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Daniel Carlson | daniel@tailwindsresearch.com | 415.509.4590

Patriot One Technologies Inc. (PTOTF, PAT.V)

Delivering The New Standard In Weapons Detection

Summary:

Patriot One has developed PATSCAN™ the next generation of its award-winning Patriot One Technologies™ CMR1000 software and radar solution. PATSCAN™, a first-of-its-kind Cognitive Microwave Radar concealed weapons detection system, is an effective tool to combat active shooter threats before they occur.

Symbol	PTOTF
Price	\$0.62
Shares Out. (M)	60M
Market Cap. (M)	\$36M
Avg. Daily Vol. (000s)	78K
Fully Diluted Shares	94M
Target	\$3.00

Highlights:

- ~ Patriot One Technologies, Inc. is commercially developing a new COVERT technology to detect concealed weapons.
- ~ First cost-effective solution for Active Shooter prevention available today.
- ~ Stand-off detection on moving targets with a “cognitive” ability to learn and identify new threats
- ~ 7 years in development. Rights to develop, license, manufacture and market worldwide.
- ~ Developed through NATO funded project at McMaster University.
- ~ Strong management team
- ~ Partnered with Ridge Global - Strategic Advisor; Ridge Global was founded by Tom Ridge, the first U.S. Secretary of Homeland Security
- ~ Recently announced upsized financing

Overview:

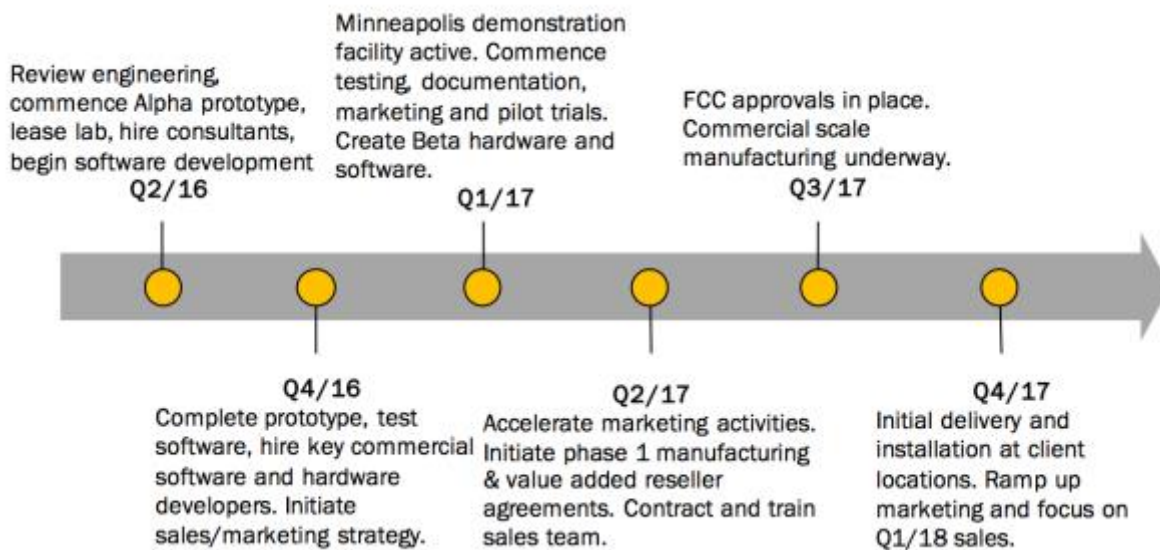
Patriot One Technologies was incorporated in the province of British Columbia, on March 7, 2016. The principal business of the Company is to commercialize a system to detect concealed weapons utilizing radar technologies. The system is an innovative radar technology providing first responders and security personnel valuable time in active threat scenarios. The Company has just begun accepting orders for delivery, post expected FCC approval, in Q4 2017.

The Company manufactures and sells the PATSCAN CMR1000 software solution and related hardware, which was officially launched in April 2017. The Solution is a much smaller and more discrete form factor than those offered by competitors, and comes at a much lower cost.

The hardware already carries the “CE Mark”, which certifies that the product has met with the European Union (“EU”) health, safety and environmental requirements that ensure consumer and workplace safety and allows manufacturers to circulate industrial products freely within the internal market of the EU. The system is in precertification testing for Federal Communications Commission (“FCC”) compliance.

The product was officially launched at ISC West (International Security Conference) in Las Vegas in April 2017. At the conference, the system won a prestigious award from the Security Industry Association (SIA) for best new counter terrorism/force protection product, as evaluated by security leaders from some of the world’s largest security organizations. Patriot One is targeting sales of their product starting in Q4 2017. To support achieving this goal, the Company has intensified pre-sales preparations as demonstrated by a significant backlog of pending orders. In fact, the company recently stated that Patriot One’s purchase commitments exceed the Company’s 2017 target production volume.

Key Milestones Targeted by Patriot One



To achieve Patriot One’s product delivery goals the Company is currently focused on meeting specific certification obligations. Internal testing results of their technology through a rigorous Quality Assurance process indicate the production system can meet or exceed all the requirements for both FCC and Industry Canada certification while meeting the Company’s commitment to maintaining the highest possible standard of efficacy.

Currently, the production team is in the process of completing the documentation and system requirements to submit for certification before the end of Q2. The Company is also optimizing its software to enhance performance characteristics and continues to collect additional weapons “signatures” for entry into the PATSCAN proprietary database library. This is being achieved through an extensive law enforcement network which provides controlled access to weapons collections globally.

In addition, the Company has recently developed valuable new IP regarding antenna design, which will result in the filing of additional patents further protecting its technological advantage in the marketplace. Along with the previously announced plans to launch a demonstration location in Orlando, Florida, the Company has initiated a test site at its new office in Burlington, Ontario.

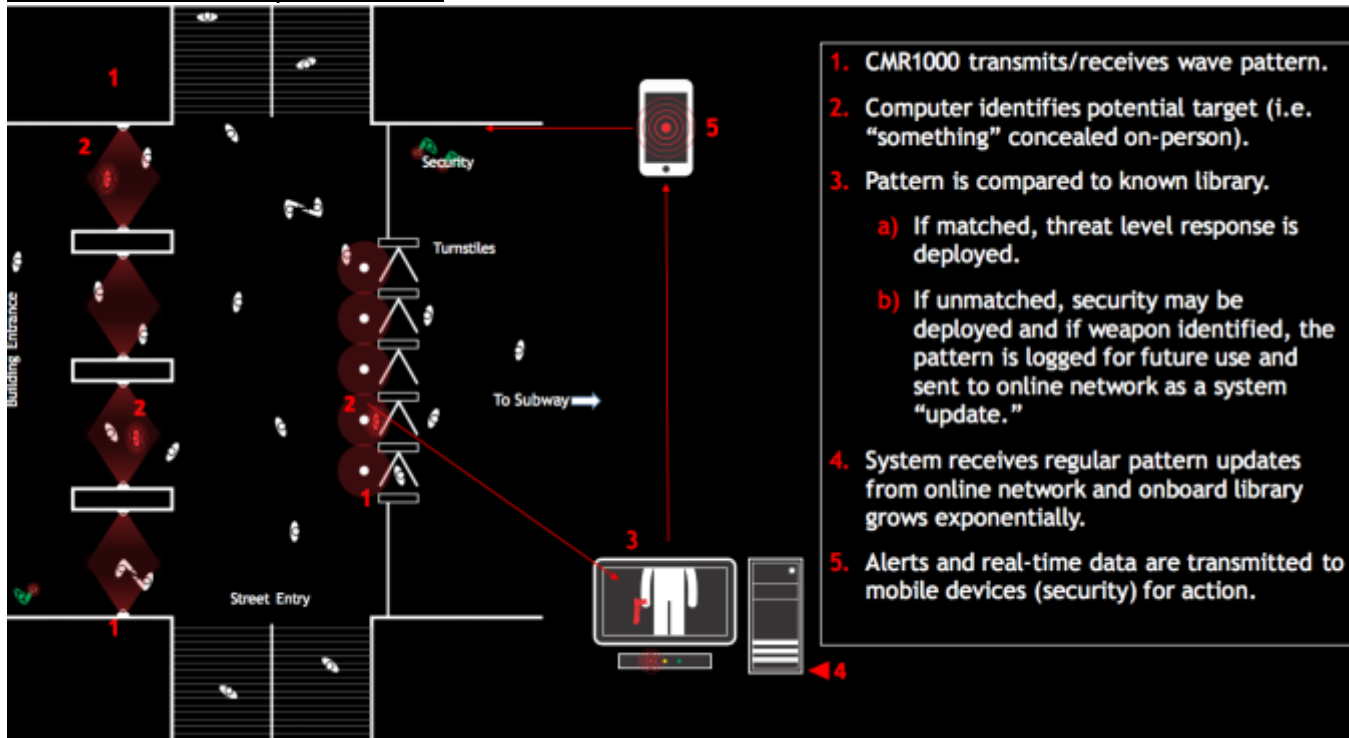
Product Overview:

Traditionally, weapons detection has involved metal detectors which are a combination of magnetic fields and electronic processing and, more recently, millimeter wave scanners. These systems have drawbacks in that they are large and bulky, have slow processing speeds, require line of sight, and have a very high number of false positives. In addition, they are very expensive to purchase and installation generally requires significant retrofitting.

This cognitive microwave radar system used by Patriot One is the result of a 5-year research effort led by Dr. Natalia Nikolova and supported by the both Canadian Federal Government and NATO. The use of proven microwave technology represents a disruptive technology that addresses most of the drawbacks of millimeter wave scanners.

The PATSCAN system works by using microwaves to scan individuals as they walk past scanners. Importantly, line of sight is not required. The results of the scans are analyzed in real time, by comparing the results to a database of known weapons. The database also contains known objects that are not an issue, such as cell phones, cameras, etc. By using cognitive intelligence, the system is constantly learning and adapting to new objects.

How The PATSCAN System Works



Patriot One has created several technological barriers that will prevent other players from entering this market using the same technology. Beyond the microwave technology, the learning ability of the devices allows the database to grow and refine itself over time, creating an increasing level of effectiveness relative to any potential competitors. The company also has several patents pending in various jurisdictions to protect process and technology.

For production of the equipment, Patriot One has in place a scalable system that can ramp along with demand. The Vector Network Analyzers are being built by Copper Mountain, in the US. Meanwhile, the Company is building the network antennas at their own facility. It is important to note that Patriot One is already working on a second-generation product which is being designed with the thought that a major OEM will be engaged as their manufacturing partner as demand ramps.

Disruptive Technology:

The primary competition for Patriot One exists in the form of traditional metal detectors and millimeter wave scanners. These would be the systems that you pass through in airport security. They each have their drawbacks.

Here are a few of the common drawbacks; issues which Patriot One addresses:

- ~ False positives occur often
- ~ Slow and inefficient
- ~ They require subject compliance
- ~ Privacy Concerns

These systems are installed by large systems integrators such as Honeywell, Thales and Smiths Group. Once installed, they have to be actively manned by security details. The space required, along with the upfront expenses and ongoing costs result in a much smaller addressable market for the existing systems.

There do exist other startups looking at less expensive and obtrusive weapons detection systems. However, no one has brought a comparable commercial product to market at this time. And, with the patents they have in place, Patriot One has a lock on the 500 megahertz to 4.8 gigahertz spectrum for detection. These are the wavelengths deemed, by third parties, to be the most effective in covert weapons detection systems.

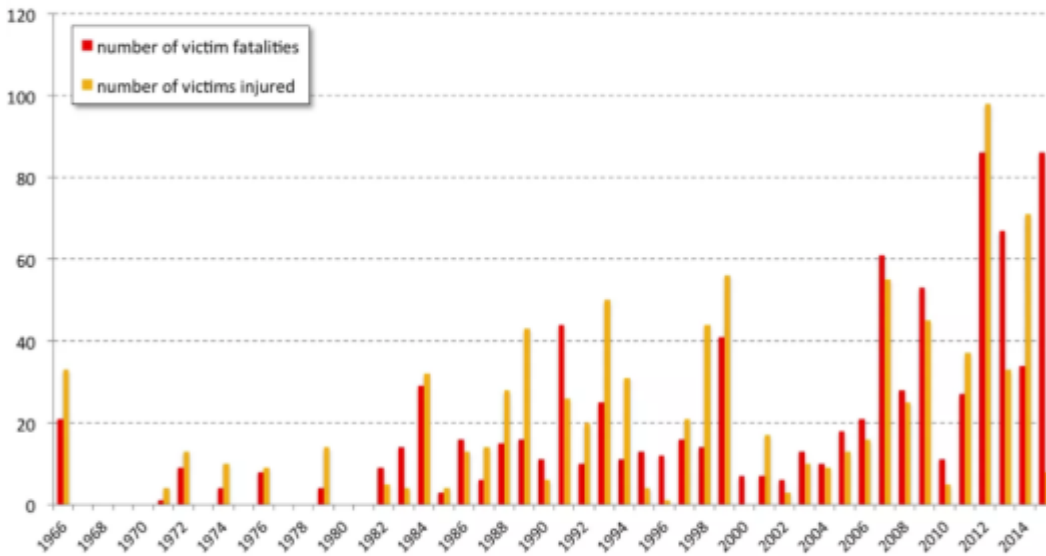
Market Opportunity:

In light of the recent terrorist attacks in London, Orlando, Paris, etc., it's very easy to see that the market opportunity for an effective solution to hidden weapons and explosives is huge. Meanwhile the issues around the cost and fixed large locations for traditional millimeter wave detection have made this technology not suitable for many circumstances. The development of a smaller, less time consuming and intrusive, and less costly system will open up a large opportunity for Patriot One.

“Clearly the market is there,”
Martin Cronin, CEO

The increase in the number of mass shooting in the US and other developed nations underscores the need to develop a more robust weapons detection system. The CMR1000, with its ease of deployment and reasonable cost, fits this requirement.

Number of Victims of U.S. Mass Shootings, 1966-2015



Data Source: Stanford Geospatial Center, Mass Shootings in America Database (accessed in June of 2015)

The market opportunity is simply every public building that is not covered by metal detectors and an active screening process. This includes subways, movie theaters, malls, etc. The list of places without any screening process is enormous. And, the flexibility of the CMR1000 will also open up opportunities in areas that have active screening already. For example, the doorways entering terminals at airports, before passengers hit the main security lines, could be easily monitored by Patriot One's devices. The bottom line is that there is a huge and immediate opportunity for mass adoption of this device.

Business Strategy:

Patriot One's go to market strategy is one of initial equipment sales along with recurring subscription revenue. Initially the hardware component sales will drive revenue. However, as a large piece of their solution is the learning and adapting aspect of the technology, customers will subscribe for the recurring services to keep their detection software up to speed. As such, over time the service revenue component will be an increasingly important piece of the Company's revenue model.

Initially, the hardware is expected to cost \$10,000 per unit. This is a high margin sale as the gross margin at that price is approximately 70%. The Company has begun accepting advance orders on their units and is expected to start booking revenues in Q4. Advance orders require a 5% initial deposit and 25% due upon FCC approval, meaning that Patriot One will have ample cash on hand to cover the expense of production, shipping, etc.

The Company is intending to use third party resellers as their primary means of generating sales. Eventually, these larger security integrators will be responsible for installing the systems, which will allow Patriot One to scale.

To date, the Company has entered into reseller agreements with JJB Federal LLC, and SENGEX. These companies are both targeting government contracts and installations.

Patriot One has also entered into a relationship with a tier 1 systems integrator. This collaboration is in the testing and evaluation stage but could lead to a significant relationship for the Company over time.

According to CEO Martin Cronin, “Working with major commercial partners exactly aligns with our business model, as it offers extraordinarily attractive opportunities to propel our product roll-out and holds the potential to drive significant awareness of our product’s ability to decrease the menace of random public violence. We are benefitting from a period of intensifying interest and have greatly appreciated inquiries from a number of leading integrators, major potential distributors and resellers from literally around the globe.”

Management & Directors:

C. Scott M. Shepherd, Chairman, Board of Directors

Born in Ontario, Canada and educated at the University of Toronto and Dalhousie University, Mr. Shepherd has worked with the Department of Foreign Affairs and International Trade, Export Development Corporation, Imperial Chemical Industries PLC and Trafalgar House PLC, as well as a stint as Chief Financial Officer with the Nexus group of Companies in Burnaby, B.C. Canada. As President and founding director of NORTHSTAR Trade Finance, Inc., Mr. Shepherd has been active with the promotion and support of small and medium sized exporters throughout the world.

Martin Cronin, CEO & Director

Martin Cronin is an expert in the areas of counter-terrorism, conflict resolution, and government/corporate interface. He has extensive experience in high intensity conflict environments and recently served as CEO of a private company specializing in communications and survivability technologies. Before moving to the private sector, Mr. Cronin was British Consul-General to Western Canada, based in Vancouver. His career includes over twenty years of experience in the field of international diplomacy with the British Government, including postings in Yemen, Jordan, Sweden, Pakistan and Iraq.

Dinesh Kandanchatha, President & Director

A serial entrepreneur who has built and exited three companies. Currently he is Managing Director of Macadamian Technologies (Toronto, Canada) where he leads business development at one of the leading product consultancies in Canada. Developed and integrated sales and marketing strategies to facilitate double-digit growth. Previous positions: VP Business Development and Marketing (Sep 2012 – Oct 2013), VP Sales (Mar 2011 – Oct 2013). Recent: Macadamian Technologies, dineshk.co, University of Toronto Rotman-Nexus. Previously was General Manager at Protus IP Solutions, TechSupport.ca, Precise Software Technologies Inc. Education: University of Ottawa.

Phil Lancaster, SVP Government Relations & Law Enforcement

Mr. Lancaster's extensive career in law enforcement combined with a passion for excellence and an aptitude for business opportunity ultimately led to a successful career in business. As a former British police officer, he brings years of experience working internationally in VIP close protection, as well as service in British Overseas Territories. Throughout his career, Mr. Lancaster received several notable awards and has been recognized for his efforts both in the UK and overseas.

Michael Rozin, Business Development (USA)

Mr. Rozin's career has focused on the prevention of terrorism and the teaching of proactive security for over sixteen years. He is the founder of Rozin Security Consulting (RSC) offering training to law enforcement and security agencies on counter-terrorism and tactical response techniques. Previously worked with Mall of America (MoA) as Special Operations Security Captain, where in 2008 his security program was presented to the U.S. House of Representatives' Committee on Homeland Security as a model for private sector security.

Jeff Tindale, Director

Mr. Tindale has been Managing Partner of a private consulting group offering merchant banking and corporate advisory services to a number of high-growth companies across various sectors since 2006. Mr. Tindale has a strong background in corporate governance, finance, and mergers and acquisitions.

John Gillies, Director

Mr. Gillies brings over 33 years of federal government experience, principally within the national and international security and intelligence environment. Mr. Gillies served as an

Assistant Director with the Canadian Security Intelligence Service (CSIS) and as a member of the CSIS Senior Executive Committee.

Valuation:

Patriot One is addressing an enormous market opportunity. Obviously, there are significant risks involved in ramping a business from pre-revenue to commercial scale. However, with the great reviews for the product, the early pre-orders, and the announced signing of a tier-1 partner, Patriot One looks poised for success.

With an approved product by the end of Q3, and major tier-1 integrators on board, we believe that the Company can achieve \$100M in hardware revenue in 2020. This is only 10,000 units per year in installations and, assuming the product is a success, and with major tier-1 security systems providers as partners, this is a number that should be easily attainable.

Patriot One has guided to 70% margins on hardware and 80% margins on software. This equates to over \$70M in gross margins and should also mean over \$50M in EBITDA. Obviously, when you look at a huge market opportunity, but zero current revenues, you're looking at a situation that has huge upside, but also needs major assumptions of success, execution, product adoption, etc. to achieve the goals.

We are putting a 2020 valuation on Patriot One of 10X Ebitda, or \$500M. If they are successful, this should be very conservative and may be way too low. With 94 million fully diluted shares outstanding, this equates to a mid-year 2020 price per share of \$5.31. Using a 25% per annum discount and backing it down 2 years, our current target is \$3.00 per share.

It is important to note that PTOTF is currently undergoing a financing of \$4M CAD. If this is successful, which it appears it will be, there will be dilution of approximately 10% to the shares of PTOTF. This will affect our target, however, the additional funding and investor confidence, along with the backing of a major investment bank, should substantially derisk the investment thesis, making it a net positive overall. We anticipate updating our estimates shortly after the financing.

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