



PATRIOT ONE TECHNOLOGIES INC.

Management's Discussion and Analysis

Three months ended October 31, 2020

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") is prepared as of December 10, 2020 and is intended to assist in understanding the results of operations and the financial condition of Patriot One Technologies Inc. (the "Company"). Throughout the MD&A, reference to the Company is on a consolidated basis. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the period ended October 31, 2020 which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies applied in the unaudited condensed consolidated interim financial statements are based on IFRS policies effective as of December 10, 2020, the date the Board of Directors approved the condensed consolidated interim financial statements. For a full listing of the accounting policies adopted by the Company, this MD&A should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2020. All amounts in this MD&A are expressed in Canadian Dollars unless otherwise indicated. The business of the Company is subject to a number of risks and uncertainties. Please refer to the Company's annual information form (the "AIF") for the year ended July 31, 2020, available under the Company's profile at www.sedar.com, for more information about these risks and uncertainties.

Forward Looking Information

This MD&A contains forward-looking information that involves material assumptions and known and unknown risks and uncertainties, of which are beyond the Company's control. Such assumptions, risks and uncertainties include, without limitation, those associated with loss of markets, expected sales, future revenue recognition, currency fluctuations, the effect of global and regional economic conditions, industry conditions, changes in laws and regulations and how they are interpreted and enforced, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates, demand for the Company's products, and availability of funding. The Company's performance could differ materially from that expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if they do so, what benefits the Company will derive therefrom. The forward-looking information is made as of the date of this MD&A, and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Actual events or results could differ materially from the Company's expectations and projections.

Corporate Structure and Profile

The Company's common shares are listed for trading on the TSX under the trading symbol "PAT", "PTOTF" on the OTCQX in the United States, and "0PL" on the Frankfurt Stock Exchange in Germany. The Company is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario. The principal regulator of the Company is the British Columbia Securities Commission.

As at October 31, 2020, the Company had five wholly-owned subsidiaries, Patriot One Detection Ltd., a limited company incorporated under the laws of British Columbia, Canada, Patriot One (UK) Limited, a limited company incorporated under the laws of England and Wales, United Kingdom, Patriot One Detection Technologies Inc., a limited company incorporated under the laws of the state of Colorado, United States of America, EhEye Inc. ("Eh-Eye"), a limited company incorporated under the laws of the province of New Brunswick, Canada and Xtract Technologies Inc. ("Xtract"), a limited company incorporated under the laws of British Columbia, Canada.

The Company, through Patriot One Detection Technologies Inc., has a 49% interest in Sotech Secure, LLC ("Sotech"), an incorporated entity formed under the laws of the State of Delaware.

Business Highlights for the fiscal quarter ended October 31, 2020

The following is a summary of the key business highlights for the Company for the three month period ended October 31, 2020:

- Commercially released its first covert sensor technology being the PATSCAN Multi Sensor Gateway (“MSG 1.0”), which identifies on-body concealed weapons utilizing its unique passive sensor array in uncluttered environments;
- Welcomed Karen Hersh, CPA, CA as Chief Financial Officer and Corporate Secretary, bringing expertise with early stage technology companies and added operational experience;
- Completed a comprehensive search for a new Chief Executive Officer, with naming and welcoming of Peter Evans on November 9, 2020, shortly after the end of the quarter;
- Enhanced the partnership portfolio and overall sales channel capabilities by adding additional resellers;
- Secured wage subsidy funding, where eligible, significantly assisting the sustainment of the Company’s operations and near-term cash flow requirements; and
- Implemented certain restructuring and cost cutting efforts to improve operating efficiencies and to better align the Company with its strategic direction and business development plans.

Business of the Company

The principal business of the Company is to commercialize an integrated, layered, multi-sensor platform of technologies, referred to as the “PATSCAN™ platform”, with the aim of enhancing public health and safety. The Company’s mission is to be one of the foremost global proponents and providers of commercial threat countermeasures for community safety. The Company has two distinct operating segments being its Patriot Threat Detection and Xtract business units. Patriot Threat Detection develops and commercializes a platform of multi-sensor threat detection technologies, while Xtract develops and commercializes artificial intelligence solutions for customers.

COVID-19 Impact to Operations

The COVID-19 global pandemic, with the discrete economic, political and social challenges such an event has wrought, has necessitated the Company to take a comprehensive and holistic assessment of the impact such a profoundly impactful development has made on its planned strategic initiatives, with continuous and parallel ongoing assessments as the developments unfold. The Company, not alone in its challenge, has experienced delays in its ability to fully satiate reseller, customer, and other end-user performance obligations according to original planned timeframes. The Company continues to evolve operational plans to meet these needs, as levels of uncertainty reduce with regard to restrictions on travel, public gathering, and a plethora of other entity-specific and publicly directed restrictions and regulations evolve. While disappointing in the fact that this has prevented the Company from meeting its revenue targets, the Company remains confident that once the restrictive mandates put in place to reduce the healthcare burden are lifted, the Company will be very well situated to respond hastily to the opportunities paused.

In parallel and in concert with the challenges referenced above, the Company sees and has seized on the tremendously pronounced opportunities the COVID-19 pandemic has provided in relation to technology-based solutions that will empower private organizations, public entities and society at large in returning to a routine that permits and encourages free movement and social gathering in a safe manner. This opportunity is reflected in a series of initiatives, which notably include:

- Securing of up to \$4.5M co-investment funding from the Canadian Digital Technology Supercluster (“DTS”) for the advanced development and deployment of the PATSCAN VRS health and safety detection modules, with the aim of developing commercial solutions for public health and safety;

- Advancing artificial intelligence (“AI”) solutions to help radiologists identify the risk of the COVID-19 virus, in partnership with Amazon Web Services, Vancouver General Hospital and the University of British Columbia, and SapienML, among others; and
- Partnering with EcoMine Technologies Inc. in advancing an innovative, low-cost, on-the-spot pathogen screening technology, and advancing the partnership through Canada’s DTS COVID-19 program.

As a result of various risks and challenges, along with the multitude of opportunities provided, the Company has expeditiously restructured the organization, augmenting technical resources where necessary whilst responding to the organization’s strategic objectives through the placement of a completely new leadership structure, which consummated with Peter Evans being named as Chief Executive Officer on November 9, 2020.

Throughout the three months ended October 31, 2020, the Company took significant steps to rationalize operating costs in light of the uncertainty of near-term revenue prospects, and on-site installation, testing, trial and other associated reseller, customer and partner activities that were impacted or otherwise restricted by the COVID-19 pandemic, which are further expanded on in the sections of this MD&A below. In support of these cost-control efforts, the Company has benefited from certain government programs aimed to assist businesses which have been impacted negatively by the pandemic and continues to monitor and assess further announcements and programs that the Company would be eligible for and benefit from.

The Company acted quickly to protect the well-being of its employees and customers by temporarily closing its offices and delaying the physical installation of its platforms at the start of the pandemic and has continued to make progress on the PATSCAN platform and fully maintained operations through a carefully constructed work continuity plan which allows employees to remain collaborative and productive while strictly adhering to restrictions imposed and operating guidelines provided by the relevant public health agencies.

As of the date of this MD&A, the Company continues to experience significant uncertainty in near-term planning as it relates to sales and implementation activities.

Outlook and Overall Performance

Patriot Threat Detection Operating Segment

During the quarter, the Company continued to invest in the research and commercial development of the suite of technologies that form the PATSCAN Platform, and advance the functionality of the technologies in response to the evolving market opportunities and feedback from early-adopter customers, resellers and partnership organizations. The Company continues to evolve its product development roadmaps in response to market opportunities, focusing on the industry-specific utility of the various solutions and capabilities under development, while continually evaluating and refining the key and most susceptible assumptions underpinning the strategic focus.

Under the leadership of Dietmar Wennemer, President and COO, the Company has matured its product commercialization capabilities, and was pleased to announce the commercial release of the PATSCAN Multi Sensor Gateway (“MSG 1.0”) in August 2020, a covert weapons detection solution, aimed at detecting mass casualty threats in uncluttered environments, with the first customer deployments of the solution occurring shortly thereafter. The Company continues to fuse the sensor data streams into a comprehensive, holistic threat analysis assessment, the accuracy of which will supersede that of any of the sensors alone, which the Company believes is a primary key differentiator in its threat detection technologies as compared with the other offerings currently available in the marketplace. The Company believes that these data science techniques, and the ongoing effort being expended in this regard, are key to the ongoing optimization in both improving the accuracy of the threat detection notifications whilst minimizing to the greatest degree possible the false positive rates generated by the system. These efforts will continue with the ingestion of more data from internal optimization efforts, the performance and functionality of the

solutions in pilot installations in real-world settings, and most importantly, based on the fully functional systems being utilized in real-world environments.

The Company is encouraged by the ongoing level of interest in the covert weapons detection solutions, and sees the growth in the opportunity pipeline as indicative of the hearty market opportunity remaining once businesses, facilities and public spaces return to activities, events, and gatherings that have temporarily ceased, or at least dramatically reduced as a result of the ongoing COVID-19 pandemic.

With the formal contracting of the Canadian DTS project completed in early August, the Company promptly commenced fulfilling the development and deployment objectives of the project. The initial areas of focus of this project involved the hiring of skilled technical and project management resources, embedding the new solutions into the PATCSAN platform, evaluating early-stage feedback and testing activities, gathering data in various forms and formats for the incorporation into the AI models by the data science technicians. The Company has fulfilled the first quarterly reporting requirements and has expediently moved towards the subsequent series of project objectives as laid out in the project scope.

The Company's sales, marketing and business development activities have evolved in conjunction with the rest of the business as a result of the stage of the Company's maturity, having advanced to a focus of commercial sales given the commercial release in the fourth quarter of the previous fiscal year of the video-based threat detection solutions, VRS-W (weapons), VRS-HS (health & safety), & VRS-T (thermal), followed closely by the commercial release of the MSG 1.0 in the first quarter of the current fiscal year. In response, the Company filled a senior sales leadership role during the quarter, with the addition of Blair Melton, Senior Vice President of Sales.

Xtract Operating Segment

In September 2019, the Company acquired AI company Xtract, a highly talented and award-winning team of AI experts, as part of an ongoing strategic initiative to bring together leading-edge technologies and services to enhance our PATSCAN platform. Xtract's development and deployment of AI solutions are built upon an understanding of deep neural networks. Xtract has developed novel neural network architecture and fusion techniques that are more robust, efficient, and require lower memory than comparable standards. Xtract's video solutions use proprietary algorithms to apply human understanding to video and its analysis and have been successfully deployed for military, emergency services and environmental applications. Xtract's text solutions automate the digitization, parsing and understanding of large collections of text data, allowing users to address complex real-world challenges.

The Xtract team continues to dually focus on supporting the internal PATSCAN Platform development efforts and the associated machine learning complexities of the various solutions under developments in close coordination with the product development and data science teams, while also developing the AI based solutions contracted through public sector agencies and entities along with a growing number of private sector parties. The Company has a robust pipeline of opportunities and an ever-expanding set of capabilities, which continue to inform and evolve the strategic aims of the Company. Critical strategic decisions for Xtract are made in close consultation and coordination with the Company's leadership to ensure maximum synergies are achieved.

Market Opportunity

The Company is continually assessing market opportunities, and working closely and collaboratively with its resellers, development partners, and end-users in response to the evolving needs of the Company's target markets. While the Company continues to have confidence in the strategic direction and market focus, the timelines underpinning the near-term opportunity landscape have been continuing to shift as the COVID-19 pandemic worsens in the United States, the Company's primary focus. However, certain industries and customer segments are eagerly seeking to once again welcome employees, patrons, and the general public by instituting a series of modifications to increase safety, security, and peace of mind. In the near-term, the Company is focused on these industries and customer segments, by offering solutions

that will provide immediate improvements in public safety and security and ultimately restoring consumer confidence.

The Company has identified key market segments that are well suited for the Company's suite of threat detection technologies. The Company intends to market its products across a wide swath of industries, including but not limited to:

- Education and associated campus facilities
- Healthcare
- Public transportation
- Stadiums, concert arenas and nightclubs
- Hospitality, casinos and recreation
- Private sector offices, factories, and other facilities
- Public sector office buildings, court buildings and other secure facilities
- Retail locations
- Various law enforcement and detention facilities

The global physical security market is expected to reach USD \$292 billion by 2025. Governments across different countries and regions are taking up smart city initiatives to enhance their infrastructure and are deploying improved security systems. Additionally, modernizing the existing infrastructure with robust security measures and strengthening the security of government agencies have been some of the top priorities for governments across developed countries. Organizations are increasingly concerned about employee safety and are hence setting up systems to prevent unauthorized access, further driving the demand for physical security solutions.

The video analytics market size was valued at \$4.1 billion in 2019, and is projected to reach \$20.8 billion by 2027, growing at a CAGR of 22.7% from 2020 to 2027. Used to help make surveillance operations more efficient, video analytics software comes in a variety of different formats and can be used to detect motion, read license plates, count people, and assist with other real-world challenges. In the case of physical security and video monitoring, video analytics software is primarily used to detect crime, weapons detection, and crowd disturbances. The adoption of cloud-based video analytics software will rise, allowing security companies to capitalize on all the benefits of video analytics completely remotely. Companies that adopt this form of software are opening their doors to a cost-effective solution which will benefit from constant updates and improvements via the cloud.

The safety and security market remains a robust market with growing threats from both man-made tragedies along with natural, biological threats underpinning higher rates of growth in this market worldwide. The public health safety market is currently undergoing monumental changes on account of the COVID-19 pandemic, presenting immense opportunities to the Company and many others to support businesses, governments, and private citizens in resuming less restrictive routines. The Company will continue to focus on opportunities where it can provide technology-based solutions to assist in the resumption of less restrictive routines.

The Company is currently expanding its reseller base, covering larger geographical territories and a wider representation of industries, and their respective end-user clientele. In furtherance of these initiatives, the Company is also commencing, in parallel, a direct to end-user sales model which will more precisely address a certain subset of the addressable market. This will give more visibility into opportunities allowing us to forecast more accurately, control the sales process, eliminate competition, increase sales margins and maintain the relationship with the end user. The effect of this approach has already been seen with an increase in sales pipeline and well qualified opportunities where we have intimate knowledge of the customer and their processes. In parallel, we are building a program to support the recruitment of strategic alliance partners that offer complimentary technologies where we can develop integrations and connect our products to offer more complete solutions together. This will provide us with access to a larger install base and promote direct sales.

Throughout the remainder of the fiscal year, we will engage in selected opportunities for collaboration, innovation, and business development relationships to accelerate our growth and expand our presence globally. We are actively pursuing opportunities to leverage new technologies, execute on new business opportunities and grow our client base while providing business value to our clients.

The Company is in the process of instituting a wide array of sales programs and pricing schemes in close coordination with early-adopter reseller and end-user customers to ensure that our solutions remain competitive and directly address customer needs.

Quarterly Financial Performance

Selected Financial Data - Summary of Quarterly Results

| | Three months ended October 31, | | |
|---|--------------------------------|---------------------|--------------|
| | 2020 | 2019 | % Change |
| Revenue | \$ 376,152 | \$ 116,574 | 223% |
| Expenses | | | |
| Sales and marketing | 452,379 | 1,405,253 | (68%) |
| Research and development | 218,824 | 1,161,909 | (81%) |
| General and administration | 632,858 | 692,639 | (9%) |
| Personnel costs | 1,163,212 | 940,756 | 24% |
| Professional fees | 377,083 | 1,894,140 | (80%) |
| Amortization | 228,392 | 251,058 | (9%) |
| Depreciation | 244,448 | 262,769 | (7%) |
| Share-based compensation | 394,350 | 458,956 | (14%) |
| | 3,711,546 | 7,067,480 | (2) |
| Loss from operations | 3,335,394 | 6,950,906 | (52%) |
| Proportionate share of loss on investment | - | 561,161 | (100%) |
| Unrealized loss on fair value investment | 25,800 | - | - |
| Interest income | (35,726) | (204,490) | (83%) |
| Loss and comprehensive loss for the period | \$ 3,325,468 | \$ 7,307,577 | (54%) |
| Weighted average number of shares | 150,728,622 | 145,765,769 | |
| Basic and diluted loss per share | \$ 0.02 | \$ 0.05 | (60%) |

Overall Quarterly Results

Overall loss and comprehensive loss for the three month period ended October 31, 2020 was \$3,325,468 compared with \$7,307,577 for the same period ended October 31, 2019, representing a decrease of \$3,982,109 or 54%. The decrease in loss for the period ending October 31, 2020 is partially attributable to management's effort to reduce our cash burn through the streamlining of the Company's business operations and a significant reduction in non-strategic expenses. The COVID-19 relief funding received from the Canadian government of approximately \$1.38 million during the period and transaction costs of \$1.5 million incurred for the acquisition of Xtract in the comparative period also contributed to the reduced net loss.

Revenue

The Company earned revenue of \$376,152 during the three month period ended October 31, 2020 compared to \$116,574 for the same period ended October 31, 2019. This revenue is fully comprised of contract revenue from the Xtract operating segment. We expect to continue to experience growth in revenue from our Xtract operating segment.

As of October 31, 2020, the Company had \$308,547 of deferred revenue recorded relating to the early adopter sales of the PATSCAN offerings, as compared with \$nil deferred revenue in the prior year. Xtract has collected \$31,917 for work it has not yet performed which has been also recorded as deferred revenue as of October 31, 2020.

During the period, the Company released its first covert weapon detection technology solution, being the MSG 1.0 and is actively pursuing sales opportunities and initial deployments in focused markets.

Sales and marketing

Advertising and marketing costs were \$452,379 for the period ended October 31, 2020 as compared with \$1,405,253 for the same period ended October 31, 2019, representing a decrease of 68% or \$952,874. The reduction in these costs during the year was primarily due to the Company refocusing and refining its marketing strategy due to the COVID-19 pandemic and the cancellation or postponement of conference and trade show events, leading to a corresponding reduction in complementary marketing costs. Further, COVID-19 impacted travel for reseller onboarding, training and early-stage support on initial installs and client trials during this fiscal quarter.

Research and development

Research and development costs were \$218,824 for the period ended October 31, 2020 as compared with \$1,161,909 in the period ended October 31, 2019, a decrease of 81% or \$943,085 primarily due to COVID-19 relief funding received by the Canadian government during the period ended October 31, 2020.

Research and development costs are presented net of related non-dilutive funding provided to reimburse research and development costs. This includes COVID-19 relief funding from the Canadian government and non-dilutive funding from Raytheon Canada Ltd. and Supercluster funding for the development of various health solutions.

The following table details our normalized research and development costs and offsetting funding for the three-month periods ended October 31:

| | 2020 | 2019 | % Change |
|---|--------------|--------------|----------|
| Research and development expense before grants | \$ 1,671,863 | \$ 1,521,909 | 10% |
| Raytheon ITB program funding | (345,800) | (360,000) | (4%) |
| Supercluster funding | (320,000) | - | 100% |
| R&D allocation of Covid-19 relief funding | (787,239) | - | 100% |
| | (1,453,039) | (360,000) | 304% |
| Research and development costs net of grants | \$ 218,824 | \$ 1,161,909 | (81%) |

When research and development costs are normalized by removing this offsetting funding, they increased by 10% or \$149,954 during the three-month period ending October 31, 2020 as compared the same period ended October 31, 2019. The increase in research and development costs is attributable to the widening the scope of development streams to focus on a larger number of sensor technology solutions, to increase the scope of its technology portfolio.

COVID-19 relief, supercluster and ITB funding of \$1,453,039 was recorded as an offset to research and development costs during the period ending October 31, 2020 compared with \$360,000 for the three-month period ending October 31, 2019. The Company has found these funding sources to be highly beneficial and will continue to pursue these funding opportunities in the future.

General and administration

General and administrative costs were \$632,858 for the three month period ended October 31, 2020 as compared with \$692,639 in the same period ended October 31, 2019, representing a decrease of 9% or \$59,781. The cause of this slight decrease was primarily due to the closure of certain non-strategic offices. The Company is continually looking for opportunities to reduce non-strategic expenses and to operate more efficiently.

Personnel costs

Personnel costs, excluding those costs associated with research and development activities were \$1,163,212 for the three month period ended October 31, 2020 as compared with \$940,756 for the three month period ended October 31, 2019, representing an increase of 24% or \$222,456.

Personnel costs are presented net of COVID-19 relief funding from the Canadian government. When personnel costs are normalized by removing this offsetting funding, they increased by 65% or \$613,866 during the period ending October 31, 2020 as compared the period ended October 31, 2019. The increase relates to the continued investments in sales, marketing, operations, finance, and corporate administration necessary to advance into commercial operations. The Company expects that the existing personnel structure is sufficient to meet its current operating objectives.

COVID-19 relief funding of \$591,410 was recorded as an offset to personnel costs during the period ending October 31, 2020 compared with \$nil in period ending October 31, 2019. The Company will continue to pursue these COVID-19 relief opportunities.

Professional fees

Professional fees were \$377,083 for the three month period ended October 31, 2020 as compared with \$1,894,140 in the period ended October 31, 2019, representing a decrease of 80% or \$1,517,057. The decrease relates primarily to non-recurring transaction costs associated with the acquisition of Xtract of approximately \$1,500,000 in the period ended October 31, 2019.

Amortization

Amortization costs were \$228,392 for the period ended October 31, 2020 as compared with \$251,058 in the period ended October 31, 2019, a decrease of 9% or \$22,666. The decrease relates to the amortization of specific government contracts obtained in the Xtract acquisition that were amortized over the expected life of the contracts.

Depreciation

Depreciation costs were \$244,448 for the three month period ended October 31, 2020 as compared with \$262,769 for the same period ended October 31, 2019, representing a decrease of 7% or \$18,321. The slight decrease was attributable to certain research and development assets no longer in use during the period ended October 31, 2020 as they were retired in Q4 2020.

Share-based compensation

Share-based compensation decreased by 14% or \$64,606 during the three month period ending October 31, 2020 to \$394,350 as compared with \$458,956 for the same period in the prior year. The decrease was due to a larger number of option issuances during the period ended October 31, 2019.

Loss on investment in Sotech

As at October 31, 2020, the Company owns a 49% interest in Sotech Secure, LLC ("Sotech"), a Delaware Limited Liability Company with NanoBio Detection Systems LLC ("NanoBio") owning the remaining 51% interest. The Company has experienced challenges with its joint venture partner and determined that it does not hold significant influence or joint control over Sotech. Accordingly, the Company discontinued the use of the equity method during the fourth quarter of 2020. On September 14, 2020, the Company entered into a membership interest purchase agreement with NanoBio to sell its 49% interest in Sotech for USD \$3,000,000 with an estimated closing date of October 31, 2020. The closing date was mutually extended by both parties and is expected to close in the next six months. Management expects that the proposed transaction will close as planned; however, there is no guarantee that transaction will proceed as expected. The loss in the three month period ended October 31, 2020 relates to a foreign currency loss on the amount the Company expects to receive as compensation for its 49% interest.

Interest income

Interest income decreased by 83% or \$168,764 during the year ending October 31, 2020 to \$35,726 as compared with \$204,490 in the period ended October 31, 2019 due to a decrease in the Company's cash balance and a decrease in market interest rates.

Financial Data - Summary of Quarterly Results (in \$000s)

| | Quarter Ended | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|
| | Oct 31, 2020 | Jul 31, 2020 | Apr 30, 2020 | Jan 31, 2020 | Oct 31, 2019 | Jul 31, 2019 | Apr. 30, 2019 | Jan 31, 2019 |
| Revenue | \$ 376 | \$ 385 | \$ 1,168 | \$ 402 | \$ 117 | \$ - | \$ - | \$ - |
| Expenses | | | | | | | | |
| Hardware | - | 194 | - | - | - | - | - | - |
| Sales and marketing | 452 | 571 | 671 | 1,168 | 1,405 | 1,037 | 1,436 | 1,103 |
| Research and development | 219 | 608 | 2,112 | 1,595 | 1,162 | 641 | 732 | 869 |
| General and administration | 633 | 733 | 389 | 376 | 693 | 528 | 645 | 321 |
| Personnel costs | 1,163 | 2,005 | 1,162 | 1,285 | 941 | 915 | 773 | 661 |
| Professional fees | 377 | 558 | 585 | 398 | 1,894 | 470 | 151 | 394 |
| Amortization | 228 | 283 | 282 | 282 | 251 | 29 | - | - |
| Depreciation | 245 | 359 | 342 | 293 | 263 | 166 | 119 | 120 |
| Share-based compensation | 394 | 268 | 789 | 670 | 459 | 1,156 | 175 | 389 |
| Loss on inventory write-down | - | 246 | - | - | - | - | - | - |
| Loss on retirement of assets | - | 171 | - | - | - | - | - | - |
| Loss from operations | 3,335 | 5,611 | 5,164 | 5,665 | 6,951 | 4,942 | 4,031 | 3,857 |
| Proportionate share of loss on investment | - | 151 | 191 | 629 | 561 | 432 | 394 | - |
| Unrealized loss on fair value investment | 26 | 1,018 | - | - | - | - | - | - |
| Other income - Interest | (36) | (35) | (136) | (107) | (204) | (302) | (278) | (126) |
| Loss before income taxes | 3,325 | 6,745 | 5,219 | 6,187 | 7,308 | 5,072 | 4,147 | 3,731 |
| Current tax recovery | - | (333) | - | - | - | - | - | - |
| Deferred tax recovery | - | - | - | - | - | (120) | - | - |
| Loss and comprehensive loss | \$ 3,325 | \$ 6,412 | \$ 5,219 | \$ 6,187 | \$ 7,308 | \$ 4,952 | \$ 4,147 | \$ 3,731 |
| Basic and diluted loss per share | \$ (0.02) | \$ (0.05) | \$ (0.03) | \$ (0.04) | \$ (0.05) | \$ (0.03) | \$ (0.03) | \$ (0.03) |
| Working capital | \$ 24,523 | \$ 27,335 | \$ 27,182 | \$ 31,908 | \$ 37,170 | \$ 51,899 | \$ 62,866 | \$ 70,036 |
| Total assets | \$ 63,188 | \$ 66,010 | \$ 70,734 | \$ 75,141 | \$ 83,088 | \$ 69,340 | \$ 72,304 | \$ 76,761 |
| Non-current liabilities | \$ 947 | \$ 595 | \$ 683 | \$ 635 | \$ 703 | \$ - | \$ - | \$ - |

Quarterly Results Trend Analysis

The quarterly expenditure trend across the previous eight fiscal quarters above reflects the evolution from a single product focused strategy in 2018 to the current multi-sensor platform solution strategy, along with the acquisition of Eh-Eye in late Q2 fiscal 2019, and the acquisition of Xtract in the middle of Q1 fiscal 2020. The Company's primary objective remains the function of an integrated platform-based technology solution, using various sensor technologies. The general trend of increased expenditures across the various cost categories reflects the investments being made throughout the organization to achieve this goal, as well as the organizational capacity to support commercialization at scale.

The Company has no discontinued operations.

Liquidity and Capital Resources

As at October 31, 2020, the Company had working capital of \$24,523,358, which included cash of \$18,931,092 available to meet current liabilities of \$2,951,972. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has non-current liabilities of \$947,131, related to the long-term portion of the capitalized lease liability in accordance with IFRS 16.

Selected Financial Data – Summary of Results for the three-month periods ended October 31

| | <u>2020</u> | <u>2019</u> | <u>% Change</u> |
|---|----------------------|----------------------|-----------------|
| Cash beginning of period | \$ 22,407,251 | \$ 50,637,942 | (56%) |
| Cash used in operating activities | (3,089,351) | (3,763,814) | (18%) |
| Cash used in investing activities | (386,808) | (9,287,243) | (96%) |
| Cash received from financing activities | - | 642,743 | (100%) |
| Change in cash for the period | <u>(3,476,159)</u> | <u>(12,408,314)</u> | <u>(72%)</u> |
| Cash end of period | <u>\$ 18,931,092</u> | <u>\$ 38,229,628</u> | <u>(50%)</u> |

During the three month period ended October 31, 2020, the Company had negative cash flow from operations and investing activities of \$3.5 million, compared with negative cash flow from operations, investing and financing activities of \$12.4 million in the prior year.

The cash flow used in operating activities was \$3.1 million for the three month period ended October 31, 2020 as compared to \$3.8 million for the three month period for the prior year representing a change of \$0.7 million or 18%. The decrease in negative cash flow from operating activities can be attributed primarily to a reduction in the loss for period of \$4.0 million as offset by an increase in the investment of working capital of \$2.7 million and \$0.6 million in non-cash operating expenses.

Included in net cash flows used in operating activities were approximately \$1,500,000 of non-recurring acquisition-related professional fees and associated transaction costs, which were expended and included with general and administrative expenses for the three month period ended October 31, 2019.

Cash flow used in investing activities was \$386,351 for the three month period ended October 31, 2020 as compared to \$9.3 million for the same period in 2019 representing a decrease of \$8.9 million or 96%. The significant reduction in cash used in investing activities is primarily related to \$1.8 million in cash payments and funding of the Sotech investment and \$6.8 million in cash consideration to acquire Xtract, net of cash received in the prior year.

Cash flows from financing activities was \$nil for the period ended October 31, 2020 as compared to \$642,743 for the period ended October 31, 2019, which solely comprises proceeds on issue of share capital, net of share issue costs from the exercise of warrants and options.

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to safeguard its ability to continue as a going concern and to sustain future development of the business. Our objective is met by retaining adequate cash reserves to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. To maintain or adjust our capital structure, we may issue shares, such as through private placements or other possible arrangements. The Board of Directors does not establish a quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements.

Use of Proceeds from Bought Deal Financings

| Use of Proceeds Category | Net Proceeds from October 2017, February 2018 and November 2018 Bought Deal Financings | Approximate spending allocation for the period October 25, 2017- October 31, 2020 | Proceeds unspent as at October 31, 2020 |
|---|--|---|---|
| Product Development | \$29,108,000 | \$14,533,000 | \$14,575,000 |
| Reserved for Potential Acquisitions of Complementary Technology | \$6,900,000 | \$14,000,000 | (\$7,100,000) |
| Sales and Marketing | \$8,786,000 | \$7,922,000 | \$864,000 |
| Production and Operations | \$8,795,000 | \$11,024,000 | (\$2,229,000) |
| General and Administration | \$9,770,000 | \$10,308,000 | (\$538,000) |
| International Business Development | \$6,344,000 | \$3,445,000 | \$2,899,000 |
| Working Capital | \$7,322,000 | N/A | \$7,322,000 |
| Total | \$77,025,000 | \$61,232,000 | \$15,793,000 |

In addition to the above noted expenditures, certain expenditures have been capitalized in accordance with the Company's stated accounting policies. This would include items such as the purchase of property and equipment, the advancement of funds to Sotech, and changes in working capital, such as capitalized prepaid expenses and the procurement of inventory.

The Company's intention to spend the net proceeds of the offering as set forth above were based on the expectations of management at the time of the financing raises. However, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. At the current time, there are no significant changes to the business objectives and milestones and the Company believes the current objectives and milestones are achievable with the current spending trajectory.

Financial Instruments and Other Instruments

The Company's only material financial instruments are cash and its investment in Sotech.

The Company's risk exposures and the impact on our 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 October 31, 2020, the Company had cash of \$18,931,092 to settle current liabilities of \$2,951,972. All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and 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 under the Canadian Industrial and Technical Benefits program and is 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.

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, and accordingly, its exposure to interest rate risk is insignificant.

Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. Most of the Company's assets, liabilities and operations are denominated in Canadian dollars. As at October 31, 2020, 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 holds an investment in Sotech at its expected fair value of \$3,995,400 (USD \$3,000,000) which is subject to foreign currency risk.

Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Critical Accounting Policies and Estimates

For a complete description of the Company's significant accounting policies, please see the accompanying notes to the condensed consolidated interim financial statements for the period ended October 31, 2020 and the audited consolidated financial statements for the year ended July 31, 2020.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from these estimates.

Recent Accounting Pronouncements

The International Accounting Standards Board (IASB) has published new standards and amendments or interpretations to existing standards which are mandatory for periods beginning on or after January 1, 2020, as outlined below.

New accounting standard adopted:

Definition of a business (Amendments to IFRS 3)

The Company has adopted new amendments to IFRS 3 for the three month period ended October 31, 2020. The amendments:

- (i) Clarify the minimum attributes that the acquired assets and activities must have to be considered a business;
- (ii) Remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs;
- (iii) Narrow the definition of a business and the definition of outputs; and
- (iv) Add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

The adoption of the new amendments did not have a significant impact on the condensed consolidated interim financial statements.

Related Party Balances and Transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company and consist of members of the Board of Directors and corporate officers. Key management compensation paid to officers and directors of the Company during the three-month period ended October 31, 2020 was \$398,265 (2019 - \$273,662). In addition, share-based compensation expense relating to officers and directors for the three-month period ended October 31, 2020 was \$166,118 (2019 - \$33,571).

Subsequent Event

Subsequent to the period, the Company granted 720,000 stock options to an officer of the Company with an exercise price of \$0.57 per share. These options were granted for a term of five years and a vesting period of three years.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At October 31, 2020, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer in a timely manner.

In addition, the Chief Executive Officer and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

The Chief Executive Officer and Chief Financial Officer have been advised that the control framework the Chief Executive Officer and Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether there were changes to its ICFR during the three month period ended October 31, 2020 that have materially affected or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Risk and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks occur, business plans may be impacted and the financial condition and results of operation may suffer, potentially significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of the date of this MD&A, the Company has 150,728,622 common shares issued and outstanding. In addition, there are 6,324,900 warrants which may be converted to one common share each at a price of \$2.40. The Company also has stock options outstanding to purchase an additional 10,762,520 common shares at the exercise process ranging from \$0.185 to \$2.48 per share.