Consolidated financial statements of

VOTI Detection Inc.

(formerly Steamsand Capital Corp.)

October 31, 2019 and 2018

Deloitte.

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Independent Auditor's Report

To the Shareholders of VOTI Detection Inc.

Opinion

We have audited the consolidated financial statements of VOTI Detection Inc. (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in total equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis;
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Angelo Bracaglia.

/s/ Deloitte LLP [1]

February 19, 2020

[1] CPA auditor, CA, public accountancy permit No. A109522

VOTI Detection Inc.

Consolidated statements of financial position

As at October 31, 2019 and 2018

(In Canadian dollars)

	Notes	October 31 2019	October 31 2018
		$	$
Assets			
Current assets			
Cash		**1,941,507**	643,067
Restricted cash	6	**-**	9,242,973
Short-term investments		**48,684**	15,000
Trade and other receivables	7	**7,713,621**	2,228,594
Research and development tax credits receivable	8	**372,282**	719,780
Inventories	9	**7,941,110**	7,267,017
Prepaid expenses and deposits		**894,119**	1,101,305
Capitalized listing fee expenses	10	**-**	924,190
Total current assets		**18,911,323**	22,141,926
Non-current assets			
Property and equipment	11	**844,190**	366,008
Intangible assets	12	**3,396,868**	424,705
Total non-current assets		**4,241,058**	790,713
Total assets		**23,152,381**	22,932,639
Liabilities			
Current liabilities			
Bank indebtedness	14	**330,000**	1,860,000
Trade payables and accrued liabilities	13	**5,284,374**	6,673,475
Subscription receipts held for investors	6	**-**	9,242,973
Customer deposits		**154,523**	194,098
Deferred revenue		**734,290**	290,476
Shareholder loans	16	**-**	2,020,734
Term debt	17	**253,000**	550,000
Total current liabilities		**6,756,187**	20,831,756
Non-current liabilities			
Deferred revenue		**1,766,275**	-
Convertible notes	15	**-**	2,575,000
Warrants	20	**500,294**	-
Long-term debt	18	**2,650,000**	-
Total liabilities		**11,672,756**	23,406,756
Shareholders' equity (deficit)			
Share capital	19	**38,331,761**	18,616,079
Stock option reserve	21	**2,434,710**	5,781,038
Warrants reserve	20	**-**	90,298
Deficit		**(28,906,268)**	(24,701,919)
Cumulative translation adjustment		**(380,578)**	(259,613)
Total shareholders' equity (deficit)		**11,479,625**	(474,117)
Total liabilities and shareholders' equity (deficit)		**23,152,381**	22,932,639

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

Approved by the Board

(s) Neil Hindle, Director

(s) Rory Olson, Director

VOTI Detection Inc.

Consolidated statements of loss and comprehensive loss

Years ended October 31, 2019 and 2018

(In Canadian dollars)

	Notes	2019	2018
		$	$
Revenue	22	**28,427,023**	**23,006,852**
Cost of sales	24	**(18,229,997)**	(15,642,806)
Gross profit		**10,197,026**	7,364,046
Expenses			
General and administrative	24	**4,810,621**	3,437,247
Selling and distribution	24	**5,912,998**	3,587,838
Research and development	8	**646,363**	1,160,426
Financial expenses, net	25	**955,297**	689,699
Change in fair value of warrants	20	**(1,315,231)**	-
Reverse acquisition of Steamsand	4,5	**964,038**	-
Share-based payments	21	**2,517,587**	2,176,360
		14,491,673	11,051,570
Net loss		**(4,294,647)**	(3,687,524)
Other comprehensive income (loss)			
Foreign currency translation adjustment		**(120,965)**	47,708
Comprehensive loss		**(4,415,612)**	(3,639,816)
Basic and diluted net loss per share	26	**(0.18)**	(0.24)

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

VOTI Detection Inc.

Consolidated statements of changes in total equity (deficit)

As at October 31, 2019 and 2018

(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		-	-	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)**
Cancelled outstanding warrants	20	-	-	-	(90,298)	-	90,298	-
Accelerated vesting of share-based payments	21	-	-	236,264	-	-	-	236,264
Exercising of stock options	21	3,542,157	6,017,302	(6,017,302)	-	-	-	-
Issue of common shares under private placement	19	3,080,991	7,825,717	-	-	-	-	7,825,717
Conversion of convertible notes	15	858,332	2,180,163	-	-	-	-	2,180,163
Effect of the reverse acquisition of Steamsand	19	388,767	987,468	-	-	-	-	987,468
Issue of common shares from offering	19	3,077,902	5,386,329	-	-	-	-	5,386,329
Share issuance costs	19	-	(2,527,910)	-	-	-	-	(2,527,910)
Options granted to agents	21	-	(153,387)	153,387	-	-	-	-
Share-based payments expense	21	-	-	2,281,323	-	-	-	2,281,323
Other comprehensive loss for the period		-	-	-	-	(120,965)	-	(120,965)
Net loss for the period		-	-	-	-	-	(4,294,647)	(4,294,647)
Balance, October 31, 2019		**26,572,657**	**38,331,761**	**2,434,710**	**-**	**(380,578)**	**(28,906,268)**	**11,479,625**

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

VOTI Detection Inc.
Consolidated statements of cash flows
Years ended October 31, 2019 and 2018
(In Canadian dollars)

	Notes	2019	2018
		$	$
Operating activities			
Net loss for the year		**(4,294,647)**	(3,687,524)
Adjustments for:			
Depreciation of property and equipment	11	**252,387**	76,921
Amortization of intangible assets	12	**65,676**	7,444
Interest expense and bank charges		**1,009,521**	460,476
Change in fair value of warrants	20	**(1,315,231)**	—
Net foreign exchange (gain) loss	25	**(54,224)**	229,223
Share-based payments	21	**2,517,587**	2,176,360
Reverse acquisition of Steamsand	5	**964,038**	—
Net change in non-cash working capital items			
Trade and other receivables		**(5,518,711)**	835,961
Research and development tax credits receivable		**347,498**	(298,480)
Inventories		**(674,093)**	(2,508,157)
Prepaid expenses and deposits		**207,186**	(878,310)
Capitalized listing fee expenses		**924,190**	(924,190)
Trade payables and accrued liabilities		**(1,389,101)**	3,032,866
Customer deposits		**(39,575)**	(3,079,619)
Deferred revenue		**1,743,871**	87,111
		(5,253,628)	(4,469,918)
Investing activities			
Additions to property and equipment	11	**(710,228)**	(290,190)
Additions to intangible assets	12	**(3,065,030)**	(422,824)
		(3,775,258)	(713,014)
Financing activities			
Subscription receipts held for investors		**—**	9,242,973
Changes in bank indebtedness	14	**(1,530,000)**	1,230,152
Proceeds from term debt	17	**253,000**	550,000
Proceeds from long-term debt	18	**2,650,000**	—
Repayment of advance from shareholder	16	**(2,020,734)**	—
Interest expense and bank charges paid	25	**(543,303)**	(460,476)
Repayment of obligation under finance leases		**—**	(10,554)
Consideration received from Steamsand	4	**328,000**	—
Shareholder loans		**—**	1,979,695
Proceeds from convertible notes		**—**	2,575,000
Repayment of term debt	17	**(550,000)**	(600,000)
Consideration received from issuance of shares	19	**5,386,329**	—
Share issuance costs	19	**(2,832,480)**	—
		1,140,812	14,506,790
Net (decrease) increase during the period		**(7,888,074)**	9,323,858
Net effect of foreign exchange rate changes on cash		**(56,459)**	(152,673)
Cash and restricted cash, beginning of year		**9,886,040**	714,855
Cash and restricted cash, end of year		**1,941,507**	9,886,040

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

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 the development, manufacturing and selling of X-ray security systems for critical infrastructures, as well as ports, borders, military and transportation facilities.

On November 8, 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 21 were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc.;
- VOTI Inc. cancelled all outstanding warrants described in Note 20;
- 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 Inc. 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 15 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 19, 20 and 21). The former security holders of VOTI Inc. along with new subscription receipt holders owned at the date of the RTO 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 annual 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 those of VOTI Inc. For simplicity, transactions undertaken by VOTI Inc. are referred to as being undertaken by the Company in these annual consolidated financial statements.

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

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.

The Board of Directors approved these annual consolidated financial statements of the Company and authorized their issuance on February 19, 2020.

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.

Basis of consolidation

The Company consolidates all controlled subsidiaries. The consolidated financial statements include the accounts of VOTI Detection Inc. and its 100% owned subsidiaries VOTI Inc., 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 information of the subsidiaries is 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 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.

2. Significant accounting policies (continued)

Functional and presentation 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 the 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

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.

Revenue from sales of extended warranty is recognized on a straight-line basis over the term of the extended warranty.

The Company determines that a financing component is significant and accounts for it accordingly when a payment by a customer occurs 12 months or more before the performance obligation is satisfied by the Company, and/or in instances whereby there is a significant difference between the amount of contract consideration paid in advance and the amount that would otherwise be paid in cash upon the satisfaction of the performance obligation.

Accordingly, the Company determined that a significant financing component exists for certain extended warranty contracts, where payment is made ahead of satisfying the performance obligation. The transaction consideration of such contracts is adjusted to reflect the time value of money using the rate that would be reflected in a separate financing transaction between the Company and its customers at contract inception, resulting in the increase of the transaction price by the corresponding interest expense related to the significant financing component over the term of the contract.

Cash

The cash item includes cash on hand and short-term investments, if any, with maturities upon acquisition of 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.

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 ("FIFO") 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	Term of the lease

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 are 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 recorded as research and development in the period in which they are incurred. Amortization of an internally-generated intangible asset commences when it becomes available for use, at which point it is amortized over its expected useful life, which ranges 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, the cost of the asset acquired or intangible asset developed. 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 as a liability 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, 2019 and 2018, 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, Deferred Share Units ("DSUs") and Restricted Share Units ("RSUs") 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 21. 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 is 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 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 include no dilution and are 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 are 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, 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

a) Recognition and initial measurement

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL"), are measured at fair value plus or minus transaction costs on initial recognition. Financial assets and financial liabilities at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

b) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, i.e., to realize the assets and settle the liabilities simultaneously.

c) Financial instrument classification

Financial assets at amortized cost

Cash, restricted cash, short-term investments, trade and other receivables, research and development tax credits receivable, prepaid expenses and deposits are classified as financial assets at amortized cost and are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest method.

Financial liabilities at amortized cost

Aside for warrants, all financial liabilities are classified as financial liabilities at amortized cost. Subsequent to initial recognition, these liabilities are carried at amortized cost, using the effective interest method.

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.

2. Significant accounting policies (continued)

d) Impairment of financial assets

On initial recognition and at each reporting date, the Company estimates expected credit losses for financial assets at amortized cost. For trade receivables, the Company has applied the simplified approach under IFRS 9 to measure the loss allowance at lifetime of the expected credit loss. The Company determines the expected credit losses on these items as the product of the probability of default, exposure at default and loss given default over the expected life. The Company considers the historical credit loss experience based on the past due status of the debtors, adjusted to reflect receivable-specific factors and an assessment of general economic conditions at the reporting date, including the time value of money, if applicable. The net change in expected credit losses on financial assets at amortized cost is recognized in profit or loss.

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.

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets. 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.

e) 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.

f) De-recognition of financial liabilities

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

2. Significant accounting policies (continued)

Implementation of new significant accounting policies

IFRS 9, *Financial Instruments*

On November 1, 2018, the Company adopted IFRS 9, *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards, which applies to fiscal years beginning on or after January 1, 2018. The Company has retrospectively applied IFRS 9, recognizing the cumulative effect of initial application at the date of initial application, which was nominal, and resulted in no restatement of comparative figures.

Financial instrument classification

The adoption of IFRS 9 changes the Company's financial instrument classification accounting policies. The Company has not applied the requirements to instruments that have already been derecognized as at November 1, 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Company reviewed and assessed the existing financial assets as at November 1, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 had the following impact on the Company's financial assets with regards to their classification and measurement:

- Cash and trade accounts and other receivables, which had been classified as loans and receivables before IFRS 9 adoption, are now classified and subsequently measured at amortized cost; and
- Bank indebtedness, accounts payable and accrued liabilities and long-term debt, which had been classified as other financial liabilities before IFRS 9 adoption, are now classified and subsequently measured at amortized cost.

Impairment of financial assets

The adoption of IFRS 9 changes the method used to calculate trade accounts and other receivables impairment.

According to IFRS 9, the impairment of financial assets is determined using an expected credit loss model. Prior to the adoption of this standard, the financial asset impairment had been based on an incurred loss model that required a loss event to occur before a credit loss was measured.

The adoption of the IFRS 9 standard did not have a significant impact on the impairment of trade accounts and other receivables.

Impact of application of IFRS 9 on financial performance

The adoption of IFRS 9 did not significantly impact the Company's financial statements for the year ended October 31, 2019.

2. Significant accounting policies (continued)

IFRS 15, Revenue from Contracts with Customers

On November 1, 2018, the Company adopted 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 core principle of IFRS 15 is to recognize revenue when a customer obtains control of the goods or services, in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 establishes a comprehensive framework, based on a 5-Step Analysis Model, to determine how much and when revenue should be recognized:

STEP 1 – Identify the Contract with the Customer

STEP 2 – Identify the Performance Obligations in the Contract

STEP 3 – Determine the Transaction Price

STEP 4 – Allocate the Transaction Price to the Performance Obligations in the Contract

STEP 5 – Recognize Revenue when (or as) the Entity Satisfies a Performance Obligation

The standard also expands current disclosure requirements.

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, or retrospectively with the cumulative effect of applying IFRS 15 recognized at the date of initial application.

The Company adopted this standard on a retrospective basis which resulted in no significant adjustment to the opening retained earnings as at November 1, 2018.

Standards, interpretations and amendments issued but not yet effective

IFRS 16, *Leases*, 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 is effective for annual periods beginning on or after January 1, 2019 and as such will be adopted by the Company on November 1, 2019. 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.

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

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, DSUs, RSUs 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 honour 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.

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*.

Expected credit loss

In accordance with the guidance of IFRS 9, *Financial Instruments,* Management estimates exposures related to the Company's trade receivable balances and determines whether impairment allowance is required for each individual balance, based on the respective stand-alone customer credit risk.
In its assessment, management uses quantitative criteria and experienced credit risk judgement in identifying whether a new significant risk has risen and if an identified one has increased from previous assessment.

(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 consolidated 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.:

	2019	2018
	$	$
Consideration transferred to Steamsand in excess of net assets acquired (note 4)	**659,468**	n/a
Transaction costs (note 19)	**304,570**	n/a
	964,038	n/a

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 19 and 20). The RTO was completed on November 13, 2018 (see Note 1).

(In Canadian dollars)

7. Trade and other receivables

	2019	2018
	$	$
Trade receivables	**7,349,681**	1,890,694
Allowance for doubtful accounts	**166,263**	-
	7,183,418	1,890,694
Sales tax receivable	**530,203**	337,900
	7,713,621	2,228,594

Trade receivables are generally on terms of 30 to 90 days and from time to time may be extended further.

8. Research and development tax credits receivable

The Company claims research and development tax credits relating to qualifying expenditures incurred. Research and development expenses are presented net of tax credits of $83,049 (2018 - $494,090). 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, 2019, research and development tax credits totalling $719,780 (2018 - $258,610) were received.

Development costs capitalized are net of $289,233 (2018 - $63,000) of tax credits relating to expenditures incurred during the year ended October 31, 2019.

9. Inventories

	2019	2018
	$	$
Raw materials	**5,004,750**	4,332,938
Work in process	**173,532**	344,073
Finished goods	**2,762,828**	2,590,006
	7,941,110	7,267,017

Inventories sold and recognized in cost of sales during the year ended October 31, 2019 were $18,229,997 (2018 - $15,642,806).

10. Capitalized listing fee expenses

Capitalized listing fee expenses include all capitalized costs associated with the RTO 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. Similar additional costs were incurred in November 2018 when the RTO closed on November 13, 2018. These costs were reclassified into share capital during the year ended October 31, 2019 (see note 19).

(In Canadian dollars)

11. Property and equipment

	Office furniture and equipment	Computer equipment	Demon-stration equipment	Leasehold improve-ments	Total
	$	$	$	$	$
Gross carrying amount					
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**
Additions	**188,852**	**166,564**	**149,222**	**205,590**	**710,228**
Disposals	**—**	**—**	**—**	**—**	**—**
Cumulative translation adjustment	**1,353**	**(769)**	**(1,332)**	**18,072**	**17,324**
Balance as at October 31, 2019	**423,247**	**305,816**	**257,966**	**334,389**	**1,321,418**
Accumulated depreciation					
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**
Depreciation	**52,928**	**91,593**	**80,701**	**27,165**	**252,387**
Disposals	**—**	**—**	**—**	**—**	**—**
Cumulative translation adjustment	**(913)**	**(537)**	**(1,311)**	**(256)**	**(3,017)**
Balance as at October 31, 2019	**154,426**	**139,890**	**154,159**	**28,753**	**477,228**
Net book value					
As at October 31, 2018	130,631	91,187	35,307	108,883	366,008
As at October 31, 2019	**268,821**	**165,926**	**103,807**	**305,636**	**844,190**

(In Canadian dollars)

12. Intangible assets

	Patents	Software	Intellectual property	Development costs	Total
	$	$	$	$	$
Gross carrying amount					
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**
Additions*	**150,296**	**165,901**	**4,043**	**2,744,790**	**3,065,030**
Cumulative translation adjustment	**(1,042)**	**(940)**	**226**	**(21,008)**	**(22,764)**
Balance as at October 31, 2019	**166,290**	**208,242**	**108,418**	**3,090,334**	**3,573,284**
Accumulated amortization					
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**
Amortization	**10,424**	**23,224**	**3,745**	**28,283**	**65,676**
Cumulative translation adjustment	**(98)**	**4,269**	**524**	**(268)**	**4,427**
Balance as at October 31, 2019	**10,326**	**29,657**	**108,418**	**28,015**	**176,416**
Net book value					
As at October 31, 2018	17,036	41,117	—	366,552	424,705
As at October 31, 2019	**155,964**	**178,585**	**—**	**3,062,319**	**3,396,868**

*Additions to development costs are net of research and development tax credits receivable in the amount of $289,233 (2018 - $63,000).

13. Trade payables and accrued liabilities

	2019	2018
	$	$
Trade accounts payable and accrued liabilities	**4,401,635**	5,786,733
Wages and bonuses payable	**668,393**	598,802
Deferred rent charges	**66,144**	59,165
Warranty provision	**148,202**	217,568
	5,284,374	6,662,268

14. Bank indebtedness

On June 25, 2019, the Company amended its existing credit facility. The Company has an available revolving demand facility of $2,500,000 based on eligible accounts receivable and inventory. Amounts drawn under this facility bear interest at 1.5% above the bank's prime rate and are repayable on demand.

The above facility is secured by the following:

(a) A deed of moveable hypothec representing all present and future obligations in the amount of $3,100,000, 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;

(c) Aggregate borrowings outstanding under the current facility are guaranteed by Export Development Canada up to 65%, 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 $670,000 by way of letters of guarantee denominated in Canadian or U.S. currency which is repayable on demand. The facility is secured by performance security guarantees issued by Export Development Canada for each letter of guarantee issued.

As at October 31, 2019, an amount of $330,000 (October 31, 2018 - $1,860,000) was drawn under the credit facility and there were letters of guarantee denominated in U.S. dollars totaling $678,631 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 to be measured on an annual basis. As at October 31, 2019, all covenants were respected. The revolving demand facility will decrease to $500,000 on March 31, 2020.

15. Convertible notes

On April 30, 2018, the Company issued $2,275,000 of convertible notes bearing interest at a rate of 12% per annum and maturing on April 30, 2021, of which $150,000 were issued to Directors and $2,125,000 to other existing shareholders. The Company issued an additional $300,000 of convertible notes to existing shareholders in July 2018. In the event that the Company proceeded to effect a reverse takeover prior to December 31, 2018, these notes were 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.

On November 13, 2018, and in connection with the Company's RTO transaction, 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 amounts of $2,180,163 and $394,833, respectively. The fair value of the warrants was determined using the Black-Scholes option pricing model, as described in note 20.

16. Shareholder loans

During 2018, the Company received loans from a shareholder in the amount of $1,979,695 ($2,020,734 including accrued interest). The terms of the loan included 12% interest per annum, a placement fee of 1.5% and was repayable on demand. The loan was repaid during the first quarter of 2019.

17. 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.

On August 2, 2019, the Company entered into a credit facility agreement with Investissement Quebec ("IQ") for a term loan of up to $336,840, to be used specifically to finance the refundable tax credits for experimental scientific research and development for the Company’s 2019 fiscal year.

The term loan bears interest at 2.55% and is secured by a senior-ranking hypothec on the Company’s research and development tax credits receivable and other assets totaling $404,000, with the addition of an irrevocable letter of credit in the amount of $33,684, representing 10% of the credit facility amount.

The term loan is repayable on the earliest of the following dates:

(a) the date the Company files its income tax return, if the refundable tax credits receivable is deducted from the income tax payable at that time;

(b) the date the Company is required to file its income tax return, if it has not actually filed its return;

(c) the date a refund is received; or

(d) April 30, 2021.

As at October 31, 2019 the Company has borrowed an amount of $253,000 under this facility.

18. Long-term debt

On January 8, 2019 and as amended subsequently, the Company entered into a $7,500,000 revolving long-term debt facility with Espresso Capital Ltd. which matures on June 30, 2022. Based on the terms of the agreement, the authorized credit limit is determined based on the Company’s average monthly gross margin for the preceding twelve months, multiplied by 7.5, less any debt in priority and any borrowings already made on this facility.

Accordingly, as at October 31, 2019, the Company’s authorized credit limit is $3,873,000 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 movable hypothec on the universality of the Company’s movable property, subject to a first ranking security interest held by the creditor of the Company’s bank indebtedness as described in Note 14.

The amount outstanding as at October 31, 2019 was $2,650,000.

The Company must respect certain covenants and financial ratios associated with the facility, including a debt to market capitalization ratio of no more than 15%. As at October 31, 2019, all covenants were respected.

On January 17, 2020 the Company drew an additional amount of $1,000,000 under this facility, to be repaid on April 30, 2020. As part of this additional draw, the covenant of debt to market capitalization ratio was amended to no more than 20%, until repayment of the additional draw.

(In Canadian dollars)

19. Share capital

	Number of shares	Share capital
		$
Balance as at October 31, 2018 and 2017	**15,624,508**	**18,616,079**
Exercising of stock options	**3,542,157**	**6,017,302**
Shares issued under private placement	**3,080,991**	**7,825,717**
Shares issued from public offering	**3,077,902**	**5,386,329**
Conversion of convertible notes	**858,332**	**2,180,163**
Effect of the reverse acquisition of Steamsand	**388,767**	**987,468**
Share issuance costs	**—**	**(2,527,910)**
Options granted to agents	**—**	**(153,387)**
Balance as at October 31, 2019	**26,572,657**	**38,331,761**

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, the following occurred:

- All of VOTI Inc.'s outstanding stock options described in Note 21 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 Inc. 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 15 were converted into 858,332 VOTI Detection Inc. common shares and 429,166 VOTI Detection Inc. warrants (note 20);
- 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;
- 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 (note 20);
- 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 net of issuance costs described 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 resulting in a fair value per common share and one half warrant of $2.54 and $0.46, respectively.

(In Canadian dollars)

19. Share capital (continued)

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 a fair value of $90,870 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:

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

Share issuance costs of $1,725,897 were recorded within the Company's share capital in connection with the RTO.

On October 10, 2019, the Company issued 3,077,902 common shares through a marketed offering to the public at $1.75 per share, totalling gross proceeds of $5,386,329. Share issuance costs included $802,013 plus 88,427 agent compensation options and were recorded as a reduction of the Company's share capital. The costs include professional legal fees, professional accounting fees, consulting fees, and regulatory fees, all of which were incremental costs relating to issuing new shares.

Each compensation option gives the holder the right to purchase one common share for $1.75 up to 24 months following October 10, 2019. These compensation options are recorded at a fair value of $62,517 using the Back-Scholes option pricing model and were recorded as a reduction of share capital.

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

Volatility	73%
Risk-free rate	1.57%
Expected life of options	2 years
Common share value at grant	$1.75
Exercise price	$1.75

20. Warrants

On November 13, 2018, and in connection with the Company's RTO, the subscription receipts described in Note 6, and the convertible notes described in Note 15, in addition to being converted into common shares of the Company, were converted into 1,540,496 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. 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 October 31, 2019, resulting in a non-cash gain of $1,315,231 for the year ended October 31, 2019.

(In Canadian dollars)

20. Warrants (continued)

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

	October 31, 2019	November 13, 2018
Volatility	73%	77%
Risk-free rate	1.57%	1.93%
Expected life of warrant	2 years	3 years
Common share value	$1.70	$2.54
Exercise price	$4.50	$4.50

The changes to the warrants balance during the year are as follows:

	Number of Warrants	$
Balance as at October 31, 2018	**5,212**	**90,298**
Cancellation of outstanding warrants	**(5,212)**	**(90,298)**
Warrants issued to subscription receipt holders	**1,540,496**	**1,417,257**
Warrants issued to convertible notes holders	**429,166**	**394,833**
Change in fair value of warrants	**-**	**(1,315,231)**
Cumulative translation adjustment	**-**	**3,435**
Balance as at October 31, 2019	**1,969,662**	**500,294**

21. Share-based payments

Stock option plan (VOTI Inc.)

In December 2016, the Company established a new stock option plan, replacing the plan previously established. Under this plan, the recipients were awarded stock options to acquire common shares. The number of stock options and the exercise price were 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 was 25% of the number of common shares of the Company issued and outstanding at such time.

On August 22, 2018, in contemplation of a going public transaction, 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.

(In Canadian dollars)

21. Share-based payments (continued)

The share-based payments expense amounted to $236,264 (2018 - $1,511,302) following the acceleration of the vesting period of the stock options. Following the completion of the reverse acquisition of Steamsand, all of VOTI Inc.'s stock option plans were terminated.

Options granted under stock option plan

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.

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:

	2019	2018
Expected volatility	-	131%
Risk-free rate	-	1.59%
Dividend yield	-	nil
Expected life of option	-	3.8 years

The weighted average fair value of options granted during the year ended October 31, 2019 was nil (year ended October 31, 2018 - $0.94).

(In Canadian dollars)

21. Share-based payments (continued)

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

	2019		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	**-**	**-**	2,066,311	0.48
Forfeited/cancelled	**(3,782,315)**	**0.54**	—	—
Outstanding, end of year	**-**	**-**	3,782,315	0.54
Exercisable, end of year	**-**	**-**	1,117,625	0.61
Weighted average remaining contractual life (years)		**-**		5.66

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 year ended October 31, 2019 (year ended October 31, 2018 – $2,143,547) for options granted under stock option plan.

Options granted outside stock option plan

In addition, the Company granted 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, 2019, no options were granted outside the stock option plan (2018 - 57,000).

(In Canadian dollars)

21. Share-based payments (continued)

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

	2019		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	**-**	**-**	57,000	0.61
Forfeited/cancelled	**(892,298)**	**0.61**	—	—
Outstanding, end of year	**-**	**-**	892,298	0.61
Exercisable, end of year	**-**	**-**	892,298	0.61
Weighted average remaining contractual life (years)		**-**		4.5

Share-based compensation expense of nil was recorded for the year ended October 31, 2019 (year ended October 31, 2018 – $32,813).

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

Stock Options issued to agent

In connection with the RTO and the marketed offering to the public described in Note 19, the agent commissions included 232,665 VOTI Detection Inc. compensation options, which were recorded within share capital (see note 19).

Stock option plan

On November 13, 2018, the Company established a new Stock Option Plan (the "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.

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.

(In Canadian dollars)

21. Share-based payments (continued)

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 year ended October 31, 2019, the Company granted a total of 2,295,000 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 1,275,000 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 weighted average principal components of the pricing model for the year ended October 31, 2019 are as follows:

	2019	2018
Volatility	**78%**	n/a
Risk-free rate	**1.86%**	n/a
Dividend yield	**-**	n/a
Expected life of option (years)	**5**	n/a

The weighted average fair value of options granted during the year ended October 31, 2019 was $1.84 (2018 - nil).

Share-based payments expense of $1,934,770 was recorded for the year ended October 31, 2019.

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

	2019	
	Number of options	**Weighted average exercise price**
		$
Outstanding, beginning of year	**-**	**-**
Granted	**2,295,000**	**2.99**
Forfeited/cancelled	**(160,000)**	**2.99**
Outstanding, end of year	**2,135,000**	**2.99**
Exercisable, end of year	**-**	**-**
Weighted average remaining contractual life (years)		**7.15**

(In Canadian dollars)

21. Share-based payments (continued)

Deferred share unit plan

On November 13, 2018, the Board of Directors adopted, as amended on March 22, 2019, a Deferred Share Unit Plan (the "DSU Plan"), which was approved by the Company's shareholders on April 30, 2019.

The purpose of the DSU Plan is to assist the Company in the recruitment and retention of qualified persons to serve as Directors of the Company and to align the interests of eligible Directors with the long-term interests of the shareholders of the Company. A Deferred Share Unit ("DSU") is a notional unit credited by the Company to an eligible Director, to be exchanged for fully paid Common Shares or, at the option of the Company, for a cash payment equivalent to its fair market value when the eligible Director ceases to be a director of the Company. The Company intends to exchange the DSUs for fully paid Common Shares.

The aggregate maximum number of Common Shares available for issuance from treasury pursuant to any security-based compensation arrangements of the Company, including the DSU Plan and the RSU Plan and excluding any shares issuable under the Stock Option Plan, is 450,000.

On May 1, 2019, the Company granted 173,908 DSUs to its Directors, of which 43,492 vested immediately and the remaining 130,416 will vest in equal tranches at the end of each of the following six quarters, with the result that all DSUs granted will be fully vested on October 31, 2020.

The Company applies the fair value method of accounting for share-based compensation awards granted. Fair value is determined at the grant date and is valued at the share price on that date.

The weighted average fair value of DSUs granted during the year ended October 31, 2019 was $2.30.

Share-based payments expense of $295,264 was recorded for the year ended October 31, 2019.

The changes to the number of DSUs granted are as follows:

	2019
	Number of DSUs
Outstanding, beginning of year	**-**
Granted	**173,908**
Forfeited/cancelled	**-**
Outstanding, end of year	**173,908**
Vested, end of year	**86,964**
Weighted average remaining contractual life (years)	**1**

(In Canadian dollars)

21. Share-based payments (continued)

Restricted Share Unit Plan

On November 13, 2018, the Board of Directors adopted, as amended on March 22, 2019, a Restricted Share Unit Plan (the "RSU Plan"), which was approved by the Company's shareholders on April 30, 2019.

The purpose of the RSU Plan is to assist the Company in the motivation, attraction and retention of eligible employees, directors and consultants to advance the interests of the Company. RSUs granted to a Participant will entitle the Participant, subject to the satisfaction of any conditions attached to the grant, to receive a payment in fully paid Common Shares or, at the option of the Company, in cash on the date when the RSUs are fully vested. The Company intends to exchange the RSUs for fully paid Common Shares.

The aggregate maximum number of Common Shares available for issuance from treasury pursuant to any security-based compensation arrangements of the Company, including the RSU Plan and the DSU Plan and excluding any share issuable under the Stock Option Plan, is 450,000.

On June 14, 2019, the Company granted 53,504 RSUs to members of its advisory board. The units will vest in equal tranches at the end of each of the following eight quarters, with the result that all RSUs granted will be fully vested on April 30, 2021.

The Company applies the fair value method of accounting for share-based compensation awards granted. Fair value is determined at the grant date and is valued at the share price on that date.

The weighted average fair value of RSUs granted during the year ended October 31, 2019 was $2.35.

Share-based payments expense of $51,289 was recorded for the year ended October 31, 2019.

The changes to the number of RSUs granted are as follows:

	2019
	Number of RSUs
Outstanding, beginning of year	**-**
Granted	**53,504**
Forfeited/cancelled	**-**
Outstanding, end of year	**53,504**
Vested, end of year	**13,376**
Weighted average remaining contractual life (years)	**1.50**

(In Canadian dollars)

22. Revenue

	2019	2018
	$	$
Products	**26,603,898**	21,532,041
After sales services and extended warranty	**1,823,125**	1,474,811
	28,427,023	23,006,852

Management expects that 29% ($734,290) of deferred revenue as at October 31, 2019 will be recognized as revenue during the year ending October 31, 2020, while the remaining 71% ($1,766,275) will be recognized as follows:

	$
2022	**587,575**
2023	**547,779**
2024	**526,685**
2025	**104,236**
	1,766,275

23. Income taxes

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

	2019	2018
	$	$
Loss before income taxes	**(4,294,647)**	(3,687,524)
Combined Canadian federal and provincial tax rates	**26.60%**	26.70%
Income tax recovery at statutory rates	**(1,142,376)**	(984,569)
Increase resulting from		
Non-deductible expenses	**689,605**	569,915
Income tax losses not recognized for accounting purposes	**452,771**	414,654
Income tax recovery	**—**	—
Current	**—**	—
Deferred	**—**	—

(In Canadian dollars)

23. 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:

	2019	2018
	$	$
Intangibles	**(234,558)**	(383,231)
Fixed assets	**(590,713)**	7,601
Scientific research & experimental development expenditures	**2,877,687**	2,006,195
Finance leases	**-**	11,207
Canadian losses	**19,159,114**	16,656,310
Financing fees	**2,563,571**	119,918
Reserves	**380,608**	197,418
Income tax credits	**(372,282)**	(380,291)
Deferred revenue	**2,494,939**	241,458
	26,278,366	18,476,585

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	1,308,050	1,315,841
2039	2,111,880	2,111,880
	19,159,114	19,204,025

In addition, the Company has available unused research and development expenditures for income taxes purposes of $2,877,687. These expenses are available to reduce taxable income of future years.

As at October 31, 2019, a deferred income tax asset has not been recognized on losses, research and development expenditures and deductible temporary differences of $26,278,366 as the Company has assessed that it will not be able to use these assets in the foreseeable future. At each successive balance sheet date, the Company will re-assess if it is more likely than not that this asset meets the criteria for recognition.

(In Canadian dollars)

24. Expenses by nature

	2019	2018
	$	$
Included in cost of sales, general and administrative, selling and distribution and research and development expenses		
Depreciation of property and equipment	**252,387**	76,921
Amortization of intangible assets	**65,676**	7,444
Rent	**485,557**	559,439
Purchases	**16,219,716**	13,877,518
Employee benefits (excluding share-based payments)	**7,505,063**	5,792,378

25. Financial expenses (income)

	2019	2018
	$	$
Interest and bank charges	**543,303**	460,476
Foreign exchange (gain) loss	**(54,224)**	229,223
Significant financing component interest on extended warranties	**466,218**	-
	955,297	689,699

26. Loss per share

	2019	2018
	$	$
Loss attributable to common share holders for the year	**(4,294,647)**	(3,687,524)
Weighted average number of shares for basic and diluted EPS	**23,391,530**	15,624,508
Basic and diluted loss per share	**(0.18)**	(0.24)

A net loss was reported for the years ended October 31, 2019 and 2018 and therefore, 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, DSUs, RSUs, 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)

27. 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 amounts receivable and deposits from the potential default by counterparties. 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, short-term investments, trade and other receivables, research and development tax credits receivable and deposits.

The typical credit period on sales is between 30 and 90 days and from time to time may be extended further. Allowances for doubtful accounts are recognized against trade receivables based on estimated irrecoverable amounts determined using the expected credit loss model.

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

	2019	2018
	$	$
0-30 days	**3,776,347**	1,800,919
31-60 days	**351,694**	89,775
61-90 days	**2,623,309**	—
Over 91 days	**432,068**	—
	7,183,418	1,890,694

Concentration of credit risk

Three customers (five in 2018) represented approximately 72% of the trade accounts receivable balance as at October 31, 2019 (80% at October 31, 2018).

(In Canadian dollars)

27. Financial instruments and risk management strategies (continued)

Concentration of credit risk (continued)

	2019	2018
	%	%
Credit risk related to accounts receivable		
Customer A	**48**	-
Customer B	**13**	-
Customer C	**11**	-
Customer D	**-**	22
Customer E	**-**	19
Customer F	**-**	15
Customer G	**-**	14
Customer H	**-**	10

In addition, the Company generated 47% (47% in 2018) of its revenue from three customers (two in 2018) in the approximate amount of $14 million ($10.9 million in 2018) and broken down as follows:

	2019	2018
	%	%
Customer A	**22**	26
Customer B	**14**	-
Customer C	**11**	-
Customer D	**-**	21

(In Canadian dollars)

27. Financial instruments and risk management strategies (continued)

Liquidity risk

Liquidity risk is the risk that a company cannot meet 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, term-debt and long-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.

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

Year ended October 31, 2019:

	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years
	$	$	$	$
Bank indebtedness	330,000	330,000	330,000	
Trade payables and accrued liabilities	5,070,028	5,070,028	5,070,028	-
Term debt	253,000	253,000	253,000	-
Long-term debt	2,650,000	2,650,000	-	2,650,000
	8,303,028	8,303,028	5,653,028	2,650,000

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	6,614,310	6,614,310	6,614,310	—
Term debt	550,000	550,000	550,000	—
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	13,620,044	11,045,044	2,575,000

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 significant portion of its expenditures is also in that foreign currency.

27. Financial instruments and risk management strategies (continued)

Currency risk (continued)

The Company's cash, short-term investments, trade and other receivables, research and development tax credits receivable, trade payables and accrued liabilities, term debt, long-term debt and warrants liability are denominated in Canadian dollars, and are subject to foreign currency risk.

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	**39,080**
Short-term investments	**48,684**
Trade and other receivables	**1,116,098**
Research and development tax credits receivable	**372,282**
Trade payables and accrued liabilities	**(3,589,852)**
Bank indebtedness	**(330,000)**
Term debt	**(253,000)**
Warrants liability	**(500,294)**
Long-term debt	**(2,650,000)**
	(5,747,002)

In 2019, a variation of 10% of the Canadian dollar against the U.S. dollar would have an impact of approximately $574,700 ($967,000 in 2018) 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 also has term debt and long-term debt 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.

In 2019, a variation of 50 basis points while holding all other variables constant would have an impact of approximately $14,500 ($9,300 in 2018) on net 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, 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.

(In Canadian dollars)

27. Financial instruments and risk management strategies (continued)

Fair values (continued)

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.

The fair values of cash, restricted cash and bank indebtedness are measured as level 1.

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.

The fair values of short-term investments, trade and other receivables, research and development tax credits receivable, trade payables and accrued liabilities, term debt, warrants and long-term debt approximate their carrying values and as such are measured as level 2.

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.

Warrants are classified as financial liabilities at FVTPL since they are denominated in a currency other than the Company's functional currency, and accordingly are measured as level 3.

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 other significant price risk.

Management of capital

The Company's capital is as follows:

	2019	2018
	$	$
Bank indebtedness	**330,000**	1,860,000
Term debt	**253,000**	550,000
Shareholder loans	**-**	2,020,734
Convertible notes	**-**	2,575,000
Long-term debt	**2,650,000**	-
Shareholders' equity (deficit) (excluding accumulated other comprehensive loss)	**11,860,203**	(214,504)
	15,093,203	6,791,230

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 and creditors while providing adequate returns on investment.

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

(In Canadian dollars)

27. Financial instruments and risk management strategies (continued)

Management of capital (continued)

The Company currently funds these requirements from cash flows from operations as well as its financial resources, which include cash balance and credit facilities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable growth. Management forecasts sufficient cash flow to support the Company's operations for the following twelve months.

28. Commitments and contingencies

Short-term investments

Term deposits are related to security deposits made by the Company in the total amount of $48,684, and bear interest at 0.50% (year ended October 31, 2018 - 0.50%) per annum. According to the terms of the agreement, the maturity of the term deposits is automatically extended annually.

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 incurred $200,548 ($129,741 in 2018) in warranty costs.

This estimated provision is based on past experience and $148,202 ($217,568 in 2018) is included in trade payables and accrued liabilities on the consolidated statement of financial position (see note 13). The actual amount that the Company may have to incur 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:

	$
2020	339,446
2021	317,106
2022	252,036
2023	256,897
Thereafter	85,632
	1,251,117

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.

(In Canadian dollars)

29. Segment information

The Company has determined that it has only one reportable operating segment, the development and marketing of security screening X-ray 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:

	2019	2018
	%	%
Asia-Pacific	**36**	52
Europe, Middle East, and Africa	**9**	20
United States	**46**	13
Canada	**5**	6
Other	**4**	9
	100	100

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

	2019	2018
	$	$
Canada	**4,107,650**	696,159
Malaysia	**64,445**	73,952
United Arab Emirates	**68,963**	20,602
	4,241,058	790,713

30. 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 include 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:

	2019	2018
	$	$
Trade payables and accrued liabilities	**29,423**	131,914

(In Canadian dollars)

30. Transactions with related parties (continued)

Compensation of directors and key management personnel

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

	2019	2018
	$	$
Short-term benefits	**1,640,312**	2,046,306
Share-based payments	**2,003,729**	1,848,594

31. Events after the reporting period

Private placement

On November 15, 2019, the Company issued 171,429 common shares through a private placement, including 20,309 common shares being issued to a director of the Company. The common shares were issued at $1.75 per share for total gross proceeds of $300,000.

Stock option plan

On November 14, 2019, the Company granted 320,000 stock options under the Plan to its employees at an exercise price of $1.75 per share, of which 100,000 were granted to key management personnel.