a)+(b)-(c) 12 months ended 30-Jun-19
<b>Revenue</b>	694,423	524,301	192,688	<b>1,026,036</b>
<b>Expenses</b>				
Depreciation	2,343	6,249	3,125	<b>5,467</b>
General and Administration	54,938	44,046	26,887	<b>72,097</b>
Professional fees	83,731	101,935	69,889	<b>115,777</b>
Wages and benefits	268,540	214,535	67,207	<b>415,868</b>
Share-based compensation	-	1	-	<b>1</b>
	409,552	366,766	167,108	<b>609,210</b>
<b>Income (loss) from operations</b>	284,871	157,535	25,580	<b>416,826</b>
SRED recoverable		93,945	-	<b>93,945</b>
Grants and awards		33,148	-	<b>33,148</b>
Loss on modification of debt		(71,342)	-	<b>(71,342)</b>
Write-off of patents		(32,820)	-	<b>(32,820)</b>
Interest income (expense)	(12,112)	(1,507)	323	<b>(13,942)</b>
	(12,112)	21,424	323	<b>8,989</b>
<b>Income and comprehensive income for the period</b>	272,759	178,959	25,903	<b>425,815</b>