Consolidated financial statements of

VOTI Inc.

October 31, 2018 and 2017

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Independent Auditor's Report

To the Shareholders of VOTI Detection Inc. (formerly Voti Inc.)

We have audited the accompanying consolidated financial statements of VOTI Inc., which comprise the consolidated statement of financial position as at October 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in total equity (deficit) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of VOTI Inc. as at October 31, 2018, and its financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of VOTI Inc. for the year ended October 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on September 24, 2018.

/s/ Deloitte LLP [1]

February 13, 2019

[1] CPA auditor, CA, public accountancy permit No. A120501

VOTI Inc.
Consolidated statements of financial position
As at October 31, 2018 and 2017
(In Canadian dollars)

	Notes	October 31 2018	October 31 2017
		$	$
Assets			
Current assets			
Cash		**643,067**	714,855
Restricted cash	4	**9,242,973**	—
Short-term investments	26	**15,000**	15,000
Trade and other receivables	5	**2,228,594**	3,064,555
Research and development tax credits receivable	6	**719,780**	421,300
Inventories	7	**7,267,017**	4,758,860
Prepaid expenses and deposits		**1,101,305**	222,995
Capitalized listing fee expenses	8	**924,190**	—
Total current assets		**22,141,926**	9,197,565
Non-current assets			
Property and equipment	9	**366,008**	144,840
Intangible assets	10	**424,705**	5,027
Total non-current assets		**790,713**	149,867
Total assets		**22,932,639**	9,347,432
Liabilities			
Current liabilities			
Bank indebtedness	11	**1,860,000**	629,848
Trade payables and accrued liabilities	12	**6,662,268**	3,629,402
Subscription receipts held for investors	4	**9,242,973**	—
Customer deposits		**194,098**	3,273,717
Deferred revenue		**290,476**	203,365
Shareholder loans	14	**2,020,734**	—
Term debt	15	**550,000**	600,000
Current portion of obligation under finance leases	16	**11,207**	10,554
Total current liabilities		**20,831,756**	8,346,886
Non-current liabilities			
Convertible notes	13	**2,575,000**	—
Obligation under finance leases	16	**—**	11,207
Total liabilities		**23,406,756**	8,358,093
Commitments and contingencies	26		
Shareholders' equity (deficit)			
Share capital	17	**18,616,079**	18,616,079
Stock option reserve	19	**5,781,038**	3,604,678
Warrants reserve	18	**90,298**	90,298
Deficit		**(24,701,919)**	(21,014,395)
Cumulative translation adjustment		**(259,613)**	(307,321)
Total shareholders' (deficit) equity		**(474,117)**	989,339
Total liabilities and shareholders' equity (deficit)		**22,932,639**	9,347,432

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

____, Director

____, Director

VOTI Inc.

Consolidated statements of loss and comprehensive loss

Years ended October 31, 2018 and 2017

(In Canadian dollars)

	Notes	2018	2017
		$	$
Revenue	20	**23,006,852**	18,462,971
Cost of sales		**(15,642,806)**	(14,212,499)
Gross profit		**7,364,046**	4,250,472
Expenses			
General and administrative		**3,437,247**	2,541,717
Selling and distribution		**3,587,838**	2,295,449
Research and development	6	**1,160,426**	970,103
Financial expenses (income), net	23	**689,699**	(35,005)
Share-based payments	19	**2,176,360**	941,888
		11,051,570	6,714,152
Net loss		**(3,687,524)**	(2,463,680)
Other comprehensive income (loss)			
Foreign currency translation adjustment		**47,708**	(307,321)
Comprehensive loss		**(3,639,816)**	(2,771,001)
Basic and diluted net loss per share	24	**(0.24)**	(0.18)

The accompanying notes are an integral part of the consolidated financial statements.

VOTI Inc.

Consolidated statements of changes in total equity (deficit)

As at October 31, 2018 and 2017

(In Canadian dollars)

	Notes	Number of common shares	Share capital	Stock option reserve	Warrants reserve	Cumulative translation adjustment	Deficit	Total equity (deficit)
			$	$	$	$	$	$
Balance, October 31, 2016		**9,227,561**	**15,500,426**	**2,662,790**	**90,298**	**—**	**(18,550,715)**	**(297,201)**
Issue of common shares under private placement	17	**936,433**	**575,000**	**—**	**—**	**—**	**—**	**575,000**
Issue of common shares under rights offering of common shares to existing shareholders	17	**4,321,064**	**2,653,271**	**—**	**—**	**—**	**—**	**2,653,271**
Issue of common shares to senior executives	17	**18,987**	**11,660**	**—**	**—**	**—**	**—**	**11,660**
Issue of common shares to senior executives under deferred payment and loan agreement	17	**1,120,463**	**—**	**538,490**	**—**	**—**	**—**	**538,490**
Issuance costs	17	**—**	**(124,278)**	**—**	**—**	**—**	**—**	**(124,278)**
Share-based payments	17	**—**	**—**	**403,398**	**—**	**—**	**—**	**403,398**
Other comprehensive loss for the year		**—**	**—**	**—**	**—**	**(307,321)**	**—**	**(307,321)**
Net loss for the year		**—**	**—**	**—**	**—**		**(2,463,680)**	**(2,463,680)**
Balance, October 31, 2017		**15,624,508**	**18,616,079**	**3,604,678**	**90,298**	**(307,321)**	**(21,014,395)**	**989,339**
Share-based payments	19	**—**	**—**	**2,176,360**	**—**	**—**	**—**	**2,176,360**
Other comprehensive loss for the year		**—**	**—**	—	**—**	**47,708**	**—**	**47,708**
Net loss for the year		**—**	**—**	—	**—**	**—**	**(3,687,524)**	**(3,687,524)**
Balance, October 31, 2018		**15,624,508**	**18,616,079**	**5,781,038**	**90,298**	**(259,613)**	**(24,701,919)**	**(474,117)**

The accompanying notes are an integral part of the consolidated financial statements.

VOTI Inc.
Consolidated statements of cash flows
Years ended October 31, 2018 and 2017
(In Canadian dollars)

	Notes	2018	2017
		$	$
Operating activities			
Net loss for the year		**(3,687,524)**	(2,463,680)
Adjustments for:			
Depreciation of property and equipment	9	**76,921**	54,129
Amortization of intangible assets	10	**7,444**	10,621
Loss on disposal of property and equipment		**—**	13,910
Share-based payments	19	**2,176,360**	941,888
Unrealized foreign exchange gain (loss)	23	**229,223**	(277,450)
Net change in non-cash working capital items			
Trade and other receivables		**835,961**	(2,043,493)
Research and development tax credits receivable		**(298,480)**	(8,300)
Inventories		**(2,508,157)**	(2,860,019)
Prepaid expenses and deposits		**(878,310)**	286,415
Capitalized listing fee expenses		**(924,190)**	—
Trade payables and accrued liabilities		**3,032,866**	1,719,296
Customer deposits		**(3,079,619)**	1,751,984
Deferred revenue		**87,111**	7,848
		(4,930,394)	(2,866,851)
Investing activities			
Additions to property and equipment		**(290,190)**	(111,896)
Additions to intangible assets		**(422,824)**	—
		(713,014)	(111,896)
Financing activities			
Subscription receipts held for investors	4	**9,242,973**	—
Changes in bank indebtedness		**1,230,152**	(80,152)
Proceeds from term debt		**550,000**	—
Repayment of obligation under finance leases		**(10,554)**	(9,939)
Shareholder loans		**1,979,695**	—
Proceeds from convertible notes		**2,575,000**	—
Repayment of term debt		**(600,000)**	—
Issuance of common shares		**—**	3,239,931
Share issuance costs		**—**	(124,278)
		14,967,266	3,025,562
Net increase during the year		**9,323,858**	46,815
Net effect of foreign exchange rate changes on cash		**(152,673)**	(14,260)
Cash and restricted cash, beginning of year		**714,855**	682,300
Cash and restricted cash, end of year		**9,886,040**	714,855
Supplemental cash flow information			
Finance lease additions		**—**	31,700
Interest paid		**436,147**	109,856

The accompanying notes are an integral part of the consolidated financial statements.

1. Description of the business

VOTI Inc. (the "Company") was incorporated as a private company under the laws of Canada. The principal activities of the Company involve development, manufacturing and selling X-ray security systems for critical infrastructures as well as ports, borders, military and transportation facilities. On November 13, 2018, VOTI Inc. became a wholly-owned subsidiary of VOTI Detection Inc. following the completion of its going public reverse takeoever transaction ("RTO") (see Note 29).

The address of its registered office is 790 Begin Street, St-Laurent, Quebec, H4M 2N5, Canada.

The Board of Directors approved the consolidated financial statements of the Company as at October 31, 2018 and authorized their issuance on February 13, 2019.

2. Significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies are set out below.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below:

Basis of consolidation

The Company consolidates all controlled subsidiaries. The consolidated financial statements include the accounts of VOTI Inc. and its 100% owned subsidiaries VOTI International Inc., VOTI USA, Inc., VOTI Detection Asia SDN. BHD. and VOTI Security Scanning International DWC-LLC. The functional currency of the Company and all of its subsidiaries is the U.S. dollar.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated upon consolidation. The Company has no interests in special purpose entities.

Functional currency

The functional currency of the parent Company and all its subsidiaries is the U.S. dollar, which is the primary economic environment in which the entities operate.

2. Significant accounting policies (continued)

Functional currency (continued)

Revenues, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the financial position date. Translation gains (losses) are reflected within net loss in the consolidated statement of loss and comprehensive loss as foreign exchange gain (loss).

The Company uses the Canadian dollar as its presentation currency to provide more relevant information to its users.

Translation to presentation currency

The consolidated financial statements of the Company are translated from their functional currency to Canadian dollar, the presentation currency. Assets and liabilities are translated at the closing exchange rates prevailing at the financial position date, and income and expenses are translated using the average exchange rates. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are included as a separate component of other comprehensive income ("OCI").

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

The specific recognition criteria described below must also be met before revenue is recognized.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from services such as hardware commissioning, preventive maintenance and training are recognized upon delivery of the service.

Revenues from extended warranty sales are recognized on a straight-line monthly basis over the term of the extended warranty.

Amounts received in advance of the delivery of goods are classified as customer deposits.

Cash

The cash item includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. Bank overdrafts and bank indebtedness are presented as current liabilities.

2. Significant accounting policies (continued)

Inventories

Inventories are comprised of raw materials, work in process and finished goods and are valued at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand. Net realizable value represents the estimated selling prices less all estimated costs of completion and selling. Cost is determined on a first in, first out basis.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Assets under finance lease are recorded at cost, which corresponds to the present value of the minimum lease payments, less accumulated depreciation. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate. Depreciation is calculated using the straight-line method over the following useful lives:

	Useful life
Office furniture and equipment	5 years
Computer equipment and demonstration equipment	3 years
Leasehold improvements	5 years

Intangible assets

The Company records intangibles, with finite useful lives such as computer software and intellectual property, at cost less accumulated amortization. Intellectual property is amortized on a straight-line basis over a 10-year period.

Intangible assets developed internally are recognized to the extent the criteria in IAS 38, *Intangible Assets*, are met. Research costs are expensed as incurred. Development costs for internally-generated intangible assets are capitalized if, and only if, the Company can demonstrate:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets will be recognized at an amount equal to the sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above less any tax credits. Where no internally-generated intangible asset can be recognized, development expenditures are charged to the profit and loss in the period in which they are incurred. Internally-generated development costs are amortized over their respective expected lives which range between two and seven years.

2. Significant accounting policies (continued)

Government assistance and investment tax credits

Government assistance is recorded as a reduction of the related expense or the cost of the asset acquired. Government assistance is recognized when there is reasonable assurance that the assistance will be received and that the conditions of the assistance have been complied with. Government assistance received in advance of complying with the conditions of the assistance is deferred until all conditions are met.

Impairment of tangible and intangible assets

At each reporting date, the carrying amounts of the tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is expensed immediately in profit or loss. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

As at October 31, 2018 and 2017, no impairment indicators have been identified.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a financial charge.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated statement of loss and comprehensive loss.

2. Significant accounting policies (continued)

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. In the event that lease inducements are received to enter into operating leases, such inducements are recognized as a deferred credit. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the related lease.

Taxation

Income tax expense represents the sum of income taxes currently payable and deferred income taxes.

Income taxes

The income taxes currently payable are based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of loss and comprehensive loss because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Company’s liability for current income taxes is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes

Deferred income taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred income tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current income tax assets and liabilities on a net basis.

2. Significant accounting policies (continued)

Current income taxes and deferred income taxes for the period

Current income taxes and deferred income taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside of profit or loss (whether in other comprehensive loss or directly in deficit), in which case the tax is also recognized outside of profit or loss.

Share-based payments

Equity-settled share-based payments, consisting of stock options to employees and others providing similar services, are measured at the fair value of the equity instruments at the grant date. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 19. The fair value determined at the grant date of the stock options is expensed over their vesting period, based on the Company's estimate of options that will eventually vest, with a corresponding increase in equity reserves. At the end of each reporting period, the Company revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserves.

The incremental fair value of modifications to the terms and conditions on which equity instruments were granted that increase the fair value of the equity instruments are recognized in addition to any amount in respect of the original stock options. The incremental fair value is the difference between the fair value of the modified stock incentives and that of the original stock options, both estimated as at the date of the modification. The incremental fair value is recognized over the remainder of the original vesting period.

Earnings per share

Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding and, when dilutive, potential shares from stock options, warrants to purchase common stock and debt conversions during the period.

Segment disclosures

The business segments are determined based on the Company's internal reporting and management structure. The results of the operating segments are regularly reviewed by the Company's Chief Executive Officer who makes decisions on resources to be allocated to the segment and to assess its performance, and for which separate financial information is available.

The Company's operations are reported in one segment, i.e., the development and marketing of security screening systems. This reporting segment also includes the rendering of services related to the sale of these products. The reporting structure reflects how the Company manages the business and how it classifies its operations for planning purposes and measuring performance. Accordingly, the Company manages its business segment as a single strategic operating unit.

2. Significant accounting policies (continued)

Financial instruments

Financial assets

Financial assets are classified as financial assets at "fair value through profit or loss" ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Cash, short-term investments, trade and other receivables and deposits are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of financial assets are reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for doubtful accounts. When a trade receivable is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against the allowance for doubtful accounts. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed, does not exceed what the amortized cost would have been had the impairment not been recognized.

2. Significant accounting policies (continued)

De-recognition of financial assets

The Company de-recognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset, and substantially, all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL or as other liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value, less, in the case of other liabilities loans, directly attributable transaction costs. The Company has classified all of its financial liabilities as other liabilities.

Derecognition of financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective-interest method.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Standards, interpretations and amendments issued but not yet effective

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replaces IAS 11, "Construction Contracts", and IAS 18, "Revenue", as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. IFRS 15 is not expected to have a significant impact on the consolidated financial statements of the Company.

IFRS 16, "Leases" ("IFRS 16"), replaces IAS 17, "Leases". This standard provides a single model for leases, abolishing the current distinction between finance and operating leases, with most leases being recognized in the consolidated statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. Management continues to evaluate the impact this standard will have on its consolidated financial statements.

3. Critical judgments, estimates and assumptions in applying the Company's accounting policies

Preparing financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgments about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are periodically reviewed. Any change to accounting estimates is recognized in the period in which the estimate is revised.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions that have had the most significant impact on the amounts recognized in these consolidated financial statements.

Research and development tax credits receivable

Estimation of the research and development tax credits receivable requires management to make judgments, estimates and assumptions including those related to the eligibility of certain expenditures to tax credits. The tax credits are subject to audit by tax authorities and could affect the Company's future results if the current judgments, estimates and assumptions are changed.

Share-based payments

The calculation of the fair value of common shares, stock options and warrants granted require management to make estimates and assumptions about the fair value of the underlying common shares of the Company, expected volatility, expected life and expected forfeiture rates, which could affect the Company's results if the current estimates change.

Valuation of inventory

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, management considers the product life of inventory and the profitability of recent sales of inventory. To the extent that actual losses on inventory differ from those estimated, inventory, net income and comprehensive income will be affected in future periods.

Warranties

Management makes estimates of costs to be incurred to honor maintenance and repairs under warranties offered on products sold. In making these estimates, management relies on past experience. The Company's results could be affected to the extent that actual costs of warranties differ from those estimated.

(In Canadian dollars)

3. Critical judgments, estimates and assumptions in applying the Company's accounting policies (continued)

Internally-generated development costs

The capitalization of internally-developed intangible assets requires management to make judgments and assumptions including those related to the capitalization criteria of certain expenditures to internally-developed intangible assets in accordance with *IAS 38, Intangible Assets*.

4. Restricted cash and Subscription receipts held for investors

In August 2018, VOTI completed a private placement of 3,080,991 subscription receipts at a price of $3.00 per subscription receipt for aggregate gross proceeds of $9,242,973 less broker agent commission and issuance costs. The gross proceeds were held in trust until the completion of the RTO transaction. Each subscription receipt was exchanged, upon the completion of the reverse takeover transaction ("RTO"), into one common share of the issuer resulting from the RTO, namely VOTI Detection Inc. (the "Resulting Issuer") and one half of one Resulting Issuer common share purchase warrant. The RTO was completed on November 13, 2018 (see note 29).

5. Trade and other receivables

	2018	2017
	$	$
Trade receivables	**1,890,694**	2,747,024
Allowance for doubtful accounts	**—**	(135,178)
	1,890,694	2,611,846
Sales tax receivable	**337,900**	399,490
Other	**—**	53,219
	2,228,594	3,064,555

Trade receivables are generally on terms of 30 to 90 days.

6. Research and development tax credits receivable

The Company is claiming research and development tax credits relating to expenditures incurred in the current year. Research and development expenses are presented net of tax credits of $494,090 (October 31, 2017 - $421,300). The actual amount of credits that will be granted will be known once the claims are approved by the taxation authorities. It is therefore possible that the actual amount granted will differ from the amount recorded in the books of the Company. During the year ended October 31, 2018, research and development tax credits totalling $258,610 (Year ended October 31, 2017 - $413,600) were received.

Development costs capitalized on the balance sheet are net of $63,000 of tax credits relating to expenditures incurred during the year ended October 31, 2018. There were no development costs capitalized during the year ended October 31, 2017.

(In Canadian dollars)

7. Inventories

	2018	2017
	$	$
Raw materials	**4,332,938**	1,867,021
Work in process	**344,073**	924,904
Finished goods	**2,590,006**	1,966,935
	7,267,017	4,758,860

Inventories sold and recognized in cost of sales during the year ended October 31, 2018 was $15,642,806 (Year ended October 31, 2017 - $14,212,499).

8. Capitalized listing fee expenses

Capitalized listing fee expenses include all capitalized costs associated with the RTO transaction (see Note 29). The costs include professional legal fees, professional accounting fees, consulting fees, contractual work from third parties involved in completing the RTO filing statement and regulatory fees, all of which were incremental costs relating to issuing new shares. Similar additional costs were incurred in November 2018 when the RTO closed on November 13, 2018.

(In Canadian dollars)

9. Property and equipment

	Office furniture and equipment	Computer equipment	Demon-stration equipment	Leasehold improve-ments	Total
	$	$	$	$	$
Gross carrying amount					
Balance as at October 31, 2016	**80,166**	—	**95,145**	**—**	**175,311**
Additions	**26,702**	**84,061**	**32,833**	**—**	**143,596**
Disposals	**—**	**—**	**(16,153)**	**—**	**(16,153)**
Cumulative translation adjustment	**(3,416)**	**(3,575)**	**(3,835)**	**—**	**(10,826)**
Balance as at October 31, 2017	**103,452**	**80,486**	**107,990**	**—**	**291,928**
Additions	**124,961**	**56,785**	**—**	**108,444**	**290,190**
Disposals	**—**	**—**	**—**	**—**	**—**
Cumulative translation adjustment	**4,629**	**2,750**	**2,086**	**2,283**	**11,748**
Balance as at October 31, 2018	**233,042**	**140,021**	**110,076**	**110,727**	**593,866**
Accumulated depreciation					
Balance as at October 31, 2016	**73,894**	**—**	**26,586**	**—**	**100,480**
Depreciation	**8,316**	**14,737**	**31,076**	**—**	**54,129**
Disposals	**—**	**—**	**(2,243)**	**—**	**(2,243)**
Cumulative translation adjustment	**(650)**	**3,864**	**(8,492)**	**—**	**(5,278)**
Balance as at October 31, 2017	**81,560**	**18,601**	**46,927**	**—**	**147,088**
Depreciation	**19,479**	**29,256**	**26,380**	**1,806**	**76,921**
Disposals	**—**	**—**	**—**	**—**	**—**
Cumulative translation adjustment	**1,372**	**977**	**1,462**	**38**	**3,849**
Balance as at October 31, 2018	**102,411**	**48,834**	**74,769**	**1,844**	**227,858**
Net book value					
As at October 31, 2017	21,892	61,885	61,063	—	144,840
As at October 31, 2018	**130,631**	**91,187**	**35,307**	**108,883**	**366,008**

(In Canadian dollars)

10. Intangible assets

	Patents	Software	Intellectual property	Development costs	Total
	$	$	$	$	$
Gross carrying amount					
Balance as at October 31, 2016	—	—	106,217	—	106,217
Additions	—	—	—	—	—
Cumulative translation adjustment	—	—	(4,042)	—	(4,042)
Balance as at October 31, 2017	—	—	102,175	—	102,175
Additions	17,036	42,388	—	363,400	422,824
Cumulative translation adjustment	—	893	1,974	3,152	6,019
Balance as at October 31, 2018	17,036	43,281	104,149	366,552	531,018
Accumulated amortization					
Balance as at October 31, 2016	—	—	90,271	—	90,271
Amortization	—	—	10,621	—	10,621
Cumulative translation adjustment	—	—	(3,744)	—	(3,744)
Balance as at October 31, 2017	—	—	97,148	—	97,148
Amortization	—	2,119	5,325	—	7,444
Cumulative translation adjustment	—	45	1,676	—	1,721
Balance as at October 31, 2018	—	2,164	104,149	—	106,313
Net book value					
As at October 31, 2017	—	—	5,027	—	5,027
As at October 31, 2018	17,036	41,117	—	366,552	424,705

11. Bank indebtedness

The Company has an available revolving demand facility of $1,000,000 to cover 90% of operating expenses on future export contracts. Amounts drawn under these facilities bear interest at 4.5% above the bank's prime rate for Canadian currency and is repayable on demand.

The Company also has an available revolving demand facility of $500,000 based on eligible accounts receivable. Amounts drawn under this facility bear interest at 4.5% above the bank's prime rate and is repayable on demand. This facility was temporarily increased to $1,000,000 between September 20, 2018 and December 1, 2018.

11. Bank indebtedness (continued)

The above facilities are secured by the following:

(a) A deed of moveable hypothec representing all present and future obligations in the amount of $3,050,000, constituting a security interest on the universality of all present and future assets;

(b) Insurance provided by Export Development Canada covering losses pertaining to specific accounts receivable naming the facility bank as beneficiary;

(c) Aggregate borrowings outstanding under both facilities are guaranteed by Export Development Canada up to 75%, and bears interest at 4.4% of the amount guaranteed;

(d) An assignment constituting a first charge on all inventory.

The Company also has a revolving demand facility of $378,000 by way of letters of guarantee in Canadian or American currency and is repayable on demand. The facility is secured by performance security guarantee issued by Export Development Canada for each letter of guarantee issued.

As at October 31, 2018, there was an amount of $1,860,000 (October 31, 2017 - $629,848) drawn under the facilities and there were letters of guarantee denominated in U.S. dollars totaling $257,860 in Canadian dollars equivalent.

These facilities are reviewed periodically, and the Company must respect certain covenants and financial ratios associated with the facilities, including a maximum total liabilities to tangible net worth rate of 3:1. The Company was in default of its total liabilities to tangible net worth ratio as at October 31, 2018 and 2017. Subsequent to year end, the creditor has acknowledged, in writing, the default and the plan of the Company to remedy such default on or before October 31, 2019. The Company repaid the loan facilities in their entirety, thereby remediating this default.

12. Trade payables and accrued liabilities

	2018	2017
	$	$
Trade accounts payable and accrued liabilities	**5,786,733**	2,255,315
Wages and bonuses payable	**598,802**	1,206,260
Deferred rent charges	**59,165**	—
Warranty provision	**217,568**	167,827
	6,662,268	3,629,402

(In Canadian dollars)

13. Convertible notes

On April 30, 2018, the Company issued $2,575,000 of convertible notes bearing interest at a rate of 12% per annum and maturing on April 30, 2021, of which $150,000 was issued to Directors and $2,175,000 to other existing shareholders. In the event that the Company proceeds to effect a reverse takeover ("RTO") prior to December 31, 2018 (see Note 29), these notes are automatically convertible into securities, on the same terms as are issued to investors in connection with the RTO, at a conversion price equal to the price paid for subscription receipts by investors. In the event the RTO does not take effect, these notes are either repaid in full or convertible at the option of the holder only upon another qualifying financing or change of control into related securities at a conversion price equal to 80% of the lowest price paid per security at such financing date.

These notes are secured by a third ranking hypothec on the movable assets of the Company.

On November 13, 2018, and in connection with the Company's RTO transaction (see Note 29), these notes were converted into 858,333 common shares and 429,167 warrants giving the holders an option to purchase one common share for $4.50 up to 36 months following November 13, 2018.

14. Shareholder loans

During the year, the Company received loans from a shareholder in the amount of $1,979,695. The terms of the loan include a placement fee of 1.5% and interest at 12% per annum and is repayable on demand. The loan was repaid subsequent to year end.

15. Term debt

	2018	2017
	$	$
Term loan, 12%, secured by a movable hypothec constituting a second-ranking security interest on all present and future assets, tangible and intangible, including a security interest on the Company's intellectual property, having a carrying value of nil ($5,027 in 2017), subject only to a first-ranking security interest by the Royal Bank in the amount of nil ($879,750 in 2017), as well as a third-ranking security interest on the investment certificates of the Company, having a carrying value of nil ($15,000 in 2017). (1)	**—**	600,000
Debt facility for an amount of $712,000, bearing interest at 11.2% compounded monthly, based on research and development tax credits to be received for the 2017 and 2018 fiscal years. The facility is secured by a movable hypothec on the universality of movable property for an amount of $800,000. (2)	**550,000**	—

(1) The loan was paid in full on December 5, 2017.

(2) $138,000 was repaid on November 14, 2018 and the balance of $412,000 was repaid on January 11, 2019.

(In Canadian dollars)

16. Obligation under finance leases

	2018	2017
	$	$
Obligation under finance leases on equipment having an aggregate net book value of $15,533, bearing interest at 6.013%, payable in monthly instalments of $964 including interest, maturing in October 2019	**11,207**	21,761
Less: current portion	**(11,207)**	10,554
	—	11,207

Obligations under finance lease are secured by certain office equipment.

The following are details of the Company's future minimum lease commitments in respect of finance leases as at October 31, 2018:

	Minimum lease payments	**Present value of minimum lease payments**
	$	**$**
Not later than one year	**11,574**	**11,207**
Later than one year and not later than three years	**—**	**—**
Less: imputed interest	**(367)**	**—**
Present value of minimum lease payments	**11,207**	**11,207**

(In Canadian dollars)

17. Share capital

Authorized, unlimited number

Voting and participating common shares.

Issued

	Number of shares	Share capital
		$
Balance as at October 31, 2016	**9,227,561**	**15,500,426**
Shares issued during the year under rights offering	**4,321,064**	**2,653,271**
Shares issued for cash consideration	**936,433**	**575,000**
Shares issued to senior executives	**18,987**	**11,660**
Shares issued to senior executives under deferred payment and loan agreements	**1,120,463**	—
Transaction costs	**—**	**(124,278)**
Balance as at October 31, 2017 and 2018	**15,624,508**	**18,616,079**

On November 13, 2019, and in connection with the reverse takeover transaction described in note 29, the Company consolidated its shares on the basis of one common share for every 30.7015984573 common shares. This share consolidation has been reflected in the number of shares above and throughout these statements retroactively.

During the year ended October 31, 2017, the Company issued 1,120,463 common shares to its senior executives under deferred payment agreements. The loans bear interest at 1% per annum. The principal and accrued interest are due in a lump sum payment on the earlier of June 29, 2021, and termination of services as an officer. The loans are secured by the share pledge of the shares purchased with these loans and the Company only has recourse to the shares bought by the employees. As a result, the issuance of common shares was accounted for as a stock option using the fair value method of accounting for stock-based compensation. Fair value is calculated based on a Black-Scholes option pricing model. The weighted average principal components of the pricing model used were the same as those used for options granted under the stock option plan. Share-based compensation expense of $538,490 was recorded for the year ended October 31, 2017 with a corresponding increase in equity.

(In Canadian dollars)

18. Warrants

The changes in warrants issued are as follows:

	Number of Warrants	Weighted average exercise price
		$
Balance as at October 31, 2017	**7,818**	**10.13**
Expired	(2,606)	10.13
Balance as at October 31, 2018	**5,212**	**10.13**

As at October 31, 2018, outstanding warrants entitle their holder to subscribe to an equal number of common shares as follows:

Expiration dates as follows:	Number of Warrant	Weighted average exercise price
		$
December 26, 2018	**2,606**	**10.13**
March 29, 2019	**2,606**	**10.13**
	5,212	**10.13**

On November 13, 2018, and in connection with the Company's RTO transaction (see note 29), these outstanding warrants were cancelled.

19. Share-based payments

Stock option plan

In December 2016, the Company established a new stock option plan, replacing the plan previously established. Under this plan, the recipients are awarded stock options to acquire common shares. The number of stock options and the exercise price are determined by the Board of Directors where said exercise price shall be not less than the fair market value as at the grant date. The stock options become fully vested annually on a pro-rata basis over a three-year period commencing on the grant date. The maximum number of common shares that can be under option at any time shall be 25% of the number of common shares of the Company issued and outstanding at such time.

During the year ended October 31, 2018, the Company granted 1,614,396 stock options to its employees, executives, officers and directors with an exercise price of $0.61 and a contractual life of seven years. The Company also granted 451,915 stock options to certain officers with an exercise price of nil and a contractual life of seven years.

(In Canadian dollars)

19. Share-based payments (continued)

Options granted under stock option plan

During the year ended October 31, 2017, the Company granted 566,573 stock options to its employees and directors with an exercise price of $0.61 and a contractual life of seven years. In addition, the Company amended the exercise price of all outstanding and unexercised options granted on or before November 17, 2014, to $0.61.

The Company applies the fair value method of accounting for stock-based compensation awards granted. Fair value is calculated based on a Black-Scholes option pricing model. The principal components of the pricing model were as follows:

	2018	2017
Expected volatility	**131%**	123%
Risk-free rate	**1.59%**	1.41%
Dividend yield	**nil**	nil
Expected life of option	**3.8 years**	7 years

The weighted average fair value of options granted during the year ended October 31, 2018 was $0.94 (Year ended October 31, 2017 - $0.55).

The changes to the number of stock options granted and their weighted average exercise price are as follows:

		2018		2017
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**1,716,004**	**0.61**	1,315,693	0.61
Granted	**2,066,311**	**0.48**	566,574	0.61
Forfeited/cancelled	**—**	**—**	(166,263)	0.61
Outstanding, end of year	**3,782,315**	**0.54**	1,716,004	0.61
Exercisable, end of year	**1,117,625**	**0.61**	524,783	0.61
Weighted average remaining contractual life (years)		**5.66**		5.80

The options begin vesting on a pro rata basis over three years after the first anniversary date of the grant. Share-based compensation expense of $2,143,547 was recorded for the year ended October 31, 2018 (Year ended October 31, 2017 – $357,939) for options granted under stock option plan. Share-based compensation expense for the year ended October 31, 2017 includes an amount of $17,851 relating to an incremental value of amendment to the exercise price of certain stock options.

On August 22, 2018, in contemplation of the going public transaction described in note 29, the Board of Directors approved that all outstanding stock options be accelerated and exercised on a share appreciation basis for common shares of the Company upon the completion of the going public transaction. As a result of the modified vesting conditions, the Company began accelerating the share-based payments expense for unvested options over the expected life of the options, and accordingly recorded $1,511,302 in 2018.

(In Canadian dollars)

19. Share-based payments (continued)

Options granted outside stock option plan

In addition, the Company grants stock options to its officers, directors and consultants outside the stock option plan described above. The recipients are awarded stock options to acquire common shares. The number of stock options, exercise price and terms of vesting are determined by the Board of Directors.

During the year ended October 31, 2018, 57,000 stock options were granted to an officer with an exercise price of $0.61 and a contractual life expiring October 31, 2024.

During the year ended October 31, 2017, no options were granted outside the stock option plan. During the year ended October 31, 2017, the Company amended the exercise price of all outstanding and unexercised options granted on or before November 17, 2014, to $0.61.

The Company applies the fair value method of accounting for stock-based compensation awards granted. Fair value is calculated based on a Black-Scholes option pricing model. The weighted average principal components of the pricing model were as follows:

	2018	2017
Expected volatility	**142%**	—
Risk-free rate	**2.09%**	—
Dividend yield	**nil**	nil
Expected life of option	**6.6 years**	—

The weighted average fair value of options granted during the year ended October 31, 2018, was $0.58 (Year ended October 31, 2017 - nil).

The changes to the number of stock options granted and their weighted average exercise price are as follows:

	2018		2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**835,298**	**0.61**	835,298	0.61
Granted	**57,000**	**0.61**	—	—
Cancelled	**—**	**0.61**	—	—
Outstanding, end of year	**892,298**	**0.61**	835,298	0.61
Exercisable, end of year	**892,298**	**0.61**	835,298	0.61
Weighted average remaining contractual life (years)		**4.24**		5.12

Share-based compensation expense of $32,813 was recorded for the year ended October 31, 2018 (Year ended October 31, 2017 – $45,459). Share-based compensation expense for the year ended October 31, 2017 includes an amount of $45,459 relating to an incremental value of amendment to the exercise price of certain stock options.

(In Canadian dollars)

20. Revenue

	2018	2017
	$	$
Products	**21,532,041**	18,123,466
After sales services	**1,370,244**	267,805
Sale of extended warranty	**104,567**	71,700
	23,006,852	18,462,971

21. Income taxes

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	2018	2017
	$	$
Loss before income taxes	**(3,687,524)**	(2,463,680)
Combined Canadian federal and provincial tax rates	**26.70%**	26.80%
Income tax recovery at statutory rates	**(984,569)**	(660,266)
Increase resulting from		
Non-deductible expenses	**569,915**	260,592
Income tax losses not recognized for accounting purposes	**414,654**	399,674
Income tax recovery	**—**	—
Current	**—**	—
Deferred	**—**	—

(In Canadian dollars)

21. Income taxes (continued)

Deductible (taxable) temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2018	2017
	$	$
Intangibles	**(383,231)**	(5,027)
Fixed assets	**7,601**	(14,635)
SR&ED expenditures	**2,006,195**	1,491,104
Finance leases	**11,207**	21,761
Canadian losses	**16,656,310**	15,739,184
Financing fees	**119,918**	211,312
Reserves	**197,418**	167,827
ITC's	**(380,291)**	(421,300)
Deferred revenue	**241,458**	(268,404)
	18,476,585	16,921,822

The Company has accumulated the following losses for income tax which may be carried forward to reduce federal and provincial taxable income in future years, and will expire as follows:

	Federal	Provincial
	$	$
2028	142,046	183,822
2029	314,610	356,076
2030	1,147,430	1,180,620
2031	1,586,034	1,602,465
2032	2,932,235	2,904,519
2033	1,436,082	1,425,905
2034	2,546,536	2,488,710
2035	2,482,556	2,482,535
2036	1,884,832	1,884,830
2037	1,266,823	1,266,822
2038	917,126	922,106
	16,656,310	16,698,410

In addition, the Company has available unused research and development expenditures for federal and provincial income taxes purposes of $2,006,000 and $2,555,000, respectively. These expenses are available to reduce the taxable income of future years.

As at October 31, 2018, a deferred income tax asset has not been recognized on net deductible temporary differences of $18,476,585 as the Company has assessed that it will not be able to use these assets in the foreseeable future. At each successive consolidated statement of financial position date, the Company will re-assess if it is more likely than not that this asset meets the criteria for recognition.

(In Canadian dollars)

22. Expenses by nature

	2018	2017
	$	$
Included in cost of sales, general and administrative, selling and distribution and research and development expenses		
Depreciation of property and equipment	**76,921**	54,129
Amortization of intangible assets	**7,444**	10,620
Rent	**559,439**	376,291
Purchases	**13,877,518**	14,793,337
Employee benefits (excluding share-based payments)	**5,792,378**	4,787,379

23. Financial expenses (income)

	2018	2017
	$	$
Interest and bank charges	**460,476**	242,445
Foreign exchange loss (gain)	**229,223**	(277,450)
	689,699	(35,005)

24. Loss per share

	2018	2017
	$	$
Loss attributable to ordinary equity holders for the year	**(3,687,524)**	(2,463,680)
Weighted average number of shares for basic and diluted EPS	**15,624,508**	13,656,538
Basic and diluted loss per share	**(0.24)**	(0.18)

A net loss was reported for the years ended October 31, 2018 and 2017 and accordingly, in those years, the denominator for the Basic earnings per share calculation was equal to the weighted average number of common stock outstanding with no consideration for outstanding stock options, warrants and debt conversions to acquire shares of the Company's common stock because to do so would have been anti-dilutive.

(In Canadian dollars)

25. Financial instruments and risk management strategies

Financial risks

The Company is exposed to various financial risks through transactions in financial instruments. The following provides helpful information in assessing the extent of the Company's exposure to these risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk with respect to cash, short-term investments and accounts receivable from the potential default by counterparties that hold the Company's cash. The Company mitigates the credit risk for cash and short-term investments by dealing only with large financial institutions with good credit ratings.

The Company performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. It is reasonably possible that the actual amount of loss incurred, if any, will differ from management's estimate. The maximum exposure to the credit risk is the full carrying value of cash and accounts receivable.

The average credit period on sales is between 30 and 90 days. Allowances for doubtful accounts are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterpart's current financial position.

Pursuant to their respective terms, trade accounts receivable for which the Company has not recognized an allowance for doubtful accounts are aged as follows:

	2018	2017
	$	$
0-30 days	**1,800,919**	1,488,145
31-60 days	**89,775**	1,050,732
61-90 days	**—**	2,441
91-120 days	**—**	70,528
	1,890,694	2,611,846

Concentration of credit risk

Five customers (one in 2017) represented approximately 80% of the accounts receivable balance at October 31, 2018 (64% in 2017). In addition, the Company generated 47% (59% in 2017) of its revenue from two customers (four in 2017) in the approximate amount of $10.9 million ($8.5 million in 2017).

Liquidity risk

Liquidity risk is the risk that a company cannot meet normal demands that include, but are not limited to, funding its obligations as they become due. The Company is subject to liquidity risk on its accounts payable which arise from its daily operations, bank indebtedness, and term debt. The Company mitigates this risk by reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring adequate funds exist to support the execution of business strategies and operational growth.

25. Financial instruments and risk management strategies (continued)

Liquidity risk (continued)

The contractual maturities and carrying amounts of financial liabilities are summarized in the following table:

Year ended October 31, 2018:

	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**1-3 years**
	$	**$**	**$**	**$**
Bank indebtedness	1,860,000	1,860,000	1,860,000	—
Trade payables and accrued liabilities	6,603,103	6,603,103	6,603,103	—
Term debt	550,000	550,000	550,000	
Obligation under finance lease	11,207	11,574	11,574	—
Shareholder loans	2,020,734	2,020,734	2,020,734	—
Convertible notes	2,575,000	2,575,000	—	2,575,000
	13,620,044	13,620,411	11,045,411	2,575,000

Year ended October 31, 2017:

	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years
	$	$	$	$
Bank indebtedness	629,848	629,848	629,848	—
Trade payables and accrued liabilities	3,629,402	3,629,402	3,629,402	—
Term debt	600,000	600,000	600,000	—
Obligation under finance lease	21,761	23,148	11,574	11,574
	4,881,011	4,882,398	4,870,824	11,574

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Each of these risks is discussed hereunder.

Currency risk

The Company is exposed to currency risks due to certain sales and purchases denominated in foreign currency. The risk however is mitigated due to the fact that although the Company generates a portion of sales in foreign currency, a certain portion of its purchases is also in that foreign currency.

The Company's research and development tax credits receivable, bank indebtedness, term debt, shareholder loans, and convertible debt are denominated in Canadian dollars, and are subject to foreign currency risk.

25. Financial instruments and risk management strategies (continued)

Currency risk (continued)

The consolidated statements of financial position include the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in a currency other than the U.S. dollar:

	$
Cash	**140,348**
Short-term investments	**15,000**
Trade and other receivables	**333,837**
Research and development tax credits receivable	**719,780**
Bank indebtedness	**(1,860,000)**
Trade payables and accrued liabilities	**(3,873,821)**
Shareholder loans	**(2,020,734)**
Term debt	**(550,000)**
Convertible notes	**(2,575,000)**
	(9,670,590)

In 2018, a variation of 10% of the Canadian dollar against the U.S. dollar would have an impact of approximately $967,000 on net loss.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company has bank loans available at variable interest rates; therefore, it is exposed to future cash flow risk as a result of potential rate fluctuations. The Company has term debt, shareholder loans and convertible notes available at a fixed interest rate; therefore, it is exposed to fair value risk as a result of potential rate fluctuations. There has been no significant change to the Company's exposure to interest rate risk since the previous period.

In 2018, a variation of 50 basis points while holding all other variables constant would have an impact of approximately $9,300 ($3,149 in 2017) on profit and loss.

Fair values

Financial assets and financial liabilities are measured on an ongoing basis at amortized cost. The disclosures in the "Financial instruments" section of note 2 describe how the categories of financial instruments are measured and how income and expenses are recognized.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize or would pay in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1 – This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

(In Canadian dollars)

25. Financial instruments and risk management strategies (continued)

Fair values (continued)

Level 2 – This level includes valuations determined using directly (i.e., as prices) or indirectly (i.e., derived from prices) observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3 – This level includes valuations based on inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The fair values of cash, restricted cash, short-term investments, trade and other receivables, bank indebtedness, trade payables and accrued liabilities, subscription receipts held for investors, shareholder loans, convertible debt and term debt approximate their carrying values (level 2).

Other price risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not believe that it is exposed to any significant price risk.

Management of capital

The Company's capital is as follows:

	2018	2017
	$	$
Bank indebtedness	**1,860,000**	629,848
Term debt	**550,000**	600,000
Shareholder loans	**2,020,734**	—
Convertible notes	**2,575,000**	—
Shareholders' equity (deficit) (excluding accumulated other comprehensive loss)	**(214,504)**	1,296,660
	6,791,230	2,526,508

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its organic growth, to establish a strong capital base so as to maintain investors, creditors and to provide an adequate return to shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital along with research and development.

The Company currently funds these requirements from cash flows from operations as well as its financial resources, which include cash balance and credit facilities. Also, refer to note 29. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth.

(In Canadian dollars)

26. Commitments and contingencies

Short-term investments

A term deposit in the amount of $15,000, bearing interest at 0.50% (Year ended October 31, 2017 - 0.50%) per annum, matures in June 2019, and relates to a security deposit made by the Company for credit cards. According to the terms of the agreement, the maturity of the term deposit is automatically extended.

Warranty costs

During the normal course of operations, the Company assumes certain maintenance and repair costs under warranties offered on products sold. The standard warranties cover a period of one to two years. During the year, the Company recognized $129,741 ($180,582 in 2017) as warranty costs.

This estimated expense is based on past experience and $217,568 ($167,827 in 2017) is included in trade payables and accrued liabilities on the consolidated statement of financial position (see note 12). The actual amount that the Company may have to pay and the timing of the repairs to be carried out are unknown at this time and will only become known when they occur.

Lease commitments

Under the terms of the operating lease contracts for premises and equipment, the Company agrees to pay, over the following five fiscal years, the following minimum payments:

	$
2019	404,182
2020	374,971
2021	355,568
2022	263,993
2023	267,237
Thereafter	85,632
	1,751,583

Contingencies

In the ordinary course of business, the Company may be subject to various claims, legal actions and environmental obligations. Management does not believe that any of the existing claims and legal actions will have a significant effect on the Company's financial position or operating results. However, the final outcome of these matters could vary significantly from management's estimates.

27. Segment information

The Company has determined that it has only one reportable operating segment, the development and marketing of security screening systems. This single operating segment generates revenues from the sale of these products and from rendering services related to the sale of these products. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment non-current assets were based on the geographic location of the assets.

(In Canadian dollars)

27. Segment information (continued)

The following table summarizes revenue by geographical area for the year ended:

	2018	2017
	%	%
Asia-Pacific	**52**	38
Europe, Middle East, and Africa	**20**	38
United States	**13**	15
Canada	**6**	5
Other	**9**	4
	100	100

The following table summarizes non-current assets information by geography for the year ended:

	2018	2017
	$	$
Canada	**696,159**	127,169
Malaysia	**73,952**	—
United Arab Emirates	**20,602**	22,698
	790,713	149,867

28. Transactions with related parties

The following transactions took place in the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties.

Key management personnel includes the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer and Executive Vice-Presidents who are members of the Management Committee.

The following table summarizes the remuneration payable to key management personnel included in accounts payable and accrued liabilities:

	2018	2017
	$	$
Trade payables and accrued liabilities	**131,914**	255,000

Compensation of directors and key management personnel

The remuneration of directors and other key management personnel during the year was as follows:

	2018	2017
	$	$
Short-term benefits	**2,046,306**	1,506,011
Share-based payments	**1,848,594**	835,048

29. Events after the reporting period

Reverse takeover transaction and private placement

On November 9, 2019, Steamsand Capital Corp. ("Steamsand"), together with its wholly-owned subsidiary ("Subco"), entered into an amalgamation agreement with VOTI Inc. pursuant to which Subco would amalgamate with VOTI Inc. (the "Amalgamation") to complete an arm's length qualifying transaction in accordance with the policies of the TSX Venture Exchange (the "Qualifying Transaction") The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation was to become a wholly-owned subsidiary of Steamsand at the time of the completion of the Amalgamation.

On November 13, 2018, the Amalgamation was completed and Steamsand changed its name to VOTI Detection Inc. On November 19, 2019, the common shares of VOTI Detection Inc. began trading on the TSX Venture Exchange under the symbol "VOTI". Following the completion of the Qualifying Transaction (the "RTO"), 23,494,878, 1,969,662 and 144,238 post-consolidation Resulting Issuer common shares, warrants, and compensation options, respectively, of VOTI Detection Inc. were issued and outstanding. The former security holders of VOTI Inc. along with new subscription receipt holders own approximately 98.3% of the issued and outstanding post-consolidation common shares of VOTI Detection Inc. As Steamsand does not meet the definition of a business, the RTO will be accounted for as a reverse acquisition of net assets, pursuant to IFRS 2, Share-based payments.

Pursuant to the terms of the Amalgamation Agreement immediately prior to the RTO, the following occurred:

- All outstanding stock options described in note 19 were accelerated and exercised on a share appreciation basis for common shares of the Company;
- The Company cancelled all outstanding warrants described in note 18;
- The Company consolidated its common shares on the basis of one common share for every 30.7015984573 common shares. This share consolidation has been reflected throughout these statements retroactively. Similarly, Steamsand consolidated its common shares on the basis of one post-consolidation Steamsand common share for every 18 Steamsand common shares existing before such consolidation;
- Each issued and outstanding VOTI common share was exchanged for one fully-paid and non-assessable Resulting Issuer common share (on a post-VOTI Consolidation basis), for an aggregate issuance of 19,166,667 Resulting Issuer common shares;
- The issued and outstanding VOTI Inc. convertible notes of $2,575,000 described in note 13 were converted into 858,332 Resulting Issuer common shares and 429,166 Resulting Issuer warrants;
- Each post-consolidated Steamsand common share was exchanged for one fully-paid and non-assessable Resulting Issuer common share, for an aggregate issuance of 388,888 Resulting Issuer common shares; and
- Each issued and outstanding subscription receipt described in note 4 was exchanged for one fully-paid and non-assessable Resulting Issuer common share, for an aggregate issuance of 3,080,991 Resulting Issuer common shares and 1,540,496 Resulting Issuer warrants.

In connection with the RTO, the gross proceeds of the private placement described in note 4, net of certain issuance costs, were released from escrow to the Company. The agent commission included cash and 144,238 Resulting Issuer compensation options giving the holders an option to purchase one common share for $3.00 up to 24 months following November 13, 2018.

29. Events after the reporting period (continued)

Each Resulting Issuer warrant described above gives the holder an option to purchase one common share for $4.50 up to 36 months following November 13, 2018, and each compensation option gives the holder an option to purchase one common share for $3.00 up to 24 months following November 13, 2018.

Stock Option Plan

On November 13, 2018, the Company's parent company, VOTI Detection Inc., established a new Stock Option Plan ("Plan"). The purpose of the Plan is to advance the interests of VOTI Detection Inc. and its shareholders by providing to the directors, officers, employees and consultants a performance incentive for continued and improved services. The Plan is administered by VOTI Detection Inc.'s Board of Directors. Options may be granted under the Plan until the earlier of (i) the date on which the Board terminates the Plan, and (ii) the failure to receive the requisite shareholder approval required by the Exchange.

Under this Plan, the recipients are awarded stock options to acquire common shares. The aggregate number of Options reserved for issuance under the Plan shall be 10% of the issued and outstanding Common Shares at any time.

Unless otherwise determined by the Board at the time of grant, each Option shall be exercisable until the eighth anniversary of the date on which it is granted. One third of the Options granted shall vest on the first anniversary of the date of grant and the remaining two thirds shall vest quarterly over two years, totalling a three-year vesting period.

On December 4, 2018 and December 13, 2018, VOTI Detection Inc. granted a total of 1,960,000 stock options to employees of the Company at an exercise price of $2.99 per share and expiring eight years after the grant date, of which 1,375,000 were granted to key management personnel.

Espresso Capital Financing

On January 8, 2019, the Company entered into a revolving credit facility with Espresso Capital Ltd. which matures on June 30, 2022. The current authorized credit limit is $2,755,000 less any borrowings on this facility. Amounts drawn on this facility include a placement fee of 1.25% and bear interest at 15.25% per annum. The facility is secured by a $9,000,000 moveable hypothec on the universality of the Company's moveable property, subject to a first ranking security interest held by the creditor of the Company's bank indebtedness in note 11.

30. Comparative information

Certain comparative information has been reclassified to conform with the current year's presentation.