

Interim condensed consolidated financial statements of

## VOTI Detection Inc.

For the three-month and six-month periods ended April 30, 2020  
and 2019 (Unaudited)

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

As at April 30, 2020 and October 31, 2019 (Unaudited)

(In Canadian dollars)

	Notes	<b>April 30 2020</b>	October 31 2019
		\$	\$
<b>Assets</b>			
Current assets			
Cash		<b>1,292,188</b>	1,941,507
Short-term investments		<b>82,837</b>	48,684
Trade and other receivables	6	<b>6,813,045</b>	7,713,621
Research and development tax credits receivable		<b>514,735</b>	372,282
Inventories	7	<b>11,353,549</b>	7,941,110
Prepaid expenses and deposits		<b>947,021</b>	894,119
<b>Total current assets</b>		<b>21,003,375</b>	18,911,323
Non-current assets			
Property and equipment		<b>770,653</b>	844,190
Right of use assets	2,8	<b>1,205,908</b>	-
Intangible assets		<b>4,974,718</b>	3,396,868
<b>Total non-current assets</b>		<b>6,951,279</b>	4,241,058
<b>Total assets</b>		<b>27,954,654</b>	23,152,381
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness	9	-	330,000
Trade payables and accrued liabilities		<b>6,053,061</b>	5,284,374
Current portion of lease liabilities	2,8	<b>268,560</b>	-
Customer deposits		<b>46,918</b>	154,523
Deferred revenue		<b>902,373</b>	734,290
Term debt	10	<b>253,000</b>	253,000
Current portion of long-term debt	11	<b>1,000,000</b>	-
<b>Total current liabilities</b>		<b>8,523,912</b>	6,756,187
Non-current liabilities			
Lease liabilities	2,8	<b>925,065</b>	-
Deferred revenue		<b>2,378,539</b>	1,766,275
Convertible debt	12,13	<b>1,679,406</b>	-
Embedded derivatives	12,14	<b>966,625</b>	-
Warrants	15	<b>476,984</b>	500,294
Long-term debt	11	<b>2,805,961</b>	2,650,000
<b>Total liabilities</b>		<b>17,756,492</b>	11,672,756
<b>Shareholders' equity (deficit)</b>			
Share capital	16	<b>38,611,761</b>	38,331,761
Stock option reserve	17	<b>3,284,561</b>	2,434,710
Deficit		<b>(31,480,391)</b>	(28,906,268)
Cumulative translation adjustment		<b>(217,769)</b>	(380,578)
<b>Total shareholders' equity (deficit)</b>		<b>10,198,162</b>	11,479,625
<b>Total liabilities and shareholders' equity (deficit)</b>		<b>27,954,654</b>	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 and six-month periods ended April 30, 2020 and 2019 (Unaudited)

(In Canadian dollars)

	Notes	<b>Three months ended April 30</b>		<b>Six months ended April 30</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
		\$	\$	\$	\$
<b>Revenue</b>	18	<b>4,263,857</b>	8,501,138	<b>10,305,873</b>	15,298,566
<b>Cost of sales</b>	7	<b>(2,897,598)</b>	(5,569,614)	<b>(7,034,415)</b>	(10,009,860)
<b>Gross profit</b>		<b>1,366,259</b>	2,931,524	<b>3,271,458</b>	5,288,706
<b>Expenses</b>					
General and administrative		<b>983,768</b>	1,244,619	<b>2,159,481</b>	2,646,168
Selling and distribution		<b>1,383,461</b>	1,599,183	<b>3,171,298</b>	3,045,665
Research and development		<b>163,191</b>	214,843	<b>350,339</b>	303,685
Financial expenses, net	19	<b>150,451</b>	(33,110)	<b>406,976</b>	102,333
Change in fair value of warrants	15	<b>(876,601)</b>	(498,733)	<b>(685,394)</b>	(1,110,733)
Change in fair value of embedded derivatives	14	<b>(406,970)</b>	—	<b>(406,970)</b>	—
Reverse acquisition of Steamsand	4,5	—	—	—	964,038
Share-based payments	17	<b>318,479</b>	524,890	<b>849,851</b>	1,101,421
		<b>1,715,779</b>	3,051,692	<b>5,845,581</b>	7,052,577
Net loss		<b>(349,520)</b>	(120,168)	<b>(2,574,123)</b>	(1,763,871)
<b>Other comprehensive (loss) income</b>					
Foreign currency translation adjustment		<b>228,944</b>	(28,977)	<b>162,809</b>	(27,759)
<b>Comprehensive (loss) income</b>		<b>(120,576)</b>	(149,145)	<b>(2,411,314)</b>	(1,791,630)
Basic and diluted net loss per share	20	<b>(0.01)</b>	(0.01)	<b>(0.10)</b>	(0.08)

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)**

Six-month periods ended April 30, 2020 and 2019 (Unaudited)

(In Canadian dollars)

	Notes	Number of common shares	Share capital	Stock option reserve	Warrants reserve	Cumulative translation adjustment	Deficit	Total equity (deficit)
			\$	\$	\$	\$	\$	\$
<b>Balance, October 31, 2019</b>		<b>26,572,657</b>	<b>38,331,761</b>	<b>2,434,710</b>	<b>-</b>	<b>(380,578)</b>	<b>(28,906,268)</b>	<b>11,479,625</b>
Issue of common shares under private placement	16	171,429	300,000	-	-	-	-	<b>300,000</b>
Share-based payments expense	17	-	-	849,851	-	-	-	<b>849,851</b>
Share issuance costs	16	-	(20,000)	-	-	-	-	<b>(20,000)</b>
Other comprehensive loss for the period		-	-	-	-	162,809	-	<b>162,809</b>
Net loss for the period		-	-	-	-	-	(2,574,123)	<b>(2,574,123)</b>
<b>Balance, April 30, 2020</b>		<b>26,744,086</b>	<b>38,611,761</b>	<b>3,284,561</b>	<b>-</b>	<b>(217,769)</b>	<b>(31,480,391)</b>	<b>10,198,162</b>
			\$	\$	\$	\$	\$	\$
<b>Balance, October 31, 2018</b>		<b>15,624,508</b>	<b>18,616,079</b>	<b>5,781,038</b>	<b>90,298</b>	<b>(259,613)</b>	<b>(24,701,919)</b>	<b>(474,117)</b>
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		-	-	865,157	-	-	-	865,157
Other comprehensive loss for the period		-	-	-	-	(27,759)	-	(27,759)
Net loss for the period		-	-	-	-	-	(1,763,871)	(1,763,871)
<b>Balance, April 30, 2019</b>		<b>23,494,755</b>	<b>33,809,962</b>	<b>956,027</b>	<b>-</b>	<b>(287,372)</b>	<b>(26,375,492)</b>	<b>8,103,125</b>

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

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

Six-month periods ended April 30, 2020 and 2019 (Unaudited)

(In Canadian dollars)

	Notes	<b>2020</b>	2019
		\$	\$
<b>Operating activities</b>			
Net loss for the period		<b>(2,574,123)</b>	(1,763,871)
Adjustments for:			
Depreciation of property and equipment		<b>129,716</b>	72,506
Depreciation of right of use asset	2,8	<b>173,275</b>	-
Amortization of intangible assets		<b>56,103</b>	14,141
Interest expense and bank charges	19	<b>839,081</b>	127,218
Change in fair value of warrants	15	<b>(685,394)</b>	(1,110,733)
Change in fair value of embedded derivatives	14	<b>(406,970)</b>	-
Net foreign exchange (gain) loss	19	<b>(432,105)</b>	(96,761)
Share-based payments	17	<b>849,851</b>	1,101,421
Reverse acquisition of Steamsand	4,5	-	964,038
Net change in non-cash working capital items			
Short-term investments		<b>(34,153)</b>	-
Trade and other receivables	6	<b>900,576</b>	(4,766,361)
Research and development tax credits receivable		<b>(142,453)</b>	(23,904)
Inventories	7	<b>(3,412,439)</b>	1,860,446
Prepaid expenses and deposits		<b>(52,902)</b>	129,537
Trade payables and accrued liabilities		<b>768,687</b>	(1,845,597)
Customer deposits		<b>(107,605)</b>	(192,576)
Deferred revenue		<b>544,850</b>	2,389,053
		<b>(3,586,005)</b>	(3,141,443)
<b>Investing activities</b>			
Additions to property and equipment		<b>(54,093)</b>	(128,247)
Additions to intangible assets		<b>(1,423,486)</b>	(1,490,843)
		<b>(1,477,579)</b>	(1,619,090)
<b>Financing activities</b>			
Changes in bank indebtedness	9	<b>(330,000)</b>	(1,860,000)
Proceeds from long-term debt	11	<b>1,190,000</b>	2,150,000
Repayment of shareholder loans		-	(2,020,734)
Interest expense and bank charges paid		<b>(342,053)</b>	(120,371)
Payment of lease liabilities		<b>(188,912)</b>	-
Consideration received from Steamsand	4	-	328,000
Repayment of term debt		-	(550,000)
Consideration received from issuance of shares	16	<b>300,000</b>	-
Share issuance costs	16	<b>(20,000)</b>	-
Consideration received from issuance of convertible debenture units	12	<b>3,700,000</b>	-
Convertible debenture units issuance costs		<b>(77,500)</b>	(2,030,467)
		<b>4,231,535</b>	(4,103,572)
Net (decrease) increase during the period		<b>(832,049)</b>	(8,864,105)
Net effect of foreign exchange rate changes on cash		<b>182,730</b>	55,304
Cash, beginning of period		<b>1,941,507</b>	9,886,040
<b>Cash, end of period</b>		<b>1,292,188</b>	1,077,239

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 and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

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#### **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 and six-month periods ended April 30, 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 the interim condensed consolidated financial statements of the Company and authorized their issuance on June 25, 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 described 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 April 30, 2020, the Company had not yet achieved profitable operations and had a net loss of \$349,520 and \$2,574,123 for the three-month and six-month periods ended April 30, 2020, and negative cash flows from operations of \$3,586,005. As at April 30, 2020, the Company also had current assets less current liabilities of \$12,479,463. 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 the Company sells its products, including government buildings and perimeters, transportation, travel and events & entertainment industries (including cruise line, aviation and public venues such as sporting venues) has been significant and is evolving. Specifically, certain confirmed and expected sales orders for delivery during the three-month period ended April 30, 2020 were postponed or cancelled. To the extent that our customers continue to postpone or can cancel orders, our revenues, cash inflows and financial performance will continue to be adversely impacted.

## **VOTI Detection Inc.**

### **Notes to the interim condensed consolidated financial statements**

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

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## **2. Significant accounting policies (continued)**

In accordance with the Company's banking agreement with our bank, described in note 9, the evolving line of credit facility decreased from a maximum borrowing base of \$2,500,000 to \$500,000. Consequently, our borrowing base with Espresso Capital Ltd., described in note 11, increases by \$2,000,000 to a maximum prescribed by the borrowing base calculation, which is driven by gross margin. To the extent that our cash needs exceed our borrowing capacity with our lenders, or the Company is unable to obtain and maintain sufficient financial support, the Company will experience difficulty in meeting its financial obligations.

The Company has not, to date, experienced an inability to fulfill customer orders. Measures have been taken to ensure the availability of components on hand to fulfill orders through the third quarter and into the fourth 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.

Due to this uncertainty, should sales orders be canceled or not continue to materialize, funding not be available, or significant supply chain issues occur, the Company will experience difficulty in meeting its obligations. In order to address this uncertainty, management has and is continuing to undertake the following actions to continue as a going concern:

- Raised \$3,940,000 of capital through the sale of convertible debenture units, described in note 12;
- Extended payment terms with Espresso Capital Ltd. for \$1,000,000;
- Reducing operating costs;
- Pursuing various avenues of financing, including debt and/or equity;
- Seeking additional funding and relief in connection with COVID-19 government programs.

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 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.



## **VOTI Detection Inc.**

### **Notes to the interim condensed consolidated financial statements**

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

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## **2. Significant accounting policies (continued)**

### *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").

### *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.

## **VOTI Detection Inc.**

### **Notes to the interim condensed consolidated financial statements**

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

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#### **2. Significant accounting policies (continued)**

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.

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, and the considerations related to the issuance of convertible debenture units as described in note 12.

#### **4. Reverse acquisition of Steamsand by VOTI Inc.**

On November 13, 2018 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 six-month period ending April 30, 2019 (2020 – nil) in the interim condensed consolidated statements of loss and comprehensive loss.

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

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

**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>

**6. Trade and other receivables**

	<u>April 30, 2020</u>	<u>October 31, 2019</u>
	\$	\$
Trade receivables	<b>6,533,107</b>	7,349,681
Allowance for doubtful accounts	-	166,263
	<b>6,533,107</b>	7,183,418
Sales tax receivable	<b>279,938</b>	530,203
	<b>6,813,045</b>	7,713,621

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

Three customers (three in 2019) represented approximately 47% of the trade accounts receivable balance as at April 30, 2020 (72% at October 31, 2019).

	<u>April 30, 2020</u>	<u>October 31, 2019</u>
	%	%
Customer A	<b>31</b>	48
Customer B	-	13
Customer C	<b>14</b>	11
Customer D	<b>2</b>	-

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

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

**7. Inventories**

	<b>April 30, 2020</b>	October 31, 2019
	\$	\$
Raw materials	<b>8,728,007</b>	5,004,750
Work in process	-	173,532
Finished goods	<b>2,625,542</b>	2,762,828
	<b>11,353,549</b>	7,941,110

Inventories sold and recognized in cost of sales during the three-month and six-month periods ended April 30, 2020 were \$2,897,598 and \$7,034,415 respectively (\$5,569,614 and \$10,009,860 in 2019 respectively).

**8. Leases**

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

***Right of use assets***

	<b>Building and office space</b>	<b>Machinery and equipment</b>	<b>Total</b>
	\$	\$	\$
Net carrying amount			
Balance as at November 1, 2019	<b>1,244,681</b>	<b>71,597</b>	<b>1,316,278</b>
Depreciation expense	<b>(166,977)</b>	<b>(6,298)</b>	<b>(173,275)</b>
Cumulative translation adjustment	<b>59,238</b>	<b>3,667</b>	<b>62,905</b>
Balance as at April 30, 2020	<b>1,136,942</b>	<b>68,966</b>	<b>1,205,908</b>

***Amounts recognized in the interim condensed consolidated statements of loss and comprehensive loss***

	<b>Three-months ended April 30, 2020</b>	<b>Six-months ended April 30, 2020</b>
	\$	\$
Interest accrued on lease liabilities	<b>41,313</b>	<b>66,259</b>
Expenses related to short-term leases	<b>11,613</b>	<b>31,750</b>

## VOTI Detection Inc.

### Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

## 8. Leases (continued)

### Lease liabilities

The changes to the lease liabilities during the six-month period ended April 30, 2020 are as follows:

	<u>2020</u>
	\$
Balance as at November 1, 2019	1,316,278
Interest accretion expense	66,259
Amounts paid	(188,912)
Balance as at April 30, 2020	<u>1,193,625</u>

At April 30, 2020, under the terms of the operating lease contracts for premises and equipment, the Company committed to pay, over the following five fiscal years, the following payments:

	<u>April 30, 2020</u>
	\$
Maturity schedule - contractual undiscounted cash flows	
Less than one year	395,245
One to three years	739,650
Four to five years	294,799
Total undiscounted lease liabilities	<u>1,429,694</u>

## 9. Bank indebtedness

At April 30, 2020 the Company had 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) 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 April 30, 2020, the Company did not draw any amount under the credit facility (October 31, 2019 - \$330,000) and there were letters of guarantee denominated in both U.S. and Canadian dollars totaling \$724,545 in Canadian dollars equivalent.

## **VOTI Detection Inc.**

### **Notes to the interim condensed consolidated financial statements**

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

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#### **9. Bank indebtedness (continued)**

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 a quarterly basis. As at April 30, 2020, all covenants were respected.

The revolving demand facility decreased to \$500,000 on May 31, 2020 in accordance with the agreement.

#### **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 April 30, 2020 the Company has borrowed an amount of \$253,000 under this facility.

#### **11. Long-term debt**

##### ***Espresso Capital Ltd.***

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 April 30, 2020, the Company's authorized credit limit is \$5,112,000 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 April 30, 2020 was \$3,650,000, of which an amount of \$1,000,000 was payable on April 30, 2020. On June 8, 2020 the agreement was amended, whereby the repayment of the \$1,000,000 will be made in 12 equal monthly instalments commencing December 31, 2020. The amendment also provides, that in addition to interest payments, the Company will issue warrants to Espresso Capital Ltd. convertible into \$200,000 worth of the Company's common shares at the higher of \$0.70 per share and the minimum price allowable by the TSX-V. The warrants expire on June 7, 2027 and can be converted into common shares on a cashless exercise basis.

The Company must respect certain covenants and financial ratios associated with the facility, including maintaining a net working capital ratio of no less than 1.10 and beginning June 1, 2020, working capital of no less than \$8,000,000. As at April 30, 2020, all covenants were respected.

## VOTI Detection Inc.

### Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

#### 11. Long-term debt (continued)

##### *Investissement Quebec*

On March 17, 2020 the Company entered into a \$190,000 non-interest bearing loan agreement with IQ to be used specifically to finance the expansion, improvement and modernization of the Company's engineering lab and operation facilities.

The loan is secured by a senior-ranking hypothec on the Company's movable assets totaling \$200,000, with the addition of a subordinated hypothec totaling 20% of the Company's entire movable assets.

The loan principal is payable in 48 equal monthly instalments commencing March 31, 2021.

Commencing October 31, 2021, the Company must respect a specific financial ratio of EBITDA, as defined in the agreement, divided by interest expenses and short-term debt of no less than 1.2:1.

The loan is initially measured at the present value of all future loan payments, discounted using comparable interest market rate for a similar loan. The loan is subsequently remeasured at amortized cost using the effective interest method. The difference between the discounted value of the loan at inception and the carrying amount of the loan is recorded as a reduction of the Company's tangible assets balance.

Accordingly, on March 17, 2020 the Company recognized \$154,157. The Interest will be accreted over the life of the loan through a charge in the statement of loss and comprehensive loss.

The changes to the loan during the three-month period ended April 30, 2020 are as follows:

	<b>2020</b>
	<b>\$</b>
Balance as at March 17, 2020	<b>154,157</b>
Interest accretion expense	<b>1,804</b>
Amounts paid	-
Balance as at April 30, 2020	<b>155,961</b>

#### 12. Convertible debenture units

On March 26, 2020, the Company's board of directors authorized a non-brokered private placement to issue convertible debenture units.

Each convertible debenture unit is comprised of:

- (i) one senior unsecured convertible debenture in the principal amount of \$1,000 having a 2-year term and bearing interest at an annual rate of 10%, entitling their holders to convert all, or any part of the outstanding principal amount into the Company's common shares at a conversion price of \$0.80 per share; and
- (ii) 600 warrants entitling their holders to purchase one common share of the Company per warrant at an exercise price of \$0.85 per share for a period of 24 months after the closing date.

The coupon rate of 10% is payable semi-annually in arrears on June 30 and December 31 of each year commencing June 30, 2020, and the Company may, at its sole option, settle all or part of the interest in cash or in common shares. The Company currently intends on settling the interest payable by issuing common shares. Additionally, the Company may, at its sole option, oblige the conversion of all or any

## VOTI Detection Inc.

### Notes to the interim condensed consolidated financial statements

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(In Canadian dollars)

#### 12. Convertible debenture units (continued)

part of the outstanding convertible debenture principal into common shares, if at any time before the maturity date, the daily volume-weighted average trading price of the Company's common shares for any 20 consecutive trading days is equal to or greater than \$1.45.

Additionally, the Company is entitled to accelerate the time of expiry of the warrants, thus obliging the conversion of all or any part of the outstanding warrants, if at any time before the maturity date the daily volume-weighted average trading price of the common shares is equal to or greater than \$1.65 for 20 consecutive trading days.

According to the terms of the convertible debentures subscription agreement, the Company's aggregate secured indebtedness cannot exceed \$10,000,000 without obtaining the prior written approval of the debenture holders, representing no less than 66% of the principal amount of all outstanding debentures. As at April 30, 2020, no such approval was required.

On April 14, 2020, April 17, 2020 and April 30, 2020 the Company issued 2,500, 1,100 and 100 convertible debenture units respectively, for total gross proceeds of \$3,700,000.

In accordance with IFRS 9, *Financial Instruments*, the Company determined that each unit was comprised of three financial instruments that should be measured separately: (i) warrants; (ii) embedded derivatives (i.e. conversion option); and (iii) convertible debt.

Transaction costs of \$153,244 were allocated proportionately to each respective liability component.

The Company allocated the proceeds to each of the financial instruments based on their fair values using the residual method, whereby, the proceeds were first allocated to each of the warrants and embedded derivatives based on their respective fair values and the remainder was allocated to the convertible debt, net of \$70,615 transaction costs attributed to it.

The convertible debenture units were measured and recognized at issuance as follows:

	<b>Number of units</b>	<b>Fair value per unit</b>	<b>Fair value</b>
		<b>CA\$</b>	<b>CA\$</b>
Warrants	<b>2,220,000</b>	<b>0.28200</b>	<b>626,040</b>
Embedded derivatives	<b>4,625,000</b>	<b>0.29600</b>	<b>1,369,000</b>
Convertible debt (net of transaction costs)	<b>3,700,000</b>	<b>0.44171</b>	<b>1,634,345</b>
Total liability			<b>3,629,385</b>

The fair values measured at issuance for both the embedded derivatives and the warrants were determined using the Black-Scholes option pricing model. As the warrants and embedded derivatives are denominated in Canadian dollars and the Company's functional currency is US dollars, both of these financial instruments are classified as financial liabilities at fair value through profit and loss ("FVTPL") and will be re-measured at FVTPL at each period-end (see note 14 and note 15 respectively). The allocated transaction costs of \$82,629 are included in the Company's financial expenses (note 19).

The convertible debt is measured at amortized cost, using the effective interest method, which allocates the interest expense at a constant rate over the term of the instrument. The respective transaction costs of \$70,615 are embedded in the effective interest rate and are expensed through accreted interest charges over the term of the liability.

The effective interest rate of the convertible debt calculated at initial recognition is 31.36%, and it represents the rate that discounts the estimated future cash flows throughout its term (see note 13).

On June 5, 2020 the Company issued an additional 240 convertible debenture units for gross cash proceeds of CA\$240,000.



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

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

**13. Convertible debt**

Convertible debt represents the debt component of the convertible debentures issued, described in note 12, independently of the embedded conversion feature derivative.

The changes to the convertible debt during the six-month period ended April 30, 2020 are as follows:

	<b>2020</b>
	<b>\$</b>
Initially recognized fair value of convertible debt	<b>1,634,345</b>
Interest accretion expense*	<b>45,061</b>
Amounts paid	-
Balance as at April 30, 2020	<b>1,679,406</b>

\* Interest expense is calculated by applying effective interest rate of 31.36%.

**14. Embedded derivatives**

The embedded derivatives represent the conversion option feature embedded in the convertible debentures that were issued as part of the convertible debenture units described in note 12.

The weighted-average assumptions used to estimate the fair value of the embedded derivatives using the Black-Scholes option pricing model at issuance during the relevant six-month period ended April 30, 2020 are as follows:

	<b>At Issuance</b>	<b>April 30, 2020</b>
Volatility	<b>86%</b>	<b>85%</b>
Risk-free rate	<b>0.38%</b>	<b>0.29%</b>
Expected life of embedded derivative	<b>1.5 years</b>	<b>1.46 years</b>
Common share value	<b>\$0.76</b>	<b>\$0.64</b>
Exercise price	<b>\$0.80</b>	<b>\$0.80</b>
Fair value	<b>\$0.296</b>	<b>\$0.209</b>

The changes to the embedded derivatives balance during the six-month period ended April 30, 2020 are as follows:

	<b>Number of Embedded derivatives</b>	<b>\$</b>
Balance as at October 31, 2019	-	-
Embedded derivatives issued as part of convertible debenture units issuance	<b>4,625,000</b>	<b>1,369,000</b>
Change in fair value of embedded derivatives		<b>(406,970)</b>
Cumulative translation adjustment		<b>4,595</b>
Balance as at April 30, 2020	<b>4,625,000</b>	<b>966,625</b>

## VOTI Detection Inc.

### Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

#### 15. 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 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 and the fair value of \$0.019 per warrant as was re-measured at April 30, 2020, resulted in a non-cash loss of \$191,207 and non-cash gain of \$687,995 respectively, for a total of non-cash gain of \$496,788 for the six-month period ended April 30, 2020.

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

	<b>April 30, 2020</b>	<b>October 31, 2019</b>
Volatility	<b>85%</b>	73%
Risk-free rate	<b>0.29%</b>	1.57%
Expected life of warrant	<b>1.5 years</b>	2 years
Common share value	<b>\$0.64</b>	\$1.70
Exercise price	<b>\$4.50</b>	\$4.50

During April 2020, in conjunction with the convertible debenture units issuance as described in note 12, the Company issued 2,220,000 warrants, providing their holders an option to purchase one common share for \$0.85 up to 24 months from the date of issuance. The weighted-average assumptions used to estimate the fair value of these warrants using the Black-Scholes option pricing model at issuance is as follows:

	<b>At Issuance</b>	<b>April 30, 2020</b>
Volatility	<b>86%</b>	<b>85%</b>
Risk-free rate	<b>0.38%</b>	<b>0.29%</b>
Expected life of embedded derivative	<b>1.5 years</b>	<b>1.46 years</b>
Common share value	<b>\$0.76</b>	<b>\$0.64</b>
Exercise price	<b>\$0.85</b>	<b>\$0.85</b>
Fair value	<b>\$0.282</b>	<b>\$0.198</b>

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

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(In Canadian dollars)

**15. Warrants (continued)**

The changes to the warrants balance during the six-month period ended April 30, 2020 are as follows:

	<b>Number of Warrants</b>	<b>\$</b>
Balance as at October 31, 2019	<b>1,969,662</b>	<b>500,294</b>
Warrants issued as part of convertible debenture units issuance	<b>2,220,000</b>	<b>626,040</b>
Change in fair value of warrants		<b>(685,394)</b>
Cumulative translation adjustment		<b>36,044</b>
Balance as at April 30, 2020	<b>4,189,662</b>	<b>476,984</b>

**16. Share capital**

	<b>Number of shares</b>	<b>Share capital</b>
		<b>\$</b>
Balance as at October 31, 2019	<b>26,572,657</b>	<b>38,331,761</b>
Shares issued under private placement	<b>171,429</b>	<b>300,000</b>
Share issuance costs	<b>—</b>	<b>(20,000)</b>
Balance as at April 30, 2020	<b>26,744,086</b>	<b>38,611,761</b>

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.

**17. 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 and six-month periods ended April 30, 2020, the Company granted stock options to its employees totaling 55,000 and 375,000 respectively, at a weighted average exercise price of \$0.80 and \$1.61 respectively per share and expiring eight years after the grant date. 100,000 of the options granted were granted to key management personnel.

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

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

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

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 measuring the fair value of the options granted in the six-month period ended April 30, 2020 and 2019 are as follows:

	<b>2020</b>	2019
Volatility	<b>85%</b>	78%
Risk-free rate	<b>1.43%</b>	1.92%
Expected life of options (years)	<b>4</b>	5
Dividend yield	-	-
Common share value	<b>1.53</b>	2.98
Exercise price	<b>1.61</b>	2.99
Fair value	<b>0.92</b>	1.90

The weighted average fair value of options granted during the six-months ended April 30, 2020 was \$0.92 (2019 - \$1.90).

Share-based payments expense of \$243,608 and \$692,716 were respectively recorded for the three-month and six-month periods ended April 30, 2020 (2019 - \$524,890 and \$1,101,421 respectively).

The changes to the number of stock options granted and their weighted average exercise price during the six-month periods ended April 30 are as follows:

	<b>2020</b>		2019	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	<b>2,135,000</b>	<b>2.99</b>	-	-
Granted	<b>375,000</b>	<b>1.61</b>	2,040,000	2.99
Forfeited/cancelled	<b>(100,000)</b>	-	(30,000)	2.99
Outstanding, end of period	<b>2,410,000</b>	<b>2.37</b>	2,010,000	2.99
Exercisable, end of period	<b>793,333</b>	<b>2.99</b>	-	-
Weighted average remaining contractual life (years)		<b>6.78</b>		7.61

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 six-month period ended April 30, 2019.

## VOTI Detection Inc.

### Notes to the interim condensed consolidated financial statements

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(In Canadian dollars)

## 17. Share-based payments (continued)

### *Deferred share unit plan*

On November 13, 2018, the Board of Directors adopted, as amended on March 22, 2019 and April 28, 2020, a Deferred Share Unit Plan (the "DSU Plan"), which was approved by the Company's shareholders on April 28, 2020.

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 and six-month periods ended April 30, 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 \$30,407 and \$78,062 were recorded for the three-month and six-month periods ended April 30, 2020 respectively (2019 - \$nil and \$nil respectively).

The changes to the number of DSUs granted for the six-month periods ended April 30 are as follows:

	<b>2020</b>	2019
	<b>Number of DSUs</b>	Number of DSUs
Outstanding, beginning of period	<b>173,908</b>	-
Granted	-	-
Forfeited/cancelled	-	-
Outstanding, end of period	<b>173,908</b>	-
Vested, end of period	<b>130,436</b>	-

### *Restricted share unit plan*

On November 13, 2018, the Board of Directors adopted, as amended on March 22, 2019 and April 28, 2020, a Restricted Share Unit Plan (the "RSU Plan"), which was approved by the Company's shareholders on April 28, 2020.

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.

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

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(In Canadian dollars)

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

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.

On April 14, 2020, the Company granted to key management personnel 220,000 RSUs, which vest three months from the grant date.

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 six-months ended April 30, 2020 was \$0.76. (2019 - nil).

Share-based payments expense of \$44,464 and \$79,073 were recorded for the three-month and six-month periods ended April 30, 2020 respectively (2019 - \$nil and \$nil respectively).

The changes to the number of RSUs granted during the six-month periods ended April 30 are as follows are as follows:

	<b>April 30, 2020</b>	April 30, 2019
	<b>Number of RSUs</b>	Number of RSUs
Outstanding, beginning of period	<b>53,504</b>	-
Granted	<b>220,000</b>	-
Forfeited/cancelled	-	-
Outstanding, end of period	<b>273,504</b>	-
Vested, end of period	<b>26,752</b>	-

**18. Revenue**

	<b>Three-months ended April 30</b>		<b>Six-months ended April 30</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Products	<b>3,750,846</b>	8,084,258	<b>9,342,968</b>	14,543,718
After sales services and extended warranty	<b>513,011</b>	416,880	<b>962,905</b>	754,848
	<b>4,263,857</b>	8,501,138	<b>10,305,873</b>	15,298,566

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

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(In Canadian dollars)

**19. Financial expenses (income)**

	<b>Three-months ended April 30</b>		<b>Six-months ended April 30</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	\$	\$	\$	\$
Interest and bank charges	<b>233,079</b>	108,094	<b>407,831</b>	199,094
Interest accretion expense on convertible debt	<b>45,061</b>	-	<b>45,061</b>	-
Interest accretion on long-term debt	<b>1,804</b>	-	<b>1,804</b>	-
Transaction costs related to warrants and embedded derivatives, part of the convertible debenture units issuance	<b>82,629</b>	-	<b>82,629</b>	-
Foreign exchange (gain) loss	<b>(379,849)</b>	(141,204)	<b>(432,105)</b>	(96,761)
Significant financing component interest on extended warranties	<b>126,414</b>	-	<b>235,497</b>	-
Interest on lease liabilities	<b>41,313</b>	-	<b>66,259</b>	-
	<b>150,451</b>	(33,110)	<b>406,976</b>	102,333

**20. Loss per share**

	<b>Three-months ended April 30</b>		<b>Six-months ended April 30</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	\$	\$	\$	\$
Loss attributable to common share holders for the year	<b>(349,520)</b>	(120,168)	<b>(2,574,123)</b>	(1,763,871)
Weighted average number of shares for basic and diluted EPS	<b>26,744,086</b>	23,494,755	<b>26,729,957</b>	22,929,489
Basic and diluted loss per share	<b>(0.01)</b>	(0.01)	<b>(0.10)</b>	(0.08)

A net loss was reported for the three-month and six-month periods ended April 30, 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.

## VOTI Detection Inc.

### Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

## 21. 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 and embedded derivatives 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.

## 22. 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 and six-month periods ended April 30, 2020 and 2019:

	Three-months ended April 30		Six-months ended April 30	
	2020	2019	2020	2019
	%	%	%	%
Asia-Pacific	3	45	7	38
Europe, Middle East, and Africa	44	11	27	9
United States	39	34	55	42
Canada	7	9	3	9
Other	7	1	8	2
	<b>100</b>	100	<b>100</b>	100



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

Three-month and six-month periods ended April 30, 2020 (Unaudited)

(In Canadian dollars)

**22. Segment information (continued)**

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

	<b>April 30, 2020</b>	October 31, 2019
	\$	\$
Canada	<b>6,814,095</b>	4,107,650
Malaysia	<b>72,078</b>	64,445
United Arab Emirates	<b>65,106</b>	68,963
	<b>6,951,279</b>	4,241,058