Interim condensed consolidated financial statements of

VOTI Detection Inc.

(formerly Steamsand Capital Corp.)

For the three-month periods ended January 31, 2019 and 2018
(Unaudited)

VOTI Detection Inc.

Interim condensed consolidated statements of financial position

As at January 31, 2019 and October 31, 2018

(In Canadian dollars)

	Notes	January 31 2019 (Unaudited)	October 31 2018
		$	$
Assets			
Current assets			
Cash		**2,448,364**	643,067
Restricted cash	6	—	9,242,973
Short-term investments		**15,000**	15,000
Trade and other receivables		**3,483,045**	2,228,594
Research and development tax credits receivable		**668,420**	719,780
Inventories		**7,275,791**	7,267,017
Prepaid expenses and deposits		**1,190,528**	1,101,305
Capitalized listing fee expenses	8	—	924,190
Total current assets		**15,081,148**	22,141,926
Non-current assets			
Property and equipment		**399,814**	366,008
Intangible assets		**1,089,289**	424,705
Total non-current assets		**1,489,103**	790,713
Total assets		**16,570,251**	22,932,639
Liabilities			
Current liabilities			
Bank indebtedness	12	—	1,860,000
Trade payables and accrued liabilities		**3,584,482**	6,673,475
Subscription receipts held for investors	6	—	9,242,973
Customer deposits		**233,316**	194,098
Deferred revenue		**1,678,983**	290,476
Shareholder loans	14	—	2,020,734
Term debt	15	—	550,000
Total current liabilities		**5,496,781**	20,831,756
Non-current liabilities			
Convertible notes	13	—	2,575,000
Warrants	17	**1,196,090**	—
Long-term debt	7	**2,150,000**	—
Total liabilities		**8,842,871**	23,406,756
Shareholders' equity (deficit)			
Share capital	16	**33,809,962**	18,616,079
Stock option reserve	18	**431,137**	5,781,038
Warrants reserve	17	—	90,298
Deficit		**(26,255,324)**	(24,701,919)
Cumulative translation adjustment		**(258,395)**	(259,613)
Total shareholders' equity (deficit)		**7,727,380**	(474,117)
Total liabilities and shareholders' equity (deficit)		**16,570,251**	22,932,639

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

Approved by the Board

(s) Neil Hindle
____ , Director

(s) Rory Olson
____ , Director

VOTI Detection Inc.

Interim condensed consolidated statements of loss and comprehensive loss

Three-month periods ended January 31, 2019 and 2018 (Unaudited)
(In Canadian dollars)

	Notes	2019 (Unaudited)	2018 (Unaudited)
		$	$
Revenue	19	**6,797,428**	8,399,963
Cost of sales		**(4,440,246)**	(4,943,071)
Gross profit		**2,357,182**	3,456,892
Expenses			
General and administrative		**1,401,549**	726,006
Selling and distribution		**1,446,482**	805,613
Research and development		**88,842**	175,900
Financial expenses, net	9	**135,443**	109,459
Change in fair value of warrants	17	**(612,000)**	—
Reverse acquisition of Steamsand	5	**964,038**	—
Share-based payments	18	**576,531**	193,880
		4,000,885	2,010,858
Net (loss) income		**(1,643,703)**	1,446,034
Other comprehensive income (loss)			
Foreign currency translation adjustment		**1,218**	(234,772)
Comprehensive (loss) income		**(1,642,485)**	1,211,262
Basic and diluted net (loss) income per share	10	**(0.07)**	0.09

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

VOTI Detection Inc.

Interim condensed consolidated statements of changes in total equity (deficit)

Three-month periods ended January 31, 2019 and 2018 (Unaudited)
(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, 2018		**15,624,508**	**18,616,079**	**5,781,038**	**90,298**	**(259,613)**	**(24,701,919)**	**(474,117)**
Cancelled outstanding warrants	1				(90,298)		**90,298**	**-**
Accelerated vesting of share-based payments	1			236,264				**236,264**
Exercising of stock options	18	3,542,157	6,017,302	(6,017,302)				**-**
Issue of common shares under private placement	1	3,080,991	7,825,717					**7,825,717**
Conversion of convertible notes	1	858,332	2,180,163					**2,180,163**
Effect of the reverse acquisition of Steamsand	1	388,767	987,468					**987,468**
Share issuance costs	1		(1,725,897)					**(1,725,897)**
Options issued to agents	1		(90,870)	90,870				**-**
Share-based payments expense	18			340,267				**340,267**
Other comprehensive income for the period						**1,218**		**1,218**
Net loss for the period							**(1,643,703)**	**(1,643,703)**
Balance, January 31, 2019		**23,494,755**	**33,809,962**	**431,137**	**-**	**(258,395)**	**(26,255,324)**	**7,727,380**

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

(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, 2017		**15,624,508**	**18,616,079**	**3,604,678**	**90,298**	**(307,321)**	**(21,014,395)**	**989,339**
Share-based payments expense	18			**193,880**				**193,880**
Other comprehensive loss for the period						**(234,772)**		**(234,772)**
Net income for the period							**1,446,034**	**1,446,034**
Balance, January 31, 2018		**15,624,508**	**18,616,079**	**3,798,558**	**90,298**	**(542,093)**	**(19,568,361)**	**2,394,481**

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

VOTI Detection Inc.

Interim condensed consolidated statements of cash flows

Three-month periods ended January 31, 2019 and 2018 (Unaudited)

(In Canadian dollars)

	Notes	2019	2018
		$	$
Operating activities			
Net (loss) income for the year		**(1,643,703)**	1,446,034
Adjustments for:			
Depreciation of property and equipment		**33,196**	14,946
Amortization of intangible assets		**2,451**	2,655
Interest expense		**37,745**	14,360
Change in fair value of warrants		**(612,000)**	
Share-based payments	18	**576,531**	193,880
Unrealized foreign exchange loss		**44,443**	74,932
Reverse acquisition of Steamsand	5	**964,038**	—
Net change in non-cash working capital items			
Trade and other receivables		**(1,254,451)**	2,181,979
Research and development tax credits receivable		**51,360**	(58,713)
Inventories		**(8,773)**	1,286,019
Prepaid expenses and deposits		**(89,223)**	45,959
Trade payables and accrued liabilities		**(2,164,803)**	(1,826,491)
Customer deposits		**39,218**	(2,548,412)
Deferred revenue		**1,388,507**	(15,425)
		(2,635,464)	811,723
Investing activities			
Additions to property and equipment		**(67,873)**	(3,360)
Additions to intangible assets		**(671,950)**	—
		(739,823)	(3,360)
Financing activities			
Changes in bank indebtedness	12	**(1,860,000)**	(214,848)
Proceeds from long-term debt	7	**2,150,000**	—
Repayment of obligation under finance leases		**2,894**	6,039
Repayment of shareholder loans	14	**(2,020,734)**	—
Repayment of term debt	15	**(550,000)**	(94,000)
Interest paid		**(37,745)**	(14,360)
Consideration received from Steamsand	4	**328,000**	—
Share issuance costs	16	**(2,030,467)**	—
		(4,018,052)	(317,169)
Net change during the period		**(7,393,339)**	491,194
Net effect of foreign exchange rate changes on cash		**(44,337)**	(260,242)
Cash and restricted cash, beginning of period		**9,886,040**	714,855
Cash, end of period		**2,448,364**	945,807

1. Description of the business

VOTI Detection Inc. (the "Company"), formerly Steamsand Capital Corp. ("Steamsand") up to the completion of the Amalgamation, as defined below, is incorporated under the *Canada Business Corporations Act* and is domiciled in St-Laurent, Québec. 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 9, 2018, 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 by way of reverse takeover in accordance with the policies of the TSX Venture Exchange (the "RTO"). 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, 2018, the common shares of VOTI Detection Inc. began trading on the TSX Venture Exchange under the symbol "VOTI".

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

- All of VOTI Inc.'s outstanding stock options described in note 18 were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc.;
- VOTI Inc. cancelled all outstanding warrants described in note 18;
- VOTI Inc. 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 Inc. common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share (on a post-VOTI Consolidation basis), for an aggregate issuance of 19,166,665 VOTI Detection Inc. common shares;
- The issued and outstanding VOTI Inc. convertible notes of $2,575,000 described in note 13 were converted into 858,332 VOTI Detection Inc. common shares and 429,166 VOTI Detection Inc. warrants;
- Each post-consolidated Steamsand common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 388,767 VOTI Detection Inc. common shares; and
- Each issued and outstanding subscription receipt described in note 6 was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 3,080,991 VOTI Detection Inc. common shares and 1,540,496 VOTI Detection Inc. warrants.

In connection with the RTO, the gross proceeds of the private placement described in note 6, net of issuance costs described in note 5, were released from escrow to the Company. The agent commission included cash and 144,238 VOTI Detection Inc. compensation options.

Each VOTI Detection Inc. 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.

1. Description of the business (continued)

Following the completion of the RTO, 23,494,755, 1,969,662 and 144,238 post-consolidation VOTI Detection Inc. common shares, warrants, and compensation options, respectively, were issued and outstanding (see notes 16, 17 and 18). 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.

For accounting purposes, it has been determined that Steamsand was the accounting acquiree and VOTI Inc. was the accounting acquirer since the shareholders of the former VOTI Inc. now control VOTI Detection Inc., based on the guidance of *IFRS 10, Consolidated Financial Statements*, and *IFRS 3, Business Combinations*, to identify the accounting acquirer (refer to note 4). These interim condensed consolidated financial statements are prepared as a continuation of the financial statements of VOTI Inc., reflecting the equity instruments of Steamsand. As a result, comparative information included herein is solely the one of VOTI Inc. For simplicity, transactions undertaken by VOTI Inc. are referred to as being undertaken by the Company in these interim condensed consolidated financial statements.

2. Significant accounting policies

Statement of compliance

The Company's interim condensed consolidated financial statements for the three-month period ended January 31, 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and using the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended October 31, 2018, which were prepared in compliance with International Financial Reporting Standards (IFRS).

The Board of Directors approved the interim condensed consolidated financial statements of the Company as at January 31, 2019 and authorized their issuance on March 29, 2019.

Basis of preparation

The interim condensed 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.

Functional and presentation 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.

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

Translation to presentation currency

The interim condensed 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").

2. Significant accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective

Refer to the annual audited consolidated financial statements for the year ended October 31, 2018, as there have been no changes.

Change in significant accounting policies

On November 1, 2018, the Company adopted the new rules under IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which 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. The Company adopted this standard on a prospective basis and the conclusions of the analysis on the opening retained earnings as at November 1, 2018 demonstrate that the impact is not significant. Consequently, the adoption of IFRS 15 did not have an impact on opening retained earnings of the Company.

The Company generates revenue from the sale of X-ray security screening units, services and extended warranty. For the sale of security screening units, the Company recognizes revenue at a point in time when it transfers control of the finished goods to a customer, which generally occurs upon shipment of the finished goods from the Company's facilities. In certain arrangements, control is transferred and revenue is recognized upon delivery of the finished goods to the customer's premises.

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.

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 preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of information were the same as those applied to the annual audited consolidated financial statements for the year ended October 31, 2018.

(In Canadian dollars)

4. Reverse acquisition of Steamsand by VOTI Inc.

As described in note 1, Steamsand acquired legal control of VOTI Inc. by way of a three-cornered amalgamation. However, as the shareholders of VOTI Inc. gained voting control of Steamsand pursuant to the issuance of Steamsand common shares to the shareholders of VOTI

Inc., representing a significant majority interest, VOTI Inc. is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Steamsand by VOTI Inc. As Steamsand does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, pursuant to *IFRS 2, Share-based Payment.*

The acquisition-date fair value of the consideration transferred by VOTI Inc. for its interest in Steamsand of $987,468 is determined based on the fair value of the equity interest VOTI Inc. would have had to give to the owners of Steamsand, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition, and is recorded as an increase in common shares in the consolidated statement of financial position.

As the fair value of Steamsand's identifiable net assets at the reverse acquisition date was $328,000, the excess of consideration transferred over the net assets acquired of $659,468 is reflected as a non-cash reverse acquisition of Steamsand expense (note 5) in the interim condensedconsolidated statements of loss and comprehensive loss.

5. Reverse acquisition expenses

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Steamsand by VOTI Inc.

	$
Consideration transferred to Steamsand in excess of net assets acquired (note 4)	659,468
Transaction costs (note 16)	304,570
	964,038

6. 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 and were initially classified as restricted cash with a corresponding credit to subscription receipts held for investors. Upon the completion of the reverse acquisition transaction on November 13, 2018, each subscription receipt was exchanged into one common share of the issuer resulting from the RTO, namely VOTI Detection Inc., and one half of one VOTI Detection Inc. common share purchase warrant, where each warrant gives the holder an option to purchase one common share for $4.50 up to 36 months following November 13, 2018 (see notes 16 and 17). The RTO was completed on November 13, 2018 (see note 1).

(In Canadian dollars)

7. Long-term debt

On January 8, 2019, the Company entered into a revolving term debt 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 as described in note 12. The amount outstanding as at January 31, 2019 was $2,150,000.

8. Capitalized listing fee expenses

Capitalized listing fee expenses include capitalized costs associated with the reverse acquisition transaction (see note 1). 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 and warrants. Similar additional costs were incurred in November 2018 when the RTO closed on November 13, 2018. On the reverse acquisition date, $304,570 relating to the warrants was reclassified to Reverse acquisition expense and the remainder to Share capital as share issuance costs.

9. Financial expenses

	Three-months ended January 31,	
	2019	2018
	$	$
Interest and bank charges	**91,000**	34,527
Foreign exchange loss	**44,443**	74,932
	135,443	109,459

10. (Loss) earnings per share

	Three-months ended January 31,	
	2019	2018
	$	$
Net (loss) earnings attributable to ordinary equity holders for the period	**(1,643,703)**	1,446,034
Weighted average number of shares for basic and diluted EPS	**22,382,655**	15,624,508
Basic and diluted net (loss) earnings per share	**(0.07)**	0.09

11. Financial instruments

Fair values

Financial assets and financial liabilities are measured on an ongoing basis at amortized cost, except for warrants which are classified as a financial liability at FVTPL and are re-measured at fair value at each reporting period. The disclosures in the “Financial instruments” section of the annual audited consolidated financial statements 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.

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, research and development tax credits receivable, bank indebtedness, trade payables and accrued liabilities, shareholder loans, term debt, long-term debt and convertible notes approximate their carrying values (level 2).

The warrants are classified as financial liabilities at FVTPL since they are denominated in a currency other than the Company’s functional currency.

12. Bank indebtedness

As at January 31, 2019, no amount (October 31, 2018 - $1,860,000) was 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, however, 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.

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 prior to December 31, 2018 (see note 1), 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 were 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 1), these notes were converted into 858,332 common shares and 429,166 warrants giving the holders an option to purchase one common share for $4.50 up to 36 months following November 13, 2018. The carrying value of the convertible notes was allocated to share capital and warrants in the amount of $2,180,163 and $394,837, respectively. The fair value of the warrants was determined using the Black-Scholes option pricing model described in note 17.

14. Shareholder loans

During 2018, 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 during the first quarter of 2019.

15. Term debt

The Company had a debt facility for an initial 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 was secured by a movable hypothec on the universality of movable property for an amount of $800,000. The amount owed as at October 31, 2018 was $550,000. $138,000 was repaid on November 14, 2018 and the balance of $412,000 was repaid on January 11, 2019.

16. Share capital

The Company is authorized to issue an unlimited number of voting and participating common shares. Pursuant to the terms of the Amalgamation Agreement, and immediately prior to the completion of the RTO described in note 1, the following occurred:

- All of VOTI Inc.'s outstanding stock options described in note 18 were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc.;
- VOTI Inc. 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 Inc. common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share (on a post-VOTI Consolidation basis), for an aggregate issuance of 19,166,665 VOTI Detection Inc. common shares;

(In Canadian dollars)

16. Share capital (continued)

- The issued and outstanding VOTI Inc. convertible notes of $2,575,000 described in note 13 were converted into 858,332 VOTI Detection Inc. common shares and 429,166 VOTI Detection Inc. warrants (see note 17);
- Each post-consolidated Steamsand common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 388,767 VOTI Detection Inc. common shares; and
- Each issued and outstanding subscription receipt described in note 6 was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 3,080,991 VOTI Detection Inc. common shares and 1,540,496 VOTI Detection Inc. warrants;
- Transaction costs totalling $2,030,467 were allocated as a reduction of share capital in the amount of $1,725,897 and the remainder relating to the warrants of $304,570 was expensed; and
- In connection with the RTO, the gross proceeds of the private placement described in note 6, net of issuance costs described in note 5, were released from escrow to the Company.

The fair value split of the subscription receipts and convertible notes to share capital and warrants was determined using the Black-Scholes option pricing model (see note 17), which resulted in a fair value per common share and one half warrant of $2.54 and $0.46, respectively.

In connection with the RTO, the agent commission included cash and 144,238 VOTI Detection Inc. compensation options. Each compensation option gives the holder the right to purchase one common share for $3.00 up to 24 months following November 13, 2018. These compensation options are recorded at fair value using the Black-Scholes option pricing model and were recorded as a reduction of share capital.

The assumptions used to estimate the fair value of the agent compensation options are as follows:

	January 31, 2019
Volatility	**53%**
Risk-free rate	**1.93%**
Expected life of options	**2 years**
Common share value at grant	**$2.54**
Exercise price	**$3.00**

17. Warrants

On November 13, 2018, and in connection with the Company's RTO transaction (see note 1), in addition to being converted into common shares of the Company, the subscription receipts described in note 6, and the convertible notes described in note 13, were converted into 1,540,596 and 429,166 warrants, respectively, giving the holders an option to purchase one common share for $4.50 up to 36 months following November 13, 2018.

(In Canadian dollars)

17. Warrants (continued)

These warrants are classified as financial liabilities at FVTPL since they are denominated in a currency other than the Company's functional currency. The fair value of the warrants was determined using the Black-Scholes option pricing model, which resulted in a fair value per warrant of $0.92. The fair value as at November 13, 2018 amounted to $1,812,090. The warrants were re-measured at fair value on January 31, 2019 resulting in a non-cash gain of $612,000.

The assumptions used to estimate the fair value of the warrants using the Black-Scholes option pricing model are as follows:

	January 31, 2019	November 13, 2018
Volatility	**77%**	**77%**
Risk-free rate	**1.93%**	**1.93%**
Expected life of options	**2.8 years**	**3 years**
Common share value at grant	**$2.05**	**$2.54**
Exercise price	**$4.50**	**$4.50**

The changes to the warrants balance during the period is as follows:

	$
Balance, November 13, 2018	1,812,090
Change in fair value of warrants	(612,000)
Cumulative translation adjustment	(4,000)
Balance, January 31, 2019	1,196,090

18. Share-based payments

On August 22, 2018, in contemplation of the going public transaction described in note 1, the Board of Directors approved that all outstanding stock options be accelerated and exercised on a share appreciation basis for common shares of VOTI Inc. 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 remaining life of the options in the fourth quarter of 2018. Pursuant to the terms of the Amalgamation Agreement described in note 1, immediately prior to the completion of the RTO on November 13, 2018, all of VOTI Inc.'s outstanding stock options were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc. Following the completion of the Reverse acquisition of Steamsand, all of VOTI Inc.'s stock option plans were terminated.

(In Canadian dollars)

18. Share-based payments (continued)

Options granted under 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 three-month period ended January 31, 2018, the Company granted 1,143,404 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 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:

	January 31, 2019	January 31, 2018
Volatility	**n/a**	144%
Risk-free interest rate	**n/a**	1.70%
Dividend yield	**n/a**	nil
Expected life of option	**n/a**	7 years

The weighted average fair value of options granted during the three-month period ended January 31, 2019 was nil ($0.55 in 2018).

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

	January 31, 2019			January 31, 2018
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**3,782,315**	**0.54**	1,716,004	0.61
Granted	**-**	**-**	1,143,404	0.61
Exercised	**(3,782,315)**	**0.54**	—	—
Outstanding, end of period	**-**	**-**	2,859,408	0.61
Exercisable, end of period	**-**	**-**	652,521	0.61
Weighted average remaining contractual life (years)				6.49

(In Canadian dollars)

18. Share-based payments (continued)

***Options granted under stock option plan* (continued)**

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 $236,264 was recorded for the three-month period ended January 31, 2019 ($193,880 in 2018) for options granted under stock option plan.

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 three-month periods ended January 31, 2019 and 2018, no options were granted outside the stock option plan.

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

		January 31, 2019		January 31, 2018
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**892,298**	**0.61**	835,298	0.61
Granted	**—**	**0.61**	—	—
Exercised	**(892,298)**	**0.61**	—	—
Outstanding, end of year	**—**	**—**	835,298	0.61
Exercisable, end of year	**—**	**—**	835,298	0.61
Weighted average remaining contractual life (years)		**—**		4.87

Share-based compensation expense of nil was recorded for the three-month periods ended January 31, 2019 and 2018.

The result of exercising all of VOTI Inc.'s stock options on November 13, 2018 increased share capital by $6,017,302.

Stock Option Plan

On November 13, 2018, the Company 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.

(In Canadian dollars)

18. Share-based payments (continued)

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.

During the first quarter of 2019, the Company 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.

The Company applies the fair value method of accounting for share-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:

	January 31, 2019
Volatility	78%
Risk-free rate	1.93%
Dividend yield	-
Expected life of option	5 years

The weighted average fair value of options granted during the three-month period ended January 31, 2019 was $1.91 (nil in 2018).

Share-based compensation expense of $340,267 was recorded for the three-month period ended January 31, 2019 (nil in 2018).

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

	January 31, 2019	
	Number of options	Weighted average exercise price
		$
Outstanding, beginning of year	—	—
Granted	1,960,000	2.99
Outstanding, end of period	1,960,000	2.99
Exercisable, end of period	—	—
Weighted average remaining contractual life (in years)		7.9

(In Canadian dollars)

19. Revenue

	January 31, 2019	January 31, 2018
	$	$
Products	6,459,460	7,968,617
After sales services and extended warranty	337,968	431,346
	6,797,428	8,399,963

20. 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.

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

	January 31, 2019	January 31, 2018
	%	%
Asia-Pacific	26%	85%
Europe, Middle East, and Africa	7%	12%
United States	57%	1%
Canada	8%	2%
Other	2%	-%
	100%	100%

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

	January 31, 2019	October 31, 2018
	$	$
Canada	1,391,336	696,159
Malaysia	70,254	73,952
United Arab Emirates	27,513	20,602
	1,489,103	790,713

21. Comparative information

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