

Interim condensed consolidated financial statements of

VOTI Detection Inc.

For the three-month periods ended January 31, 2020 and 2019
(Unaudited)

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VOTI Detection Inc.**Interim condensed consolidated statements of financial position**

As at January 31, 2020 and October 31, 2019 (Unaudited)

(In Canadian dollars)

	Notes	January 31 2020	October 31 2019
		\$	\$
Assets			
Current assets			
Cash		873,351	1,941,507
Short-term investments		48,684	48,684
Trade and other receivables	6	8,969,083	7,713,621
Research and development tax credits receivable		447,282	372,282
Inventories	7	10,157,198	7,941,110
Prepaid expenses and deposits		993,547	894,119
Total current assets		21,489,145	18,911,323
Non-current assets			
Property and equipment		822,431	844,190
Right of use assets	2,8	1,246,602	-
Intangible assets		4,196,998	3,396,868
Total non-current assets		6,266,031	4,241,058
Total assets		27,755,176	23,152,381
Liabilities			
Current liabilities			
Bank indebtedness	9	2,350,000	330,000
Trade payables and accrued liabilities		6,820,592	5,284,374
Current portion of lease liabilities	2,8	222,457	-
Customer deposits		104,575	154,523
Deferred revenue		770,990	734,290
Term debt	10	253,000	253,000
Current portion of long-term debt	11	1,000,000	-
Total current liabilities		11,521,614	6,756,187
Non-current liabilities			
Lease liabilities	2,8	1,024,147	-
Deferred revenue		1,863,865	1,766,275
Warrants	13	695,291	500,294
Long-term debt	11	2,650,000	2,650,000
Total liabilities		17,754,917	11,672,756
Shareholders' equity (deficit)			
Share capital	12	38,611,761	38,331,761
Stock option reserve		2,966,082	2,434,710
Deficit		(31,130,871)	(28,906,268)
Cumulative translation adjustment		(446,713)	(380,578)
Total shareholders' equity (deficit)		10,000,259	11,479,625
Total liabilities and shareholders' equity (deficit)		27,755,176	23,152,381

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

Approved by the Board

(s) Neil Hindle, Director

(s) Rory Olson, Director

VOTI Detection Inc.**Interim condensed consolidated statements of loss and comprehensive loss**

Three-month periods ended January 31, 2020 and 2019 (Unaudited)

(In Canadian dollars)

	Notes	2020	2019
		\$	\$
Revenue	15	6,042,016	6,797,428
Cost of sales	7	(4,136,817)	(4,440,246)
Gross profit		1,905,199	2,357,182
Expenses			
General and administrative		1,175,713	1,401,549
Selling and distribution		1,787,837	1,446,482
Research and development		187,148	88,842
Financial expenses, net	16	256,525	135,443
Change in fair value of warrants	13	191,207	(612,000)
Reverse acquisition of Steamsand	4,5	-	964,038
Share-based payments	14	531,372	576,531
		4,129,802	4,000,885
Net loss		(2,224,603)	(1,643,703)
Other comprehensive (loss) income			
Foreign currency translation adjustment		(66,135)	1,218
Comprehensive loss		(2,290,738)	(1,642,485)
Basic and diluted net loss per share	17	(0.08)	(0.07)

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

VOTI Detection Inc.
Interim condensed consolidated statements of changes in total equity (deficit)

Three-month periods ended January 31, 2020 and 2019 (Unaudited)

(In Canadian dollars)

Notes	Number of	Share	Stock option	Warrants	Cumulative	Deficit	Total equity
	common	capital	reserve	reserve	translation		(deficit)
	shares				adjustment		
		\$	\$	\$	\$	\$	\$
Balance, October 31, 2019	26,572,657	38,331,761	2,434,710	-	(380,578)	(28,906,268)	11,479,625
Issue of common shares under private placement	12 171,429	300,000	-	-	-	-	300,000
Share-based payments expense	14 -	-	531,372	-	-	-	531,372
Share issuance costs	12 -	(20,000)	-	-	-	-	(20,000)
Other comprehensive loss for the period	-	-	-	-	(66,135)	-	(66,135)
Net loss for the period	-	-	-	-	-	(2,224,603)	(2,224,603)
Balance, January 31, 2020	26,744,086	38,611,761	2,966,082	-	(446,713)	(31,130,871)	10,000,259
	Number of	Share	Stock option	Warrants	Cumulative	Deficit	Total equity
	common	capital	reserve	reserve	translation		(deficit)
	shares				adjustment		
		\$	\$	\$	\$	\$	\$
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	-	-	-	(90,298)	-	90,298	-
Accelerated vesting of share-based payments	-	-	236,264	-	-	-	236,264
Exercising of stock options	3,542,157	6,017,302	(6,017,302)	-	-	-	-
Issue of common shares under private placement	3,080,991	7,825,717	-	-	-	-	7,825,717
Conversion of convertible notes	858,332	2,180,163	-	-	-	-	2,180,163
Effect of the reverse acquisition of Steamsand	388,767	987,468	-	-	-	-	987,468
Share issuance costs	-	(1,725,897)	-	-	-	-	(1,725,897)
Options granted to agents	-	(90,870)	90,870	-	-	-	-
Share-based payments expense	-	-	340,267	-	-	-	340,267
Other comprehensive loss for the period	-	-	-	-	1,218	-	1,218
Net loss for the period	-	-	-	-	-	(1,643,703)	(1,643,703)
Balance, January 31, 2019	23,494,755	33,809,962	431,137	-	(258,395)	(26,255,324)	7,727,380

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

VOTI Detection Inc.**Interim condensed consolidated statements of cash flows**

Three-month periods ended January 31, 2020 and 2019 (Unaudited)

(In Canadian dollars)

	Notes	2020	2019
		\$	\$
Operating activities			
Net loss for the period		(2,224,603)	(1,643,703)
Adjustments for:			
Depreciation of property and equipment		65,767	33,196
Depreciation of right of use asset	2,8	69,752	
Amortization of intangible assets		30,827	2,451
Interest expense and bank charges		308,781	37,745
Change in fair value of warrants	13	191,207	(612,000)
Net foreign exchange (gain) loss	16	(52,256)	44,443
Share-based payments	14	531,372	576,531
Reverse acquisition of Steamsand	4,5	-	964,038
Net change in non-cash working capital items			
Trade and other receivables	6	(1,255,462)	(1,254,451)
Research and development tax credits receivable		(75,000)	51,360
Inventories	7	(2,216,088)	(8,773)
Prepaid expenses and deposits		(99,428)	(89,223)
Trade payables and accrued liabilities		1,536,218	(2,164,803)
Customer deposits		(49,948)	39,218
Deferred revenue		25,207	1,388,507
		(3,213,654)	(2,635,464)
Investing activities			
Additions to property and equipment		(64,822)	(67,873)
Additions to intangible assets		(839,933)	(671,950)
		(904,755)	(739,823)
Financing activities			
Changes in bank indebtedness	9	2,020,000	(1,860,000)
Proceeds from long-term debt	11	1,000,000	2,150,000
Repayment of shareholder loans		-	(2,020,734)
Interest expense and bank charges paid	16	(174,752)	(37,745)
Repayment of obligation under finance leases		-	2,894
Payment of lease liabilities	2,8	(94,620)	-
Consideration received from Steamsand	4	-	328,000
Repayment of term debt		-	(550,000)
Consideration received from issuance of shares	12	300,000	-
Share issuance costs	12	(20,000)	(2,030,467)
		3,030,628	(4,018,052)
Net (decrease) increase during the period		(1,087,781)	7,393,339
Net effect of foreign exchange rate changes on cash		19,625	(44,337)
Cash, beginning of period		1,941,507	9,886,040
Cash, end of period		873,351	2,448,364

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

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

1. Description of the business

VOTI Detection Inc. (the "Company") was 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.

The Company's common shares are traded on the TSX Venture Exchange under the symbol "VOTI" as of November 19, 2018.

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

2. Significant accounting policies

Statement of compliance

The Company's interim condensed consolidated financial statements for the three-month period ended January 31, 2020 have been prepared using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and in accordance with IAS 34, *Interim Financial Reporting*, and using the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended October 31, 2019, other than for the adoption of new accounting policies described herein.

The Board of Directors approved these interim condensed consolidated financial statements of the Company and authorized their issuance on March 23, 2020.

Basis of preparation and going concern assumption

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities as explained in the notes to the consolidated financial statements. Historical cost is based on the fair value of the consideration given in exchange for goods and services.

The preparation of financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. As at January 31, 2020, the Company had not yet achieved profitable operations and had a net loss for the period of \$2,224,603 and negative cash flows from operations of \$3,213,654. In addition, since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness.

The impact of COVID-19 on the markets and industries to which VOTI sells its products, including the transportation, travel and events & entertainment industries (including cruise line, aviation and public venues such as sporting venues) has been significant and is evolving. VOTI has not, to date, experienced any inability to fulfill customer orders. Measures have been taken to ensure the availability of components and we have sufficient components on hand to fulfill orders through the second quarter and into the third quarter. To the extent that our suppliers close or remain closed for an extended period of time, delays in delivery to customers could result with an adverse impact on financial performance and cash flow. In addition, we are closely monitoring the cross-border trade situation with the United States, and potentially other countries, and the impact this may have on the Company. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

2. Significant accounting policies (continued)

Due to this uncertainty, should significant supply chain issues occur, sales orders be canceled or not continue to materialize, or funding not be available, the Company may experience difficulty in meeting its obligations. In order to address this uncertainty, management has undertaken the following actions to ensure the continued operations of the Company:

- Reducing operating costs;
- Pursuing various avenues of financing, including debt and/or equity, as well as maintaining existing financing from current lenders;
- Pursuing government institutions for additional funding and relief in connection with COVID-19 related programs.

While no material adverse effect on operations or financial condition have been experienced to date, the Company continues to revise its plans with respect to its cash flow and financing. The Company believes that the continued ability to generate and fulfill customer orders, the cost reduction plans currently in place and successful funding initiatives, will provide sufficient cash flow for the Company to continue as a going concern in its present form. However, there can be no assurance that the Company will achieve such results. In the absence of raising additional funding or attaining sufficient revenues and/or sufficient operating cost reductions to achieve and sustain positive cash flows, there is substantial doubt regarding the Company's ability to continue as a going concern. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that might be necessary should the Company be unable to continue its operations.

Basis of consolidation

The Company consolidates all controlled subsidiaries. The interim condensed 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.

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

Translation to presentation currency

The interim condensed consolidated financial statements of the Company are translated from their functional currency to 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").

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

2. Significant accounting policies (continued)

Implementation of new significant accounting policies

IFRS 16, Leases

On November 1, 2019 the Company adopted IFRS 16, *Leases* ("IFRS 16"), which replaces IAS 17, *Leases* ("IAS 17").

IFRS 16 removes the distinction between finance and operating leases and introduces a single accounting model to recognize assets and liabilities for all leases with a term of more than 12 months.

Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Company applies IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether a lease existed. The Company has elected to not recognize right of use assets and lease liabilities that have a lease term of 12 months or less and leases of low-value assets.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right of use asset and lease liability is recognized at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company's incremental rate of borrowing is used. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Accordingly, as at November 1, 2019, lease liabilities are measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate. Right of use assets were measured at an amount equal to the lease liability. Management also applied judgement and previous experience when determining the lease term if the contract contained an option to extend or terminate the lease.

Upon implementing IFRS 16 on November 1, 2019, the Company recognized \$1,316,278 of lease liabilities, which equals to the amount of right of use assets recognized.

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.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

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

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of information were the same as those applied to the annual audited consolidated financial statements for the year ended October 31, 2019, other than the considerations described above under basis of preparation and going concern assumption.

4. Reverse acquisition of Steamsand by VOTI Inc.

Steamsand Capital Corp. ("Steamsand") acquired legal control of VOTI Inc. by way of a three-cornered amalgamation and subsequently changed its name to Voti Detection Inc.

Pursuant to the amalgamation, the shareholders of VOTI Inc. gained voting control of Steamsand and consequently, the transaction was accounted for as a reverse acquisition of Steamsand by VOTI Inc. As Steamsand did not meet the definition of a business, the transaction was accounted for as a reverse acquisition of net assets, in accordance with 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 was 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 resulted from the reverse acquisition, and was recorded as an increase in common shares in the consolidated statement of financial position.

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 was reflected as a non-cash reverse acquisition of Steamsand expense (Note 5) for the three-month period ending January 31, 2019 (2020 – nil) in the interim condensed 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.:

	<u>2019</u>
	\$
Consideration transferred to Steamsand in excess of net assets acquired (note 4)	659,468
Transaction costs	<u>304,570</u>
	<u>964,038</u>

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

6. Trade and other receivables

	2020	2019
	\$	\$
Trade receivables	8,575,009	7,349,681
Allowance for doubtful accounts	-	166,263
	8,575,009	7,183,418
Sales tax receivable	394,074	530,203
	8,969,083	7,713,621

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

7. Inventories

	January 31, 2020	October 31, 2019
	\$	\$
Raw materials	6,237,179	5,004,750
Work in process	-	173,532
Finished goods	3,920,019	2,762,828
	10,157,198	7,941,110

Inventories sold and recognized in cost of sales during the three-month period ended January 31, 2020 were \$4,136,817 (three-month period ended January 31, 2019 - \$4,440,246).

8. Leases

The Company's leases consist of a building and office space, and machinery and equipment.

Right of use assets

	Building and office space	Machinery and equipment	Total
	\$	\$	\$
Net carrying amount			
Balance as at November 1, 2019	1,244,681	71,597	1,316,278
Depreciation expense	(63,476)	(6,276)	(69,752)
Cumulative translation adjustment	71	5	76
Balance as at January 31, 2020	1,181,276	65,326	1,246,602

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

8. Leases (continued)**Amounts recognized in the interim condensed consolidated statements of loss and comprehensive loss**

Three months ended January 31,	2020
	\$
Interest on lease liabilities	24,946
Expenses related to short-term leases	20,137

Lease liabilities

Maturity schedule - contractual undiscounted cash flows	\$
Less than one year	402,896
One to three years	746,632
Four to five years	393,048
Total undiscounted lease liabilities	1,542,576

9. Bank indebtedness

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 and is secured by the following:

- 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;
- Insurance provided by Export Development Canada covering losses pertaining to specific accounts receivable;
- 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;
- 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 January 31, 2020, an amount of \$2,350,000 (October 31, 2019 - \$330,000) 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 January 31, 2020, all covenants were respected.

The revolving demand facility is due to decrease to \$500,000 on March 31, 2020 in accordance with the agreement, however the Company is currently in discussions with the bank in order to maintain the facility at the current amounts and similar terms. Based on these discussions, although the Company expects that the facility will be maintained at the current amount, as at the date of the issuance of these financial statements, no agreement has been reached nor is there any assurance the Company will be successful in maintaining the facility at the current amounts.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

10. Term debt

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% above the bank prime rate 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 January 31, 2020 the Company has borrowed an amount of \$253,000 under this facility.

11. Long-term debt

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 January 31, 2020, the Company's authorized credit limit is \$3,740,000 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 9.

The amount outstanding as at January 31, 2020 was \$3,650,000, of which an amount of \$1,000,000 is payable on April 30, 2020.

The Company must respect certain covenants and financial ratios associated with the facility, including a debt to market capitalization ratio of no more than 20% and reducing to no more than 15% following the repayment on April 30, 2020. As at January 31, 2020, all covenants were respected.

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

12. Share capital

	Number of shares	Share capital
		\$
Balance as at October 31, 2019	26,572,657	38,331,761
Shares issued under private placement	171,429	300,000
Share issuance costs	—	(20,000)
Balance as at January 31, 2020	26,744,086	38,611,761

The Company is authorized to issue an unlimited number of voting and participating common shares.

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. Share issuance costs of \$20,000 were recorded within the Company's share capital.

13. Warrants

On November 13, 2018, in conjunction with its reverse takeover transaction, the Company issued 1,969,662 warrants, providing their 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 fair value through profit or loss ("FVTPL"), since they are denominated in a currency other than the Company's functional currency, and are re-measured at the end of each reporting period using the Black-Scholes option pricing model.

Accordingly, the fair value of \$0.353 per warrant, as was re-measured at January 31, 2020, resulted in a non-cash loss of \$191,207 for the three-month period ended January 31, 2020.

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

	January 31, 2020	October 31, 2019
Volatility	81%	73%
Risk-free rate	1.47%	1.57%
Expected life of warrant	1.75 years	2 years
Common share value	\$1.90	\$1.70
Exercise price	\$4.50	\$4.50

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

13. Warrants (continued)

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

	Number of Warrants	\$
Balance as at October 31, 2019	1,969,662	500,294
Change in fair value of warrants	-	191,207
Cumulative translation adjustment	-	3,790
Balance as at January 31, 2020	1,969,662	695,291

14. Share-based payments***Stock option plan***

On November 13, 2018, the Company established a new Stock Option Plan (the "Plan") for purposes of advancing the interests of VOTI Detection Inc. and its shareholders by incentivizing the Company's directors, officers, employees and consultants to strive for continued and improved services and reward excellent performance.

Under this Plan, which is administered by the Company's Board of Directors, the recipients are awarded stock options to acquire common shares. The aggregate number of options reserved for issuance under the Plan shall be 10% of the issued and outstanding Common Shares at any time.

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

During the three-month period ended January 31, 2020, the Company granted a total of 320,000 stock options to employees of the Company at an exercise price of \$1.75 per share and expiring eight years after the grant date, of which 100,000 were granted to key management personnel.

The Company applies the fair value method of accounting for share-based compensation awards granted. Fair value is calculated based on a Black-Scholes option pricing model. The principal components of the pricing model for the three-months period ended January 31, 2020 are as follows:

	January 31, 2020	January 31, 2019
Volatility	84%	78%
Risk-free rate	1.56%	1.93%
Dividend yield	-	-
Expected life of options (years)	4	5

The weighted average fair value of options granted during the three-months ended January 31, 2020 was \$1.00 (2019 - \$1.91).

Share-based payments expense of \$449,108 was recorded for the three-months ended January 31, 2020 (2019 - \$340,267).

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

14. Share-based payments (continued)***Stock option plan (continued)***

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

	January 31, 2020		January 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	2,135,000	2.99	-	-
Granted	320,000	1.75	1,960,000	2.99
Forfeited/cancelled	-	-	-	-
Outstanding, end of period	2,455,000	2.83	1,960,000	2.99
Exercisable, end of period	610,000	2.99	-	-
Weighted average remaining contractual life (years)		7.02		7.9

In connection with the Company's reverse takeover transaction, the Company accelerated the vesting of its legacy VOTI Inc. stock options, after which they were immediately exercised, and the plan was retired. This resulted in a share-based payments expense of \$236,264 during the three-month period ended January 31, 2019.

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. No new DSUs were issued during the three-month period ended January 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.

Share-based payments expense of \$47,655 was recorded for the three-month period ended January 31, 2020 (2019 - \$nil).

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

14. Share-based payments (continued)***Deferred share unit plan (continued)***

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

	January 31, 2020	January 31, 2019
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	173,908	-
Granted	-	-
Forfeited/cancelled	-	-
Outstanding, end of period	173,908	-
Vested, end of period	108,700	-
Weighted average remaining contractual life (years)	0.75	-

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. No new RSUs were issued during the three-month period ended January 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.

Share-based payments expense of \$34,609 was recorded for the three-month period ended January 31, 2020 (2019 - nil).

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

14. Share-based payments (continued)***Restricted share unit plan (continued)***

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

	January 31, 2020	January 31, 2019
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	53,504	-
Granted	-	-
Forfeited/cancelled	-	-
Outstanding, end of period	53,504	-
Vested, end of period	20,064	-
Weighted average remaining contractual life (years)	1.25	-

15. Revenue

	Three-months ended January 31,	
	2020	2019
	\$	\$
Products	5,592,122	6,459,460
After sales services and extended warranty	449,894	337,968
	6,042,016	6,797,428

16. Financial expenses (income)

	Three-months ended January 31,	
	2020	2019
	\$	\$
Interest and bank charges	174,752	91,000
Foreign exchange (gain) loss	(52,256)	44,443
Significant financing component interest on extended warranties	109,083	-
Interest on lease liabilities	24,946	-
	256,525	135,443

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

17. Loss per share

	Three-months ended January 31,	
	2020	2019
	\$	\$
Loss attributable to common share holders for the year	(2,224,603)	(1,643,703)
Weighted average number of shares for basic and diluted EPS	26,716,136	22,382,655
Basic and diluted loss per share	(0.08)	(0.07)

A net loss was reported for the three-month periods ended January 31, 2020 and 2019 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.

18. Financial instruments***Fair values***

Financial assets and financial liabilities are measured on an ongoing basis at amortized cost.

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.

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

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

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

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

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.

VOTI Detection Inc.**Notes to the interim condensed consolidated financial statements**

Three-month period ended January 31, 2020 (Unaudited)

(In Canadian dollars)

19. 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 three-month periods ended January 31, 2020 and 2019:

	Three-months ended January 31,	
	2020	2019
	%	%
Asia-Pacific	10	26
Europe, Middle East, and Africa	15	7
United States	67	57
Canada	1	8
Other	7	2
	100	100

The following table summarizes non-current assets information by geography for the three-month periods ended January 31, 2020 and 2019:

	January 31, 2020	October 31, 2019
	\$	\$
Canada	6,099,719	4,107,650
Malaysia	92,111	64,445
United Arab Emirates	74,201	68,963
	6,266,031	4,241,058