



PATRIOT ONE TECHNOLOGIES INC.

Unaudited Condensed Consolidated Interim Financial Statements

Three and Six months ended January 31, 2020 and 2019

Notice of No Auditors Review of Interim Financial Statements

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

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

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

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	January 31, 2020 (Unaudited)	July 31, 2019 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 30,433,878	\$ 50,637,942
Receivables	1,142,866	1,509,583
Prepaid expenses and deposits	688,688	694,114
Inventory	1,547,122	987,562
	33,812,554	53,829,201
Property, plant and equipment	1,947,095	1,620,488
Investment in joint venture (Note 5)	4,827,348	3,386,390
Intangible assets (Note 6)	7,852,767	7,915,175
Right of use assets (Note 7)	1,118,344	-
Goodwill	25,582,433	2,588,614
Total assets	\$ 75,140,541	\$ 69,339,868
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,085,983	\$ 1,930,104
Deferred revenue (Note 9)	308,594	-
Current portion of lease liabilities (Note 7)	510,325	-
	1,904,902	1,930,104
Non-Current liabilities		
Non-current portion of lease liabilities (Note 7)	635,128	-
	2,540,030	1,930,104
Shareholders' equity		
Share capital (Note 8)	114,395,545	96,243,400
Contributed surplus	9,458,237	8,925,171
Accumulated deficit	(51,253,271)	(37,758,807)
	72,600,511	67,409,764
Total liabilities and shareholders' equity	\$ 75,140,541	\$ 69,339,868

Reporting entity (Note 1)
Basis of preparation (Note 2)
Operating segments (Note 11)
Subsequent events (Note 13)

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

Approved on behalf of the Board:

"Martin Cronin"

Director, Chief Executive Officer

"Peter van der Gracht"

Director, Chairman of the Board

PATRIOT ONE TECHNOLOGIES INC.

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

	Three months ended January 31,		Six months ended January 31,	
	2020	2019	2020	2019
Revenue (Note 9)	\$ 402,017	\$ -	\$ 518,591	\$ -
Expenses				
Advertising and marketing	319,485	656,084	947,998	1,325,025
Amortization	282,225	-	533,283	-
Depreciation	292,769	119,629	555,538	181,982
Business development	200,109	265,357	457,755	759,847
Conferences and trade shows	648,788	181,883	1,167,882	260,609
General and administration	375,672	321,303	1,068,311	716,507
Licensing	23,787	35,304	28,897	80,696
Personnel costs	1,284,482	661,066	2,225,238	1,150,491
Professional fees (Note 4)	397,658	393,687	2,291,798	641,198
Research and development	1,571,200	834,158	2,727,999	1,749,426
Share-based compensation (Note 8)	670,172	388,600	1,129,128	1,749,821
	6,066,347	3,857,071	13,133,827	8,615,602
Loss before undernoted items	(5,664,330)	(3,857,071)	(12,615,236)	(8,615,602)
Equity loss on joint venture (Note 5)	(629,239)	-	(1,190,400)	-
Interest income	106,682	125,923	311,172	282,213
Loss and comprehensive loss for the period	\$ (6,186,887)	\$ (3,731,148)	\$ (13,494,464)	\$ (8,333,389)
Weighted average number of shares	150,088,508	132,229,445	147,927,139	122,839,600
Basic and diluted loss per share	\$ (0.04)	\$ (0.03)	\$ (0.09)	\$ (0.07)

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

PATRIOT ONE TECHNOLOGIES INC.

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

	Share Capital		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount			
Balance - July 31, 2019	139,999,937	\$ 96,243,400	\$ 8,925,171	\$ (37,758,807)	\$ 67,409,764
Shares issued on the acquisition of Xtract (Note 4)	9,422,956	16,867,090	-	-	\$ 16,867,090
Shares issued on the exercise of warrants	534,942	1,203,206	(568,239)	-	634,967
Shares issued on the exercise of stock options	261,108	81,849	(27,823)	-	54,026
Share-based compensation (Note 8)	-	-	1,129,128	-	1,129,128
Loss for the period	-	-	-	(13,494,464)	(13,494,464)
Balance - January 31, 2020	150,218,943	\$ 114,395,545	\$ 9,458,237	\$ (51,253,271)	\$ 72,600,511
Balance - July 31, 2018	110,957,029	\$ 49,232,014	\$ 4,628,954	\$ (20,326,840)	\$ 33,534,128
Shares issued for cash, net of share issue costs	18,400,000	40,465,727	1,582,233	-	42,047,960
Shares issued on the exercise of warrants	6,128,515	1,875,251	(44,190)	-	1,831,061
Shares issued on the exercise of stock options	727,500	564,664	(185,239)	-	379,425
Shares and options issued on acquisition of EhEye	1,636,356	3,387,257	74,409	-	3,461,666
Share-based compensation (Note 8)	-	-	1,749,821	-	1,749,821
Loss for the period	-	-	-	(8,333,389)	(8,333,389)
Balance - January 31, 2019	137,849,400	\$ 95,524,913	\$ 7,805,988	\$ (28,660,229)	\$ 74,670,672

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

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Cash Flows for the six months ended January 31,
(Expressed in Canadian dollars)
(Unaudited)

	2020	2019
Cash flow (used in) operating activities		
Loss and comprehensive loss for the period	\$ (13,494,464)	\$ (8,333,389)
Adjustment for:		
Share-based compensation (Note 8)	1,129,128	1,749,821
Depreciation	555,538	181,982
Amortization	533,283	-
Loss recognized on joint venture investment	1,190,400	-
Finance costs	(50,119)	-
	(10,136,234)	(6,401,586)
Changes in non-cash operating working capital		
Receivables	880,329	59,571
Prepaid expenses and deposits	5,426	(251,642)
Inventory	(559,560)	(14,696)
Accounts payable and accrued liabilities	(1,157,640)	1,003,529
Deferred revenue	308,594	-
Cash (used in) operating activities	(10,659,085)	(5,604,824)
Cash flow (to) from investing activities		
Purchase of property, plant and equipment	(809,587)	(518,212)
Cash consideration to acquire Xtract, net of cash received (Note 4)	(6,755,255)	-
Cash acquired on the acquisition of EhEye	-	9,590
Cash payments and funding of investment in joint venture (Note 5)	(2,631,358)	-
Capitlized development costs (Note 6)	(115,000)	-
Lease liabilities, net of lease assets	77,228	-
Redemption of guaranteed cash investment	-	9,973,425
Cash (used in) received from investing activities	(10,233,972)	9,464,803
Cash flow from financing activities		
Proceeds on issue of share capital, net of share issue costs	688,993	44,258,446
Cash received from financing activities	688,993	44,258,446
Increase (decrease) in cash and cash equivalents for the period	(20,204,064)	48,118,425
Cash and cash equivalents at beginning of period	50,637,942	17,576,735
Cash and cash equivalents at end of period	\$ 30,433,878	\$ 65,695,160
Cash and cash equivalents comprise:		
Cash	\$ 30,433,878	\$ 50,495,741
Cash equivalents	-	15,199,419
	\$ 30,433,878	\$ 65,695,160

SUPPLEMENTAL CASH FLOW INFORMATION (Note 12)

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

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

1. Reporting entity

Patriot One Technologies Inc. (the "Company"), was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed on the Toronto Stock Exchange under the trading symbol "PAT". The Company's wholly owned subsidiaries include Patriot One Detection Ltd. ("Patriot"), Patriot One (UK) Limited ("Patriot UK"), Patriot One Detection Technologies Inc ("Patriot US"), EhEye Inc. ("EhEye") and Xtract Technologies Inc ("Xtract"), acquired on September 6, 2019 (Note 4). In addition, Patriot US has a 49% equity interest in Sotech Secure, LLC ("Sotech") (Note 5). The Company, through its subsidiaries is principally engaged in the development and commercialization of systems to detect concealed weapons.

The Company's registered office is located at 750-1095 West Pender Street, Vancouver, British Columbia, Canada, V6E 2M6 and its registered and records office is located at 400-725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance with International Accounting Standard ("IAS 34"), *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the audited consolidated financial statements of the Company for the year ended July 31, 2019 and should be read in conjunction with those financial statements. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on February 27, 2020.

(b) Principles of consolidation

(i) Subsidiaries

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company which include Patriot One Detection Ltd., Patriot One (UK) Limited, Patriot One Detection Technologies Inc., EhEye Inc. and Xtract Technologies Inc.. Control exists when the Company has the power to directly or indirectly govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken in account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

(ii) Interests in equity-accounted investees

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

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

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Basis of measurement

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

(e) Accounting assumptions, estimates and judgments

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

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

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

3. Significant accounting policies

(a) Revenue Recognition

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

(b) Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The operating results of all operating segments are reviewed regularly by the Company's Executives for resource allocation and performance assessment. The Company currently has two distinct operating segments, Patriot Threat Detection and Xtract. Patriot Threat Detection develops and commercializes a platform of multi-sensor threat detection technologies ("PATSCAN"). Xtract develops and commercializes artificial intelligence solutions for customers. Segment operating results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

3. Significant accounting policies (continued)

(c) Adoption of IFRS 16

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

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

- (i) At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The assets are depreciated over the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
- (ii) The lease liability is initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use asset. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

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

Impact on adoption

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

Assets	
Right of use assets	\$ 1,216,544
Prepayments	(44,000)
<hr/>	
Total Assets	\$ 1,172,544
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Liabilities	
Lease liability	\$ 1,172,544
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PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

3. Significant accounting policies (continued)

(c) Adoption of IFRS 16 (continued)

The carrying amounts of the Company's right-of-use assets, lease liabilities as at January 31, 2020 and the movements during the three and six months ended January 31, 2020 were as follows:

	Right of use asset	Lease liability
As at August 1, 2019	\$ 1,172,544	\$ 1,172,544
Additions	191,573	191,573
Depreciation	(253,473)	-
Interest costs	-	50,131
Payments	-	(276,275)
Foreign exchange adjustments	7,700	7,480
As at January 31, 2020	\$ 1,118,344	\$ 1,145,453

Had this standard not been applied, assets and liabilities would have been lower by \$1,118,344 and \$1,145,453, respectively.

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

4. Acquisition of Xtract Technologies Inc.

Effective September 6, 2019, the Company acquired 100% of the issued and outstanding shares of Xtract Technologies Inc. ("Xtract"), a private company incorporated in British Columbia. Xtract develops and commercializes artificial intelligence, machine learning, deep neural network and predictive solutions utilizing its proprietary technology for public institutions and private enterprises. The purchase price included a cash payment of \$6,000,000, a working capital adjustment and option holder payout of \$1,546,526 and the issuance of 9,422,956 common shares ("Consideration Shares") at a fair value of \$16,867,090. Subject to certain exceptions based on the business of the Company or the performance of the Company's common share price, the Consideration Shares will be subject to escrow restrictions and released on a quarterly basis over the next 12 consecutive fiscal quarters of the Company.

The consideration paid and the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed in the acquisition at September 6, 2019 are as follows:

Consideration	
Cash	\$ 6,000,000
Working capital adjustment and option holder payout	1,546,526
Shares issued	16,867,090
Total consideration	\$ 24,413,616
Net assets acquired	
Cash	\$ 791,271
Accounts receivable & unbilled revenue	513,613
Property, plant and equipment	72,559
Government Contracts	355,875
Accounts payable and accrued liabilities	(313,521)
Goodwill	22,993,819
Total	\$ 24,413,616

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

During the six months ended January 31, 2020, the Company paid \$1,270,000 for a fairness opinion and other advisory services in connection with the acquisition of Xtract, which are included in professional fees.

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

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

5. Investment in joint venture

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

As at January 31, 2020, the carrying value of the investment in Sotech is comprised of:

Initial capital contributions	\$ 2,629,600
Reduction in ownership interest on option exercise	(1,342)
Funding advances on demand line of credit	4,215,055
Share of net losses from continuing operations	(2,015,965)
Carrying value at January 31, 2020	\$ 4,827,348

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

	January 31, 2020	July 31, 2019
Current assets	\$ 124,330	\$ 275,882
Non-current assets	5,272,038	5,256,800
Current liabilities	(92,876)	(210,146)
Non-current liabilities	(4,216,324)	(1,721,258)
Total net assets (100%)	\$ 1,087,168	\$ 3,601,278
Company's share of net assets (49%)	\$ 532,712	\$ 1,764,626
	Six months ended January 31, 2020	Period ended July 31, 2019
Personel and overhead expenses	\$ 1,934,049	\$ 806,801
Licensing fees	495,338	878,026
Loss and comprehensive loss (100%)	\$ 2,429,387	\$ 1,684,827
Company's share of loss and comprehensive loss (49%)	\$ 1,190,400	\$ 825,565

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

6. Intangible assets

Quasar Licensing Agreement

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

Intellectual Property Acquired and Capitalized Development Expenditures

The Company has determined the fair value of the intellectual property acquired in connection with the acquisition of EhEye to be \$1,250,000. In addition, the Company determined \$235,000 of directly attributable development expenditures met the criteria for capitalization, of which \$115,000 were capitalized in the six months ended January 31, 2020. As of November 1, 2019, the Company determined this technology was ready for commercial use and has begun amortizing the acquired intellectual property and capitalized development costs over the technology's estimated useful life.

Government Contracts

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

As at January 31, 2020, the carrying values are as follows:

	Cost	Accumulated amortization	Net book value
Quaser - Licensed distribution rights	\$ 6,574,000	\$ (357,525)	\$ 6,216,475
EhEye - Intellectual property	1,485,000	(37,125)	1,447,875
Xtract - Government contracts	355,875	(167,458)	188,417
	<u>\$ 8,414,875</u>	<u>\$ (562,108)</u>	<u>\$ 7,852,767</u>

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

7. Right of use assets and lease liabilities

The Company has recorded Right of Use assets and Lease Liabilities in its statement of financial position related to nine properties for which the Company has entered into lease agreements that expire beyond one year. These leases are in a single class of Right of Use Assets, whose carrying value at January 31, 2020 is \$1,118,344. Rental payments on the Right of Use Assets are discounted using an 8% rate of interest and capitalized on the Consolidated Statement of Financial Position as Lease Liabilities. The value of the Right of Use Assets is determined at lease inception and include the capitalized lease liabilities, incorporate upfront costs incurred and incentives received, and the value is depreciated over the term of the lease. For the six months ended January 31, 2020 the Company incurred interest expense of \$50,131 on the Lease Liabilities, recognized depreciation expense of \$253,473 on the Right of Use Assets and made total rental payments of \$276,274. During the six months ended January 31, 2020, the additions to Right of Use Assets were \$191,573 which relates to lease agreements commencing after August 1, 2019.

The following table summarizes payments on lease liabilities as at January 31, 2020:

<u>Fiscal years</u>	<u>Amount</u>
2020	\$ 288,273
2021	\$ 438,868
2022	\$ 278,231
2023	\$ 194,665
2024	\$ 92,939
Less: Interest expense	\$ (147,523)
Lease liability	\$ 1,145,453
Current portion of lease liabilities	\$ 510,325
Non-current portion of lease liabilities	\$ 635,128

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

8. Share capital

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

Shares

The issued and outstanding share capital is as follows:

	Six months ended January 31, 2020		Year ended July 31, 2019	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of the period	139,999,937	\$ 96,243,400	110,957,029	\$ 49,232,014
Shares issued for the acquisition of Xract (Note 5)	9,422,956	16,867,090	-	-
Shares issued on the exercise of warrants	534,942	1,203,206	7,789,582	2,348,866
Shares issued on the exercise of stock options	261,108	81,849	1,216,970	809,536
Shares issued for cash, net of share issue costs	-	-	18,400,000	40,465,727
Shares issued for the acquisition of EhEye	-	-	1,636,356	3,387,257
Balance at end of period	150,218,943	\$ 114,395,545	139,999,937	\$ 96,243,400

Warrants

Warrant activity for the six months ended January 31, 2020 and the year ended July 31, 2019 is as follows:

	Six months ended January 31, 2020		Year ended July 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of the period	35,963,432	\$ 2.60	24,095,014	\$ 1.35
Issued	-	-	19,688,000	3.20
Exercised	(534,942)	1.19	(7,789,582)	0.28
Expired	(172,051)	1.20	(30,000)	0.25
Balance at end of the period	35,256,439	\$ 2.62	35,963,432	\$ 2.60

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

8. Share capital (continued)

Warrants (continued)

As at January 31, 2020, outstanding warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
885,500	\$ 2.00	February 22, 2020	0.5
3,278,200	\$ 1.25	July 13, 2020	5.5
133,689	\$ 1.00	July 13, 2020	5.5
4,796,150	\$ 1.70	October 31, 2020	9.0
150,000	\$ 1.00	November 18, 2020	9.5
1,288,000	\$ 2.50	November 21, 2020	9.5
18,400,000	\$ 3.25	November 21, 2020	9.5
6,324,900	\$ 2.40	February 16, 2021	12.5
35,256,439	\$ 2.62		9.4

Stock options

The Company offers an incentive stock option plan that provides for the granting of options up to 10% of its issued and outstanding common shares to directors, officers, employees and consultants. The exercise price of each option is equal to the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is five years. Vesting terms, if any, are set at the discretion of the Board.

The stock option activity for the six months ended January 31, 2020 and year ended July 31, 2019 is as follows:

	Six months ended January 31, 2020		Year ended July 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the period	7,414,553	\$ 1.15	6,030,000	\$ 0.62
Granted	1,837,963	1.39	2,992,775	1.92
Exercised	(261,108)	0.21	(1,216,970)	0.45
Cancelled / Expired	(110,000)	1.87	(391,252)	1.33
Balance at end of the period	8,881,408	\$ 1.22	7,414,553	\$ 1.15

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

8. Share capital (continued)

Stock options (continued)

Details of the outstanding stock options as at January 31, 2020 are as follows:

Number of stock options outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)	Number of stock options exercisable	Weighted average exercise price
50,000	\$ 1.00	September 15, 2020	7.5	50,000	\$ 1.00
200,000	\$ 1.44	December 14, 2020	10.5	200,000	\$ 1.44
150,000	\$ 1.71	February 22, 2021	12.0	150,000	\$ 1.71
345,000	\$ 1.30	June 22, 2021	16.5	301,667	\$ 1.30
250,000	\$ 1.35	July 10, 2021	17.5	250,000	\$ 1.35
250,000	\$ 0.30	August 1, 2021	18.0	250,000	\$ 0.30
600,000	\$ 0.185	October 3, 2021	20.0	600,000	\$ 0.185
965,000	\$ 0.30	October 3, 2021	20.0	965,000	\$ 0.30
133,333	\$ 0.70	December 15, 2021	22.5	66,656	\$ 0.70
1,114,000	\$ 0.65	May 18, 2022	27.5	1,114,000	\$ 0.65
250,000	\$ 2.00	May 29, 2022	28.0	62,500	\$ 2.00
22,222	\$ 0.70	June 20, 2022	28.5	8,328	\$ 0.70
33,332	\$ 0.70	August 9, 2022	30.5	10,410	\$ 0.70
125,000	\$ 0.65	September 5, 2022	21.0	125,000	\$ 0.65
55,558	\$ 0.70	September 14, 2022	21.5	9,717	\$ 0.70
75,000	\$ 1.47	November 1, 2022	33.0	75,000	\$ 1.47
250,000	\$ 1.29	January 1, 2023	35.0	90,000	\$ 1.29
150,000	\$ 1.82	March 22, 2023	37.5	131,250	\$ 1.82
75,000	\$ 1.61	April 4, 2023	38.0	75,000	\$ 1.61
50,000	\$ 1.62	August 27, 2023	43.0	50,000	\$ 1.62
200,000	\$ 1.80	September 1, 2023	43.0	50,000	\$ 1.80
555,000	\$ 2.48	October 15, 2023	44.5	555,000	\$ 2.48
335,000	\$ 2.01	December 11, 2023	46.5	168,332	\$ 2.01
75,000	\$ 1.80	June 18, 2024	52.5	18,750	\$ 1.80
1,125,000	\$ 1.81	July 3, 2024	53.0	630,000	\$ 1.81
60,000	\$ 1.83	July 25, 2024	54.0	15,000	\$ 1.83
75,000	\$ 1.78	August 22, 2024	55.0	18,750	\$ 1.78
70,000	\$ 1.81	September 6, 2024	55.0	17,500	\$ 1.81
50,000	\$ 1.43	October 15, 2024	56.5	12,500	\$ 1.43
50,000	\$ 1.88	October 29, 2024	57.0	12,500	\$ 1.88
100,000	\$ 1.47	November 12, 2024	57.5	25,000	\$ 1.47
37,000	\$ 1.46	December 9, 2024	58.5	9,250	\$ 1.46
795,000	\$ 1.21	December 23, 2024	59.0	198,750	\$ 1.21
130,963	\$ 1.31	January 20, 2025	59.5	32,741	\$ 1.31
80,000	\$ 1.37	January 21, 2025	59.5	20,000	\$ 1.37
8,881,408	\$ 1.18		30.4	6,368,601	\$ 1.09

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

8. Share capital (continued)

During the three and six months ended January 31, 2020, the Company recognized share-based compensation related to stock options of \$670,172 (2019 - \$388,600) and \$1,129,128 (2019 - \$1,749,821). The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six months ended January 31,	
	2020	2019
Expected life	4.6 years	4.7 years
Expected volatility in market price of shares	90.0%	100.0%
Expected dividend rate	0%	0%
Risk-free interest rate	1.54%	2.14%
Weighted average fair value per option granted	\$ 0.924	\$ 1.680

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three and six months ended January 31, 2020 and 2019 as these instruments are anti-dilutive.

9. Revenue and deferred revenue

Revenue recognized during the three and six months ended January 31, 2020 relates to Xtract contract revenue. The Company has recognized \$518,591 in revenue from Xtract from the date of acquisition, September 6, 2019 (Note 4), to January 31, 2020. As at January 31, 2020, accounts receivable for work completed on contracts was \$320,862. This entire balance is receivable from the federal government and is not subject to significant collection risk. As of January 31, 2020, Xtract had a backlog of approved projects worth an additional \$190,000 and has bid on a number of significant contracts.

During the three months ended January 31, 2020, the Company billed and collected cash for the sale of the PATSCAN product hardware and software licenses to a select number of early adopter resellers and end-user customers. The cash received on these sales was \$308,594 and is recorded as deferred revenue on the condensed consolidated statement of financial position. This deferred revenue will be recognized as revenue as Patriot fulfills its performance obligations.

10. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Key management compensation incurred with officers and directors of the Company or to companies controlled by officers and directors of the Company during the three and six months January 31, 2020 was \$448,296 (2019 - \$220,300) and \$721,959 (2019 - \$423,363), respectively.

As at January 31, 2020 accounts payable and accrued liabilities includes \$Nil (July 31, 2019 - \$33,571) due to officers and directors of the Company or to companies controlled by directors and officers of the Company.

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

11. Operating segments

The Company currently has two distinct operating segments, Patriot Threat Detection and Xtract. Patriot Threat Detection develops and commercializes a platform of multi-sensor threat detection technologies. Xtract develops and commercializes artificial intelligence solutions for customers.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (Note 3). The Company currently has no intersegment sales. Xtract labour costs incurred in the development of Patriot technologies are allocated to Patriot at cost.

Segment reporting information is presented for both of the Company's distinct operating segments. The following tables summarize the operations and current financial position of each segment.

Six months ended January 31, 2020

	Patriot Threat Detection	Xtract	Total
Income			
Revenue	\$ -	\$ 518,591	\$ 518,591
Interest income	310,366	806	311,172
	310,366	519,397	829,763
Expenses			
Advertising and marketing	947,998	-	947,998
Business development	457,755	-	457,755
Conferences, travel, trade shows	1,161,969	5,913	1,167,882
General and administration	858,015	210,296	1,068,311
License fees	28,897	-	28,897
Personnel costs	2,225,238	-	2,225,238
Research & development	2,582,711	145,288	2,727,999
Professional fees	2,107,752	184,046	2,291,798
Depreciation and amortization	1,055,748	33,073	1,088,821
Loss recognized on investment	1,190,400	-	1,190,400
Share based compensation	1,129,128	-	1,129,128
	13,745,611	578,616	14,324,227
Loss for the period	\$ (13,435,245)	\$ (59,219)	\$ (13,494,464)
As of January 31, 2020			
Current assets	\$ 32,639,239	\$ 1,173,315	\$ 33,812,554
Current liabilities	\$ 1,716,125	\$ 188,777	\$ 1,904,902

No comparable operating segment information was reportable as at July 31, 2019 or for the six months ended January 31, 2019 as at that time the Company did not have any distinct operating segments.

PATRIOT ONE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended January 31, 2020 and 2019
(Unaudited)

11. Operating segments (continued)

Geographic Breakdown

Patriot Threat Detection currently operates in Canada, the United States and the United Kingdom. Xtract currently only operates within Canada.

Geographic location	Revenue		Non-Current assets		
	Patriot Threat Detection	Xtract	Patriot Threat Detection	Xtract	Total
Canada	\$ -	\$ 519,397	\$ 34,022,585	\$ 246,216	\$ 34,268,801
United States	-	-	6,415,811	-	6,415,811
United Kingdom	-	-	136,598	-	136,598
Total	\$ -	\$ 519,397	\$ 40,574,994	\$ 246,216	\$ 40,821,210

Major Customers

All revenue recognized by Xtract during the three and six months ended January 31, 2020 is from the Canadian Federal Government.

12. Supplemental cash flow Information

Non-cash activities during the six months ended January 31, 2020 were conducted by the Company as follows:

Fair value of shares issued on acquisition of Xtract	\$16,867,090
Fair value of stock options granted	\$ 1,129,128
Transfer of contributed surplus on exercise of broker warrants	\$ 568,239
Transfer of contributed surplus on broker warrants forfeited	\$ 145,450
Transfer of contributed surplus on exercise of stock options	\$ 27,823

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

Fair value of 1,288,000 warrants issued for broker fees	\$1,582,233
Transfer of contributed surplus on exercise of broker warrants	\$ 44,190
Transfer of contributed surplus on exercise of stock options	\$ 185,239

No cash was paid towards taxes or interest during the three and six month periods ending January 31, 2020 and 2019.

13. Subsequent events

Subsequent to January 31, 2020, the Company:

- granted stock options to allow the holders to acquire 600,000 common shares at \$1.49 per share for a term of five years and 300,000 common shares at \$1.49 per share for a term of three years; and
- had 885,500 warrants at an exercise price of \$2.00 per share expire unexercised.