

Management's Discussion and Analysis of

**VOTI DETECTION INC.**

For the three-month and six-month periods ended April 30, 2020

## Table of Contents

Basis of Presentation .....	4
Forward-Looking Statements .....	4
Business Strategy .....	5
<i>Company Overview</i> .....	5
<i>Key Business Strategic objectives</i> .....	5
<i>Financial Outlook</i> .....	5
Trends and Seasonality .....	6
<i>Industry Trends</i> .....	6
<i>VOTI Trends</i> .....	6
<i>Cyclicalilty</i> .....	6
Financial Highlights .....	7
<i>For the three-month period ended April 30, 2020</i> .....	7
<i>For the six-month period ended April 30, 2020</i> .....	7
Non-IFRS Financial Measures .....	8
<i>EBITDA, Adjusted EBITDA and Adjusted EBITDA margin</i> .....	8
<i>Adjusted net income (loss) and Adjusted earnings (loss) per share</i> .....	9
Private placement .....	10
Results of Operations .....	10
<i>Three-month periods ended April 30, 2020 and 2019</i> .....	10
<i>Six-month periods ended April 30, 2020 and 2019</i> .....	12
Financial Position .....	14
Liquidity and Capital Resources .....	15
<i>Capital Management</i> .....	15
<i>Cash Flows</i> .....	16
<i>Other Cash Considerations</i> .....	16
Selected Quarterly Information .....	19
Financial Instruments and Risk Management .....	19
<i>Credit risk</i> .....	19
<i>Liquidity risk</i> .....	19
<i>Market risk</i> .....	20
Off-Balance Sheet Arrangements .....	21
Related Party Transactions .....	21
<i>Remuneration payable to key management personnel</i> .....	21
<i>Compensation of directors and key management personnel</i> .....	22
Outstanding Share Data .....	22
Segment Reporting .....	22
Basis of presentation and going concern assumption .....	23

---

Critical Accounting Estimates.....	24
Changes in significant accounting policies.....	24
<i>IFRS 16, Leases</i> .....	24
Business Risks.....	25
<i>A widespread health epidemic, including COVID-19, could adversely affect our business</i> .....	25
Disclosure controls and procedures and internal control over financial reporting .....	26

## Basis of Presentation

The following has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition as at April 30, 2020 and October 31, 2019 and operating results of VOTI Detection Inc. ("the Company" or "VOTI") for the three-month and six-month periods ended April 30, 2020 and 2019.

This MD&A was prepared as of June 25, 2020 with information available at this date. All references in this MD&A to Fiscal 2019 are to the fiscal year ended October 31, 2019. This document should be read in conjunction with the interim condensed consolidated financial statements of VOTI Detection Inc. for the three-month and six-month periods ended April 30, 2020 and 2019. All amounts herein are expressed in Canadian dollars (unless otherwise indicated). All financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain financial measures used in this MD&A do not have any standardized meaning under IFRS, including "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA margin", "Adjusted net loss" and "Adjusted loss per share". For a reconciliation of these non-IFRS financial measures to the most comparative IFRS measure, see the "Non-IFRS Financial Measures" section of this MD&A.

## Forward-Looking Statements

*This MD&A contains forward-looking statements. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "project", "expect" and similar expressions are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect VOTI's then current views with respect to future events based on certain material facts and assumptions and are subject to certain risks and uncertainties, including without limitation risks regarding the threat detection technology industry, failure to obtain regulatory approvals, or changes in regulatory environment, economic factors, management's ability to manage and to operate the business of VOTI Detection, the equity markets generally and risks associated with growth and competition, in addition to other risks identified in publicly filed documents under VOTI's profile at [www.sedar.com](http://www.sedar.com) as well as other unknown risks. The forward-looking information is based on certain key expectations and assumptions made by VOTI, including expectations and assumptions concerning availability of capital resources and ability to finance, business performance, market conditions, and customer demand. Although VOTI believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that they will prove to be correct.*

*Many factors could cause VOTI's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above, as well as the assumptions upon which they are based proving incorrect. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements should not be unduly relied upon. VOTI does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by these cautionary statements. Forward-looking information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on VOTI's management's assessment of the relevant information currently available. Readers are cautioned that outlook information contained in this MD&A should not be used for the purposes other than for which it is disclosed herein or therein, as the case may be. In addition, the current situation and future developments with respect to the COVID-19 pandemic could cause certain of the assumptions and information set forth herein or the fact that on which such assumptions are based to differ materially from previous expectations including in respect of demand for our products, supply chain and availability of materials, mobility and shipping of materials and or products, access to debt and equity capital and other factors.*

## Business Strategy

### **Company Overview**

VOTI is a leading-edge Canadian technology company that develops latest-generation X-ray security systems based on 3D Perspective™ technology. VOTI's technology produces remarkably sharp and more revealing X-ray images that are competitively superior while delivering enhanced threat detection capabilities and a vastly improved user experience. Since its inception, VOTI has installed scanners in more than 50 countries and has consulted heavily with government agencies and security specialists worldwide to develop feature-rich and easy-to-use scanners that meet the sophisticated needs of modern security screening operations.

VOTI's software first approach allows for the development of customized solutions, addressing the specific and sometimes unique requirements of its customers. VOTI is customer focused and brings effective detection technologies to markets that are price sensitive.

### **Key Business Strategic objectives**

VOTI's primary underlying strategy is to bring cost-effective elite features and benefits (including analysis and enhanced detection capabilities) of top-tier x-ray screening, currently found at airports and seaports, to the commercial and industrial conventional x-ray screening sectors of the market, which make up the largest segment of the conventional x-ray screening market. To this end, the Company has developed visionary products and cost-effective solutions that are disrupting the conventional x-ray security screening and detection market.

The Company intends to continue to expand its global footprint by growing market share as key verticals and geographies are added; leveraging its specialized sales force and building on its already established network of distributors specializing in the public and private security sectors; adding additional certifications that will open up new market opportunities; expanding through the delivery of software enhanced detection, algorithms and analytics; benefiting from a shift in revenue mix towards a greater percentage of higher margin aftermarket services; and through a strategic acquisition strategy focused on the eventual ability to offer a fuller checkpoint solution.

VOTI also intends on furthering the continuous improvement of its lean manufacturing processes and customer service delivery. The Company will continue to invest in research and development to maintain its competitive advantage.

### **Financial Outlook**

With an increased global focus on safety and security resulting in growth in global x-ray screening market verticals, based on current market research, and prior to the COVID-19 pandemic, the global conventional x-ray screening market was forecasted to grow at a 4.9% CAGR to reach US\$2.67 billion by 2024<sup>1</sup>.

The impact of COVID-19 on the markets and industries to which VOTI 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, and it is difficult to estimate when and to what extent pre-COVID-19 growth rates will resume.

Generally, VOTI's growth plan is based on the following key market verticals:

- Critical Assets and Infrastructures – data centers and telecom installations; government buildings; energy infrastructure and public utilities; offices and corporate headquarters; metal refineries and mining sites.
- Transportation – mass transit systems; airports (cargo); rail transit facilities; cruise ship terminals; logistics operations.
- Secured Perimeters and Buildings – schools and universities; justice and correction centers; police stations and military sites; events and attractions.
- Ports and Borders – land checkpoints; seaports; customs.
- Commercial, Manufacturing and Retail – warehouses; fulfillment and manufacturing facilities; retail locations.

---

<sup>1</sup> Homeland Security Research Corp, X-ray Security Screening Systems (Aviation, Maritime, Land Transportation, Defense, Postal, Perimeter, Building, Baggage, Cargo, People, Container & Vehicle) Global Market – 2019-2024, published June 2019.

The impact of the COVID-19 virus on the markets is still evolving and to the extent that such markets continue to be adversely affected in the near medium and long term, the growth strategy of VOTI would be affected and the disclosure in this MD&A including with respect to any assumptions and future plans or expectations is made in that context.

## **Trends and Seasonality**

### ***Industry Trends***

Despite the billions of dollars spent on R&D since the events of 9/11, x-ray screening systems remain the predominant technology solution of choice when it comes to non-intrusive inspection and optimal throughput.

### ***VOTI Trends***

The markets in which VOTI operates are highly competitive and are characterized by evolving customer needs and rapid technological change. The global detection system market is relatively concentrated, dominated by five main global players who are diversified systems and solutions providers. Competition is based primarily on such factors as product performance, functionality and quality, the overall cost effectiveness of the system solution, prior customer relationships, technological capabilities of the products, price, local market presence, and breadth of the Company's sales and service organization. VOTI's principal competitors in the global detection market are OSI Systems Inc., Smiths Group plc, Nuctech Company Limited, Astrophysics, Inc. and L3 Technologies Inc.

VOTI believes that its main competitive advantage is its image quality. The Company's 3D Perspective™ technology along with its proprietary software, renders high resolution images that eliminate blind spots and enhance the operator's ability to better identify potential threats. In addition, VOTI's competitive edge includes ease of use, remote diagnostic and update capabilities, remote repair and maintenance, an attractive pricing strategy and analytics capabilities.

By developing visionary products and offering them at an attractive price point, VOTI is bringing cost-effective elite features and benefits (including analysis and enhanced detection capabilities) of top-tier x-ray screening at airports and seaports (dominated by the big four players in the market), to the commercial and industrial x-ray screening sectors of the market, which is the largest segment of the conventional x-ray screening market.

### ***Cyclicality***

A significant portion of VOTI's clients are in the public sector. Government spending is driven by budgets and will impact the revenue stream. As such, VOTI revenues may be impacted in certain years by government budgetary decisions and cycles.

## Financial Highlights

### *For the three-month period ended April 30, 2020*

- The Company remained operational through worldwide pandemic shutdown - being classified an essential service.
- In April 2020, the Company raised \$3,700,000 by issuing convertible debenture units to arms-length investors through non-brokered private placements.
- Revenue for the three-month period ended April 30, 2020 totaled \$4,263,857 compared to \$8,501,138 for the same period in Fiscal 2019, a decrease of \$4,237,281 or 50%. The decrease is primarily related to sales orders that were lost or postponed due to COVID-19, primarily from the maritime (cruise lines), and sports and entertainment verticals, as well the lower number of larger tunnel sizes and dual-source scanners, which carry higher selling prices, being sold in 2020.
- VOTI sold 147 security scanning system units during the three-month period ended April 30, 2020 compared to 201 in same period in Fiscal 2019. The decrease of 54 is attributed primarily to sales that were lost or postponed to subsequent periods due to COVID-19.
- Gross profit decreased to \$1,366,259, or 32% of revenue, compared to \$2,931,524 or 34% for the same period in Fiscal 2019. The 2% decrease in gross margin compared to the same period in Fiscal 2019 is primarily related to the product and geography mix.
- Net loss increased to \$349,520 compared to \$120,168 for the same period of Fiscal 2019. The increase in loss of \$229,352 in the three-month period ended April 30, 2020 compared to the same period of Fiscal 2019 is primarily related to the decrease in gross profit and increase in financial expenses, partially offset by a decrease in non-cash fair value measurement of the Company's warrants and embedded derivatives, decrease in operating expenses, and a decrease in share-based payments expenses.
- Adjusted EBITDA for the three-month period ended April 30, 2020 decreased to (\$941,413), compared to \$57,457 for the same period in Fiscal 2019. The decrease of (\$998,870) is primarily related to the decrease in revenue and related gross profit, partially offset by reduced operational costs.

### *For the six-month period ended April 30, 2020*

- Revenue for the six-month period ended April 30, 2020 totaled \$10,305,873 compared to \$15,298,566 for the same period in Fiscal 2019, a decrease of \$4,992,693 or 33%. The decrease is primarily related to sales orders that were lost or postponed due to COVID-19, primarily from the maritime (cruise lines), and sports and entertainment verticals, as well as the lower number of larger tunnel sizes and dual source scanners, which carry higher selling prices, being sold in 2020.
- The Company sold 295 security scanning units compared to 346 during the same period in Fiscal 2019. The decrease of 51 is attributed primarily to sales that were lost or postponed due to COVID-19. Sales were made to a broad range of customers over a wide geographic base and included a sale of 72 units to a distributor in Egypt. In addition, the Company completed made significant inroads with franchises in major North American professional sports leagues and continues to deliver on several repeat orders.
- Gross profit decreased to \$3,271,458 or 32% of revenue, compared to \$5,288,706 or 35% for the same period in Fiscal 2019. The gross margin decrease is primarily related to the product and geography mix.
- Net loss increased to \$2,574,123 compared to a net loss of \$1,763,871 for the same period of Fiscal 2019. The increase of \$810,252 is primarily related to the decrease in gross profit, increase in financial expenses, the non-cash fair value measurement of the Company's warrants, and increase in selling and distribution expenses, partially offset by non-cash fair value measurement of the Company's embedded derivatives, decrease in general and administrative costs, decrease in research and development expenses, decrease in share-based payments expenses and a decrease related to the absence of the reverse acquisition of Steamsand in 2020.
- Adjusted EBITDA decreased to (\$2,020,566) compared to (\$486,587) for the same period of Fiscal 2019. The decrease of (\$1,533,979) is primarily related to the decrease in revenue and related gross profit, partially offset by reduced operational costs.

## Non-IFRS Financial Measures

This section describes the metrics and non-IFRS financial measures used by the Company throughout this MD&A. It also provides the reconciliation between non-IFRS financial measures and the most comparable IFRS financial measures. Non-IFRS financial measures do not have standard definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Non-IFRS financial measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from Management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

### **EBITDA, Adjusted EBITDA and Adjusted EBITDA margin**

EBITDA is defined as net income or loss before financial expenses, depreciation and amortization expense and income tax expense. Adjusted EBITDA is defined as EBITDA excluding share-based payments expenses and items that Management believes do not necessarily arise as part of the Company's normal day-to-day operations and could distort the analysis of trends in business performance. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by Revenue. EBITDA, Adjusted EBITDA and Adjusted EBITDA margin are non-IFRS financial measures. Management believes that EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin are useful measures of financial performance and help to better understand the Company's performance, as they help reflect the Company's business operation and allow for more accurate comparison to other companies, by excluding the impact on EBITDA that non-recurring, non-operating, or unusual items may have on the Company's operations.

Furthermore, Management believes these measures are useful to assess the Company's ability to seize growth opportunities in a cost-effective manner, to finance its ongoing operations and to meet its commitments.

The reconciliation of net loss to EBITDA, Adjusted EBITDA and then to Adjusted EBITDA margin are as follows:

	Three-months ended April 30,		Six-months ended April 30,	
	2020	2019	2020	2019
Revenue	4,263,857	8,501,138	10,305,873	15,298,566
Net (loss) income	(349,520)	(120,168)	(2,574,123)	(1,763,871)
Financing (income) expenses <sup>2</sup>	150,451	(33,110)	406,976	102,333
Depreciation and amortization	192,748	51,000	359,094	86,647
EBITDA	(6,321)	(102,278)	(1,808,053)	(1,574,891)
Share based payments <sup>3</sup>	318,479	524,890	849,851	1,101,421
Change in fair value of warrants	(876,601)	(498,733)	(685,394)	(1,110,733)
Change in fair value of embedded derivatives	(406,970)	-	(406,970)	-
Reverse acquisition <sup>4</sup>	-	-	-	964,038
Unusual and non-recurring items				
Severance <sup>5</sup>	30,000	65,420	30,000	65,420
Other items <sup>6</sup>	-	68,158	-	68,158
Adjusted EBITDA	(941,413)	57,457	(2,020,566)	(486,587)
Adjusted EBITDA margin (%)	(22%)	1%	(20%)	(3%)

<sup>2</sup> Financing expenses consist of interest and bank charges, foreign exchange gains and losses, significant financing component interest on extended warranties, interest on lease liabilities, interest accretion on convertible debt and other financial charges.

<sup>3</sup> Share based payments are made up of the issuance and vesting of VOTI Detection Inc. and VOTI Inc. stock options, deferred share units and restricted share units.

<sup>4</sup> The reverse acquisition of Steamsand expenses consist primarily of the consideration transferred to former Steamsand shareholders in excess of net assets acquired, as well as legal and professional service fees in connection with the RTO.

<sup>5</sup> Severance includes termination payments expense during the period.

<sup>6</sup> Other items include non-recurring professional fees.

**Adjusted net income (loss) and Adjusted earnings (loss) per share**

Adjusted net income (loss) is defined as net income (loss) adjusted for share-based payments expenses and items Management believes do not necessarily arise as part of the Company's normal day-to-day operations and could distort the analysis of trends in business performance. Adjusted earnings (loss) per share is defined as adjusted net income (loss) divided by the basic weighted average number of common shares outstanding. Adjusted net income (loss) and Adjusted income (loss) per share are non-IFRS financial measures. Management believes that Adjusted net income (loss) and Adjusted income (loss) per share are useful measures of performance that can facilitate period-to-period comparisons as they exclude items that do not necessarily arise as part of the Company's normal day-to-day operations and could distort the analysis of trends in business performance.

The reconciliation of net income (loss) to Adjusted net income (loss) is as follows:

	Three-months ended April 30,		Six-months ended April 30,	
	2020	2019	2020	2019
Net (loss) income	(349,520)	(120,168)	(2,574,123)	(1,763,871)
Change in fair value of warrants	(876,601)	(498,733)	(685,394)	(1,110,733)
Change in fair value of embedded derivatives	(406,970)	-	(406,970)	-
Share based payments	318,479	524,890	849,851	1,101,421
Reverse acquisition	-	-	-	964,038
Unusual and non-recurring items				
Severance	30,000	65,420	30,000	65,420
Other items	-	68,158	-	68,158
Adjusted net income (loss)	(1,284,612)	39,567	(2,786,636)	(675,567)

The reconciliation of basic and diluted (loss) earnings per share to Adjusted (loss) earnings per share is as follows:

	Three-months ended April 30,		Six-months ended April 30,	
	2020	2019	2020	2019
Basic and diluted (loss) earnings per share	(0.01)	(0.01)	(0.10)	(0.08)
Impact of adjustments to net (loss) income	(0.03)	0.01	(0.01)	0.05
Adjusted (loss) earnings per share	(0.04)	0.00	(0.11)	(0.03)

## Private placements

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:

- (1) 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
- (2) 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 interest 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 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.

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

## Results of Operations

### *Three-month periods ended April 30, 2020 and 2019*

The following table sets forth the major components of the Company's statement of (loss) income and comprehensive loss for the three-month period ended April 30, 2020 compared to the corresponding period of 2019:

Three-month period ended April 30,	2020	2019	Variance	Variance (%)
Revenue	4,263,857	8,501,138	(4,237,281)	(50%)
Cost of goods sold	2,897,598	5,569,614	(2,672,016)	(48%)
Gross profit	1,366,259	2,931,524	(1,565,265)	(53%)
Gross margin	32%	34%	(2%)	N/A
General and administrative expenses	983,768	1,244,619	(260,851)	(21%)
Selling and Distribution expenses	1,383,461	1,599,183	(215,722)	(13%)
Research and development expenses	163,191	214,843	(51,652)	(24%)
Net financial (income) expenses	150,451	(33,110)	183,561	554%
Change in fair value of warrants	(876,601)	(498,733)	(377,868)	N/A
Change in fair value of embedded derivatives	(406,970)	-	(406,970)	N/A
Share-based payments	318,479	524,890	(206,411)	(39%)
Net loss	(349,520)	(120,168)	(229,352)	(191%)
Basic and diluted earnings (loss) per share	(0.01)	(0.01)	-	N/A
Adjusted net (loss) income	(1,284,612)	39,567	(1,324,179)	(3,347%)
Basic & diluted Adj. (loss) earnings per share	(0.04)	0.00	(0.04)	N/A

Revenue for the three-month period ended April 30, 2020 totaled \$4,263,857 compared to \$8,501,138 for the same period in Fiscal 2019, a decrease of \$4,237,281 or 50%. The decrease is primarily related to sales orders that were lost or postponed due to COVID-19, primarily from the maritime (cruise lines), and sports and entertainment verticals, as well as the lower number of larger tunnel sizes and dual-source scanners, which carry higher selling prices, being sold in 2020. VOTI sold 147 security scanning system units during the three-month period ended April 30, 2020 compared to 201 in the same period in Fiscal 2019. The decrease of 54 is attributed primarily to sales that were lost or postponed to subsequent periods due to COVID-19.

Gross profit decreased to \$1,366,259, or 32% of revenue, compared to \$2,931,524 or 34% for the same period in Fiscal 2019. The 2% decrease in gross margin compared to the same period in Fiscal 2019 is primarily related to the product and geography mix.

General and administrative expenses decreased to \$983,768 compared to \$1,244,619 for the same period in Fiscal 2019. The decrease is primarily due to cost reduction measures implemented by the Company, including reduced executive compensation, personnel, professional fees, and travel costs, as well as funding from the Canadian Federal government COVID-19 Canada Employee Wage Subsidy (CEWS) stimulus program.

Selling and distribution expenses decreased to \$1,383,461 compared to \$1,599,183 for the same period in Fiscal 2019. The decrease of \$215,722 is mainly due to reduction in commissions, travel expenses and tradeshow attendance, all as a direct result of the global impact of COVID-19. This was partially offset by an increased number of sales, marketing and field support personnel in 2020.

Research and development expenses decreased to \$163,191 compared to \$214,843 for the same period in Fiscal 2019. The decrease of \$51,652 is primarily due to reduced spending on non-critical development projects.

Net financial expenses increased to \$150,451 compared to income of \$33,110 for the same period in Fiscal 2019. The increase of \$183,561 is primarily due to the increase in interest expense related to increased borrowed funds during 2020, the non-cash significant financing component interest on extended warranties and lease liabilities, and an increase in financing costs related to the issuance of convertible debenture units during the quarter, partially offset by an increase in foreign exchange gain.

Change in fair value of warrants increased to a \$876,601 gain compared to a \$498,733 gain for the same period in Fiscal 2019. The increase of \$377,868 is primarily due to the impact that the change in the Company's share price has on the non-cash fair value measurement of the Company's warrants at April 30, 2020, coupled with the increase in the number of warrants issued in 2020.

Change in fair value of embedded derivatives increased to a \$406,970 gain compared to nil for the same period in Fiscal 2019. This is a new financial instrument which represents the conversion option embedded in the newly issued convertible debentures which did not exist during the same period in Fiscal 2019.

Share-based payments decreased to \$318,479 compared to \$524,890 for the same period in Fiscal 2019. The decrease is primarily due to a reduced number of unvested stock options, DSUs and RSUs in 2020.

Net loss increased to \$349,520 compared to \$120,168 for the same period of Fiscal 2019. The increase in loss of \$229,352 in the three-month period ended April 30, 2020 compared to the same period of Fiscal 2019 is primarily related to the decrease in gross profit and increase in financial expenses, partially offset by a decrease in non-cash fair value measurement of the Company's warrants and embedded derivatives, decrease in operating expenses, and a decrease in share-based payments expenses.

**Six-month periods ended April 30, 2020 and 2019**

The following table sets forth the major components of the Company's statement of (loss) income and comprehensive loss for the six-month period ended April 30, 2020 compared to the corresponding period of 2019:

Six-month period ended April 30,	2020	2019	Variance	Variance (%)
Revenue	10,305,873	15,298,566	(4,992,693)	(33%)
Cost of goods sold	7,034,415	10,009,860	(2,975,445)	(30%)
Gross profit	3,271,458	5,288,706	(2,017,248)	(38%)
Gross margin	32%	35%	(3%)	N/A
General and administrative expenses	2,159,481	2,646,168	(486,687)	(18%)
Selling and Distribution expenses	3,171,298	3,045,665	125,633	4%
Research and development expenses	350,339	303,685	46,654	15%
Net financial expenses	406,976	102,333	304,643	(298%)
Change in fair value of warrants	(685,394)	(1,110,733)	425,339	N/A
Change in fair value of embedded derivatives	(406,970)	-	(406,970)	N/A
Share-based payments	849,851	1,101,421	(251,570)	(23%)
Reverse acquisition of Steamsand	-	964,038	(964,038)	N/A
Net loss	(2,574,123)	(1,763,871)	(810,252)	(46%)
Basic and diluted earnings (loss) per share	(0.10)	(0.08)	(0.01)	N/A
Adjusted net (loss) income	(2,786,636)	(675,567)	(2,111,069)	(312%)
Basic & diluted Adj. (loss) earnings per share	(0.11)	(0.03)	(0.08)	N/A

Revenue for the six-month period ended April 30, 2020 totaled \$10,305,873 compared to \$15,298,566 for the same period in Fiscal 2019, a decrease of \$4,992,693 or 33%. The decrease is primarily related to sales orders that were lost or postponed due to COVID-19, primarily from the maritime (cruise lines), and sports and entertainment verticals, as well as the lower number of larger tunnel sizes and dual source scanners, which carry higher selling prices, being sold in 2020. The Company sold 295 security scanning units compared to 346 during the same period in Fiscal 2019. The decrease of 51 is attributed primarily to sales that were lost or postponed due to COVID-19. Sales were made to a broad range of customers over a wide geographic base and included a sale of 72 units to a distributor in Egypt. In addition, the Company completed made significant inroads with franchises in major North American professional sports leagues and continues to deliver on several repeat orders.

Gross profit decreased to \$3,271,458 or 32% of revenue, compared to \$5,288,706 or 35% for the same period in Fiscal 2019. The gross margin decrease is primarily related to the product and geography mix. General and administrative expenses decreased to \$2,159,481 compared to \$2,646,168 for the same period in Fiscal 2019. The decrease is primarily due to cost reduction measures implemented by the Company, including reduced executive compensation, personnel, travel costs, funding from the Canadian Federal government COVID-19 Canada Employee Wage Subsidy (CEWS) stimulus program, and the additional professional fees incurred in connection with the Company's reverse takeover transaction during the three-month period ended January 31, 2019.

Selling and distribution expenses increased to \$3,171,298 compared to \$3,045,665 for the same period in Fiscal 2019. The increase of \$125,633 is primarily due to increased sales and customer support personnel, partially offset by reduction in commissions.

Research and development expenses increased to \$350,339 compared to \$303,685 for the same period in Fiscal 2019. The increase of \$46,654 is primarily due to an increase in overall costs incurred in order to further advance the Company's development activities in the first quarter, partially offset by reduced spending on non-critical development projects in the second quarter 2020.

Net financial expenses increased to \$406,976 compared to \$102,333 for the same period in Fiscal 2019. The increase of \$304,643 is primarily due the increase in overall borrowed funds during the quarter, increase related to the significant financing component interest on extended warranties, increase in financing costs related to the issuance of convertible debenture subscription units and an increase in interest on lease liabilities from the adoption of the new accounting standard, IFRS 16, *Leases*.

Change in fair value of warrants decreased to a \$685,394 gain compared to a \$1,110,733 gain for the same period in Fiscal 2019. The decrease of \$425,339 is primarily due to the impact that the decrease in the Company's share price had on the non-cash fair value measurement of the Company's warrants at April 30, 2020, coupled with the increase in the number of warrants issued in 2020.

Change in fair value of embedded derivatives increased to a \$406,970 gain compared to nil for the same period in Fiscal 2019. This is a new financial instrument which represents the conversion option embedded in the newly issued convertible debentures which did not exist during the same period in Fiscal 2019.

Share-based payments decreased to \$849,851 compared to \$1,101,421 for the same period in Fiscal 2019. The decrease is primarily due a reduced number of unvested stock options, DSUs and RSUs in 2020.

Net loss increased to \$2,574,123 compared to a net loss of \$1,763,871 for the same period of Fiscal 2019. The increase of \$810,252 is primarily related to the decrease in gross profit, increase in financial expenses, the non-cash fair value measurement of the Company's warrants, and increase in selling and distribution expenses, partially offset by non-cash fair value measurement of the Company's embedded derivatives, decrease in general and administrative costs, decrease in research and development expenses, decrease in share-based payments expenses and a decrease related to the absence of the reverse acquisition of Steamsand in 2020.

## Financial Position

The following table provides an analysis of the Company's statement of financial position as at April 30, 2020 compared to October 31, 2019:

As at	April 30, 2020	October 31, 2019	Variance
<b>Total Assets</b>	27,954,654	23,152,381	4,802,273
Variance mainly due to:			
Cash	1,292,188	1,941,507	(649,319)
Trade and other receivables	6,813,045	7,713,621	(900,576)
Inventories	11,353,549	7,941,110	3,412,439
Intangible assets	4,974,718	3,396,868	1,577,850
Right of use assets	1,205,908	-	1,205,908
<b>Total Liabilities</b>	17,756,492	11,672,756	6,083,736
Variance mainly due to:			
Bank Indebtedness	-	330,000	(330,000)
Trade payables and accrued liabilities	6,053,061	5,284,374	768,687
Lease liability	1,193,625	-	1,193,625
Deferred revenue	3,280,912	2,500,565	780,347
Long-term debt	3,805,961	2,650,000	1,155,961
Convertible debt	1,679,406	-	1,679,406
Embedded derivatives	966,625	-	966,625
<b>Total Shareholders' Equity (Deficit)</b>	10,198,162	11,479,625	(1,281,463)
Variance mainly due to:			
Share capital	38,611,761	38,331,761	280,000
Stock option reserve	3,284,561	2,434,710	849,851
Deficit	(31,480,391)	(28,906,268)	(2,574,123)

Cash decreased to \$1,292,188 at April 30, 2020 compared to \$1,941,507 at October 31, 2019. The decrease is primarily attributed to fund the Company's working capital and development activities, partially offset by the issuance of convertible debenture units, increased borrowings and consideration received from the issuance of common shares.

Trade and other receivables decreased to \$6,813,045 at April 30, 2020 compared to \$7,713,621 at October 31, 2019. The decrease of \$900,576 is primarily due to the decrease in sales on credit made near the end of April 2020 as compared to October 31, 2019.

Inventories increased to \$11,353,549 at April 30, 2020 compared to \$7,941,110 at October 31, 2019. The increase of \$3,412,439 is primarily attributable to purchasing additional components during the six-month period ended April 30, 2020 initially intended to fulfil certain customer orders in the second quarter 2020 that did not materialize in the quarter but will be used for fulfilling orders in subsequent periods, and an increase in the number of scanners manufactured for rental and demonstration purposes.

Intangible assets increased to \$4,974,718 at April 30, 2020, compared to \$3,396,868 at October 31, 2019. The increase of \$1,577,850 is primarily due to increased development achievements and the increase of capitalizing certain costs associated with the expectation of future benefits from increased scanner and software sales, as well as cost reduction initiatives.

Right of use assets increased to \$1,205,908 at April 30, 2020, compared to nil at October 31, 2019. The increase is consequential to the adoption of the new accounting standard, IFRS 16, *Leases*, which provides for capitalization of an operating lease to an asset, representing the Company's right to use that underlying asset. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

Bank Indebtedness decreased to nil at April 30, 2020, compared to \$330,000 at October 31, 2019. The decrease of \$330,000 is mainly due to the mix of cash and bank indebtedness. See the explanation for the decrease in cash above.

Trade payables and accrued liabilities increased to \$6,053,061 at April 30, 2020, compared to \$5,284,374 at October 31, 2019. The increase of \$768,687 is primarily due to increased inventory purchases.

Lease liability increased to \$1,193,625 at April 30, 2020, compared to nil at October 31, 2019. The increase is consequential to the adoption of the new accounting standard, IFRS 16, *Leases*, and represents the present value of the Company's obligation to make lease payments.

Deferred revenue increased to \$3,280,912 at April 30, 2020, compared to \$2,500,565 at October 31, 2019. The increase is due to increased prepaid extended warranties during the six-month period ended April 30, 2020, partially offset by revenue recognized during the period.

Long-term debt increased to \$3,805,961 at April 30, 2020, compared to \$2,650,000 at October 31, 2019. The increase is due to an additional amount of \$1,000,000 borrowed from Espresso Capital Ltd. during the first quarter of Fiscal 2020 and \$190,000 interest free loan from IQ.

Convertible debt increased to \$1,679,406 at April 30, 2020, compared to nil at October 31, 2019. The increase is due to the issuance of the \$3,700,000 convertible debenture units and the allocation of the proceeds received in accordance with IFRS 9, *Financial Instruments* as described in note 12 to the interim condensed consolidated financial statements of the Company for the period ended April 30, 2020.

Embedded derivatives liabilities increased to \$966,625 at April 30, 2020, compared to nil at October 31, 2019. The increase is consequential to the issuance of the \$3,700,000 convertible debenture units and the allocation of the proceeds received in accordance with IFRS 9, *Financial Instruments* as described in note 14 to the interim condensed consolidated financial statements of the Company for the period ended April 30, 2020.

Share capital increased to \$38,611,761 at April 30, 2020, compared to \$38,331,761 at October 31, 2019. The increase of \$280,000 is primarily due to the issuance of 171,429 common shares during the first quarter of Fiscal 2020 through a private placement at \$1.75 per share for total gross proceeds of \$300,000.

Stock option reserve increased to \$3,284,561 at April 30, 2020, compared to \$2,434,710 at October 31, 2019. The increase of \$849,851 is due to the share-based payments expense recorded during the six-month period ending April 30, 2020.

Deficit increased to \$31,480,391 at April 30, 2020, compared to \$28,906,268 at October 31, 2019. The increase of \$2,574,123 is due to the net loss incurred in the first half of Fiscal 2020.

## Liquidity and Capital Resources

### Capital Management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its organic growth, to establish a strong capital base to satisfy its obligations towards its customers and creditors, as well as to provide an adequate return to shareholders. To fund its activities, the Company has relied on cash flows from operations as well as its financial resources, which include cash balance, credit facility, term loan, private placements and marketed offering of its common shares and the issuance of convertible notes. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable growth.

**Cash Flows**

A summary of net cash flows by activity for the three-month period ended April 30, 2020 compared to the corresponding period of 2019 is presented below:

Six-month period ended April 30,	2020	2019	Variance
Net cash used in operating activities	(3,586,005)	(3,141,443)	(444,562)
Net cash used in investing activities	(1,477,579)	(1,619,090)	141,511
Net cash from financing activities	4,231,535	(4,103,572)	8,335,107
Net change in cash	(832,049)	(8,864,105)	8,032,056
Net effect of foreign exchange rate changes on cash	182,730	55,304	127,426
Cash and restricted cash, beginning of period	1,941,507	9,886,040	(7,944,533)
Cash, end of period	1,292,188	1,077,239	214,949

Net cash used in operating activities during the six-month period ended April 30, 2020 increased by \$444,562 when compared to the same period in Fiscal 2019. The increase in net cash used in operations primarily resulted from an increase in inventories, increased collection of upfront cash from extended warranty payments in 2019 and an increased net loss, partially offset by an increase in collection of trade receivables and the increase in trade payables.

Net cash used in investing activities during the six-month period ended April 30, 2020 decreased by \$141,511 when compared to the same period in Fiscal 2019 primarily resulting from reduction in purchases of equipment.

Net cash from financing activities during the six-month period ended April 30, 2020 increased by \$8,335,107 compared to the same period in Fiscal 2019. The increase primarily resulted from the repayment of borrowings and the share issuance costs in Fiscal 2019 following the completion of the going public transaction, coupled with increased borrowings and issuance of convertible debenture units and common shares during the six-month period ended April 30, 2020.

**Other Cash Considerations****Bank indebtedness & letters of guarantee**

At April 30, 2020 the Company had an available revolving demand facility of \$2,500,000 based on eligible accounts receivable and inventory which, as indicated below, has been decreased to \$500,000. 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.

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.

#### **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.

#### **Long-term debt**

##### **(i) 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.

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, concluding on the repayment of the \$1,000,000 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 price 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.

**(ii) 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 bears no interest and 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.

Effective October 31, 2021 the Company must respect a specific financial ratio of EBIDTA 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 present value of the loan at inception and the carrying amount of the loan is considered a benefit for the Company for the time value of money and is recorded as a reduction of the Company's tangible assets balance.

Accordingly, on March 17, 2020 the Company recognized \$154,157 of liability related to the loan received from IQ. The effective interest rate calculated at initial recognition is 7.00%, and it represents the rate that discounts the estimated future cash flows throughout the loan term.

**Convertible debt**

The convertible debt represents the debt component of the convertible debentures issued, independently of the embedded conversion feature derivative.

The convertible debt carries a fixed coupon rate of 10% and matures on various dates commencing April 13, 2022. The fair value of the convertible debt at inception was determined using the residual method and it 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. Transaction costs of \$70,615 related to the convertible debt are embedded in the effective interest rate and are expensed through accretion 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 12 to the interim condensed consolidated financial statements of the Company for the period ended April 30, 2020).

The carrying amount of the non-derivative debt is as follows:

Six-month period ended April 30,	2020	2019
	\$	\$
Initially recognized fair value of non-derivative debt	1,634,345	-
Interest accretion expense	45,061	-
amounts paid	-	-
<b>Balance as at April 30,</b>	<b>1,679,406</b>	<b>-</b>

**Selected Quarterly Information**

The table below presents revenue, net income (loss) and earnings (loss) per share for the last eight quarters:

	Revenue	Net income (loss)	Basic and diluted earnings (loss) per share	Adjusted net income (loss)	Adjusted earnings (loss) per share
April 30, 2020	4,263,857	(349,520)	(0.01)	(1,284,612)	(0.04)
January 31, 2020	6,042,016	(2,224,603)	(0.08)	(1,502,024)	(0.06)
October 31, 2019	5,310,129	(1,314,494)	(0.05)	(1,216,052)	(0.05)
July 31, 2019	7,818,328	(1,216,282)	(0.05)	(103,056)	0.00
April 30, 2019	8,501,138	(120,168)	(0.01)	39,567	0.00
January 31, 2019	6,797,428	(1,643,703)	(0.07)	(715,134)	(0.03)
October 31, 2018	5,468,376	(3,423,660)	(0.22)	(2,011,539)	(0.13)
July 31, 2018	4,974,879	(1,062,031)	(0.07)	(597,611)	(0.04)

Since its incorporation, the Company has not paid any dividend on its common shares. The Company's current policy is to retain future earnings to finance its growth. Any future determination to pay dividends is at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors of the Company may deem relevant.

**Financial Instruments and Risk Management**

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

***Credit risk***

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

The Company performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. It is reasonably possible that the actual amount of loss incurred, if any, will differ from management's estimate. The maximum exposure to the credit risk is the full carrying value of cash, short-term investments, trade and other receivables, research and development tax credits receivable and deposits.

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

***Liquidity risk***

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

The following are amounts due on contractual maturities of financial liabilities, as well as commitments with respect to operating leases, as at April 30, 2020:

	Carrying amount	Contractual Cash flows	Less than 1 year	1 to 3 years	More than 3 years
	\$	\$	\$	\$	\$
Bank indebtedness	-	-	-	-	-
Trade payables and accrued liabilities	6,053,061	6,053,061	6,053,061	-	-
Term debt	253,000	253,000	253,000	-	-
Lease liabilities	1,193,625	1,429,694	395,245	739,650	294,799
Convertible debt	1,679,406	3,700,000	-	3,700,000	-
Long-term debt <sup>7</sup>	3,805,961	3,840,000	424,584	3,328,333	87,083

### **Market risk**

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

#### **(i) Currency risk**

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

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

#### **(ii) Interest rate risk**

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

#### **(iii) 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.

<sup>7</sup> The Company has a revolving credit facility with Espresso Capital Ltd. bearing interest at 15.25% per annum and maturing on June 30, 2022 and a non-interest bearing loan from IQ, payable in 48 equal monthly instalments commencing March 31, 2021.

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.

**(iv) Other price risk**

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

**(v) Investment policy**

The Company invests its excess cash with varying terms to maturity selected with regard to the expected timing of investments or expenditures for continuing operations.

**(vi) Derivatives**

The Company did not enter into significant derivative contracts for the period ended April 30, 2020.

## Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements consist of obligations under operating leases that have a lease term of 12 months or less and leases with low-value assets<sup>8</sup>. The Company does not currently have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material.

## Related Party Transactions

### **Remuneration payable to key management personnel<sup>9</sup>**

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

Six-month period ended April 30,	2020	2019
	\$	\$
Trade payables and accrued liabilities	40,903	172,596

<sup>8</sup> Refer to section "Changes in significant accounting policies" for a description of the change in the Company's accounting treatment of leases with a term of 12 months or more.

<sup>9</sup> Key management personnel include the Chief Executive Officer, Chief Financial Officer, Chief Operations and Production Officer, Chief Technology Officer and Executive Vice-Presidents who are members of the Management Committee.

**Compensation of directors and key management personnel**

The following table summarizes the remuneration of directors and key management personnel from transactions which took place in the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties.

	Three-months ended April 30,		Six-months ended April 30.	
	2020	2019	2020	2019
	\$	\$	\$	\$
Short-term benefits	293,958	495,000	606,875	991,348
Share-based payments	190,772	386,458	536,926	838,709

**Outstanding Share Data**

At April 30, 2020 the Company has 26,744,086 common shares issued and outstanding, 4,189,662 warrants, 232,665 compensation options and 2,410,000 stock options outstanding convertible on a one-for-one basis into common shares, as well as 173,908 DSUs and 273,504 RSUs outstanding convertible on a one-for-one basis into common shares or, at the option of the Company, for a cash payment equivalent to its fair market value.

Additionally, at April 30, 2020 the Company has senior unsecured convertible debentures in the principal amount of \$3,700,000, convertible all, or in part into the Company's common shares at a conversion price of \$0.80 per share. The convertible debenture carries a coupon rate of 10%, payable semi-annually in arrears on June 30 and December 31 of each year commencing June 30, 2020, until the maturity date. The Company may, at its sole discretion, pay all or part of the interest in cash or in common shares, in which case the amount will be converted into the Company's common shares based on the five-day volume-weighted average trading price of the common shares on the day prior to the date on which the interest is payable. On June 5, 2020, the Company issued an additional 240 convertible debenture units for gross proceeds of \$240,000.

**Segment Reporting**

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

The following table summarizes revenue by geographic area:

	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
	100%	100%	100%	100%

The following table summarizes non-current assets information by geography as at April 30, 2020 and October 31, 2019:

	2020	2019
	\$	\$
Canada	6,814,095	4,107,650
Malaysia	72,078	64,445
United Arab Emirates	65,106	68,963
	6,951,279	4,241,058

### Basis of presentation 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 20, 2020, the Company's current assets were greater than its current liabilities by \$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.

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.

### Critical Accounting Estimates

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.

### Changes in significant accounting policies

#### ***IFRS 16, Leases***

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

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. Obligation under capital lease and deferred rent liability previously recognized were adjusted through profit and loss.

## Business Risks

### ***A widespread health epidemic, including COVID-19, could adversely affect our business***

Our business could be severely affected by a widespread regional, national or global health epidemic, by disrupting customers' purchasing behavior and production and/or supply chain of our products. VOTI is continually assessing alternative sourcing of its components so that customers' needs are met in a timely and cost-effective manner.

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.

Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. 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.

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.

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 future impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

The Company continues to revise its contingency plan with respect to its cash flow and financing.

In all other respects, there have been no material changes to the risks factors as described under "Part I – Risk Factors" in the Company's Filing Statement dated November 5, 2018.

### **Disclosure controls and procedures and internal control over financial reporting**

In accordance with the requirements of NI 52-109 VOTI's CEO and CFO have designed, or are in the process of designing under their supervision, DC&P and ICFR to provide reasonable assurance that material information required to be disclosed by VOTI under securities legislation, particularly during the period in which the filings are being prepared, is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to VOTI's management so that decisions can be made about timely disclosure of that information.