Interim condensed consolidated financial statements of

VOTI Detection Inc.

For the three-month periods ended January 31, 2021 and 2020 (Unaudited)

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VOTI Detection Inc.

Interim condensed consolidated statements of financial position

As at January 31, 2021 and October 31, 2020 (Unaudited)

(In Canadian dollars)

	Notes	**January 31 2021**	October 31 2020
		$	$
Assets			
Current assets			
Cash		**3,354,102**	2,088,825
Short-term investments		**82,837**	82,837
Trade and other receivables	4	**2,752,945**	1,928,906
Research and development tax credits receivable		**539,407**	617,358
Inventories	5	**8,704,466**	9,579,181
Prepaid expenses and deposits		**720,637**	512,822
Total current assets		**16,154,394**	14,809,929
Non-current assets			
Property and equipment		**890,641**	1,037,115
Right of use assets	6	**893,470**	1,013,599
Intangible assets		**4,563,182**	4,653,265
Total non-current assets		**6,347,293**	6,703,979
Total assets		**22,501,687**	21,513,908
Liabilities			
Current liabilities			
Bank indebtedness	7	**-**	-
Trade payables and accrued liabilities		**4,240,414**	3,664,385
Current portion of lease liabilities	6	**282,018**	275,550
Customer deposits		**804,196**	302,128
Deferred revenue		**1,190,201**	732,001
Term debt	8	**333,731**	421,220
Current portion of long-term debt	9	**949,621**	937,313
Total current liabilities		**7,800,181**	6,332,597
Non-current liabilities			
Lease liabilities	6	**710,136**	788,483
Deferred revenue		**2,594,384**	2,142,536
Convertible debt	11	**2,401,695**	2,269,160
Embedded derivatives	12	**620,550**	531,900
Warrants	13	**326,052**	282,800
Long-term debt	9	**3,030,651**	2,998,470
Total liabilities		**17,483,649**	15,345,946
Shareholders' equity			
Share capital	14	**38,973,368**	38,776,368
Stock option reserve	15	**3,713,097**	3,581,662
Deficit		**(36,772,209)**	(35,641,678)
Cumulative translation adjustment		**(896,218)**	(548,390)
Total shareholders' equity		**5,018,038**	6,167,962
Total liabilities and shareholders' equity		**22,501,687**	21,513,908

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

Approved by the Board

(s) Neil Hindle, Director

(s) Rory Olson, Director

VOTI Detection Inc.

Interim condensed consolidated statements of loss and comprehensive loss

Three-month periods ended January 31, 2021 and 2020 (Unaudited)
(In Canadian dollars)

	Notes	Three-months ended January 31, 2021	2020
		$	$
Revenue	16	**6,324,215**	6,042,016
Cost of sales	5	**(3,959,379)**	(4,136,817)
Gross profit		**2,364,836**	1,905,199
Expenses			
General and administrative		**882,299**	1,175,713
Selling and distribution		**1,041,172**	1,787,837
Research and development		**231,071**	187,148
Financial expenses, net	17	**1,077,488**	256,525
Change in fair value of warrants	13	**43,252**	191,207
Change in fair value of embedded derivatives	12	**88,650**	—
Share-based payments	15	**131,435**	531,372
		3,495,367	4,129,802
Net loss		**(1,130,531)**	(2,224,603)
Other comprehensive loss			
Foreign currency translation adjustment		**(347,828)**	(66,135)
Comprehensive loss		**(1,478,359)**	(2,290,738)
Basic and diluted net loss per share	18	**(0.04)**	(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)

Three-month periods ended January 31, 2021 and 2020 (Unaudited)

(In Canadian dollars)

	Notes	Number of common shares	Share capital	Stock option reserve	Cumulative translation adjustment	Deficit	Total equity
			$	$	$	$	$
Balance, October 31, 2020		**26,998,103**	**38,776,368**	**3,581,662**	**(548,390)**	**(35,641,678)**	**6,167,962**
Issue of common shares as coupon payment on convertible loan	11	562,862	197,000	-	-	-	**197,000**
Share-based payments expense	15	-	-	131,435	-	-	**131,435**
Other comprehensive loss for the period		-	-	-	(347,828)	-	**(347,828)**
Net loss for the period		-	-	-		(1,130,531)	**(1,130,531)**
Balance, January 31, 2021		**27,560,965**	**38,973,368**	**3,713,097**	**(896,218)**	**(36,772,209)**	**5,018,038**

	Number of common shares	Share capital	Stock option reserve	Cumulative translation adjustment	Deficit	Total equity
		$	$	$	$	$
Balance, October 31, 2019	**26,572,657**	**38,331,761**	**2,434,710**	**(380,578)**	**(28,906,268)**	**11,479,625**
Issue of common shares under private placement	171,429	300,000	-	-	-	**300,000**
Share-based payments expense	-	-	531,372	-	-	**531,372**
Share issuance costs	-	(20,000)	-	-	-	**(20,000)**
Other comprehensive loss for the period	-	-	-	(66,135)	-	**(66,135)**
Net loss for the period	-	-	-		(2,224,603)	**(2,224,603)**
Balance, January 31, 2020	**26,744,086**	**38,611,761**	**2,966,082**	**(446,713)**	**(31,130,871)**	**10,000,259**

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

VOTI Detection Inc.

Interim condensed consolidated statements of cash flows

Three-month periods ended January 31, 2021 and 2020 (Unaudited)

(In Canadian dollars)

	Notes	Three-months ended January 31,	
		2021	2020
		$	$
Operating activities			
Net loss for the period		**(1,130,531)**	**(2,224,603)**
Adjustments for:			
Depreciation of property and equipment		**100,341**	65,767
Amortization of right of use asset		**81,564**	69,752
Amortization of intangible assets		**111,176**	30,827
Interest expense, bank charges and transaction costs	17	**719,448**	308,781
Change in fair value of warrants	13	**43,252**	191,207
Change in fair value of embedded derivatives	12	**88,650**	-
Net foreign exchange (gain) loss	17	**358,040**	(52,256)
Share-based payments	15	**131,435**	531,372
		503,375	(1,079,153)
Net change in non-cash working capital items			
Trade and other receivables	4	**(824,039)**	(1,255,462)
Research and development tax credits receivable		**77,951**	(75,000)
Inventories	5	**807,988**	(2,216,088)
Prepaid expenses and deposits		**(207,815)**	(99,428)
Trade payables and accrued liabilities		**576,029**	1,536,218
Customer deposits		**502,068**	(49,948)
Deferred revenue		**767,462**	25,207
		2,203,019	(3,213,654)
Investing activities			
Net additions to property and equipment		**(13,567)**	(64,822)
Net additions to intangible assets		**(204,187)**	(839,933)
		(217,754)	(904,755)
Financing activities			
Changes in bank indebtedness	7	**-**	2,020,000
Proceeds from long-term debt	9	**32,465**	1,000,000
Interest expense and bank charges paid		**(201,418)**	(174,752)
Payment of lease liabilities	6	**(97,810)**	(94,620)
Repayment of term debt	8	**(87,489)**	-
Consideration received from issuance of shares		**-**	300,000
Share issuance costs		**-**	(20,000)
		(354,252)	3,030,628
Net change during the period		**1,631,013**	(1,087,781)
Net effect of foreign exchange rate changes on cash		**(365,736)**	19,625
Cash, beginning of period		**2,088,825**	1,941,507
Cash, end of period		**3,354,102**	873,351

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

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 for threat detection and loss prevention.

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-months ended January 31, 2021 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, 2020.

The Board of Directors approved the interim condensed consolidated financial statements of the Company and authorized their issuance on March 31, 2021.

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 January 31, 2021, the Company had not yet achieved profitable operations in accordance with IFRS and had a net loss of $1,130,531 for the three-months ended January 31, 2021 and a positive cash flows from operations of $2,203,019. As at January 31, 2021, the Company also had current assets less current liabilities of $8,354,213 and a deficit of $36,772,209. 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.

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, the level of sales orders that were expected prior to the onset of COVID-19 to be received and shipments delivered since the onset of COVID-19 were significantly reduced. To the extent that customer orders do not materialize as expected, our customers postpone orders, or can cancel them, our revenues, cash inflows and financial performance may be adversely impacted.

2. Significant accounting policies (continued)

Basis of preparation and going concern assumption (continued)

In accordance with the Company's banking agreement with Espresso Capital Ltd., described in note 9, the borrowing base is near its limit, as prescribed by the borrowing base calculation, which is driven by gross margin. In addition, the loan is also subject to a minimum working capital calculation, which may not be respected on April 30, 2021 as a result of $3.6 million of convertible debentures, described in note 10, coming due within 12 months, and consequently any remaining Espresso loan balance would become due and payable. 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 may 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 existing orders. To the extent that our suppliers close for an extended period of time, or that the Company encounters difficulty in securing containers with freight forwarders, delays in delivery to customers could result with an adverse impact on financial performance and cash flow. In addition, we are closely monitoring international cross-border trade, 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 postponed, canceled or not continue to materialize, funding not be available, or significant supply chain issues occur, the Company may experience difficulty in meeting its obligations. In order to address this uncertainty, management has and is continuing to undertake the following actions:

- Raised $3,940,000 of financing through the sale of convertible debenture units (see note 10).
- Extended payment terms with Espresso Capital Ltd. for $1,000,000 (see note 9).
- Reduced operating costs.
- Obtained funding and relief in connection with COVID-19 government programs.
- Pursuing various avenues of financing, including debt and/or equity.

The Company continues to update 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, have and 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 flow objectives, there would be material uncertainty 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 as a going concern.

2. Significant accounting policies (continued)

Basis of consolidation

The Company consolidates all controlled subsidiaries. The consolidated financial statements include the accounts of VOTI Detection Inc. and its 100% owned subsidiaries VOTI Inc., VOTI International Inc., VOTI USA, Inc., VOTI Detection Asia SDN. BHD. and VOTI Security Scanning International DWC-LLC. The functional currency of the Company and all of its subsidiaries is the U.S. dollar.

The financial information of the subsidiaries is prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated upon consolidation. The Company has no interests in special purpose entities.

Functional and presentation currency

The functional currency of the parent company and all its subsidiaries is the U.S. dollar, which is the primary economic environment in which the entities operate.

Revenues, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the financial position date. Translation gains (losses) are reflected within net loss in the interim condensed consolidated statement of loss and comprehensive loss as foreign exchange gain (loss).

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

Translation to presentation currency

The 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").

(In Canadian dollars)

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, 2020.

4. Trade and other receivables

	January 31, 2021	October 31, 2020
	$	$
Trade receivables	**2,381,699**	1,591,957
Allowance for expected credit loss	**100,293**	100,293
	2,281,406	1,491,664
Sales tax receivable	**64,397**	116,198
Other receivables	**407,142**	321,044
	2,752,945	1,928,906

Trade receivables are generally on terms of 30 to 60 days and from time to time may be extended further.

During the three-months ended January 31, 2021, the Company provided for an expected credit loss of nil (October 31, 2020 - $100,293) of trade receivables and recorded the related bad debt expense within general and administrative expenses.

(In Canadian dollars)

5. Inventories

	January 31, 2020	October 31, 2020
	$	$
Raw materials	**5,799,260**	5,985,093
Finished goods	**2,905,206**	3,594,088
	8,704,466	9,579,181

Inventories sold and recognized in cost of sales during the three-months ended January 31, 2021 were $3,959,379 (2020 - $4,136,817).

6. Leases

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

Right of use assets

	Building and office space	**Machinery and equipment**	**Total**
	$	**$**	**$**
Net carrying amount			
Balance as at October 31, 2020	**934,230**	**79,369**	**1,013,599**
Depreciation expense	**(79,016)**	**(2,548)**	**(81,564)**
Cumulative translation adjustment	**(34,796)**	**(3,769)**	**(38,565)**
Balance as at January 31, 2021	**820,418**	**73,052**	**893,470**

(In Canadian dollars)

6. Leases (continued)

Lease liabilities

The changes to the lease liabilities are as follows:

	Lease liabilities
	$
Balance as at October 31, 2020	1,064,033
Additions	-
Interest accretion expense	25,931
Payment of lease liabilities	(97,810)
Balance as at January 31, 2021	992,154
Short-term	282,018
Long-term	710,136

The amounts recognized in the interim condensed consolidated statements of loss and comprehensive loss for the three-month periods ended January 31, 2021 and January 31, 2020 are as follows:

	2021	2020
	$	$
Interest accrued on lease liabilities	25,931	24,946
Expenses related to short-term leases	7,887	20,137

At January 31, 2021 and October 31, 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:

	January 31, 2021	October 31, 2020
	$	$
Maturity schedule - contractual undiscounted cash flows		
Less than one year	391,599	391,455
One to three years	724,387	733,075
Four to five years	37,008	126,274
Total undiscounted lease liabilities	1,152,994	1,250,804

7. Bank indebtedness

The Company has an available revolving demand facility, as was re-negotiated with the financial institution, of $500,000 (“Facility 1”) based on eligible accounts receivable and inventory. Amounts drawn under this facility bear interest at 1.5% above the bank’s prime rate and are repayable on demand.

The Company also has a revolving demand facility of $2,055,000 (“Facility 2”) by way of letters of guarantee denominated in Canadian or U.S. currency which is repayable on demand.

All borrowings under Facility 1 and Facility 2 are 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 excluding tax credits to be received;

(b) A deed of moveable hypothec representing all present and future obligations in the amount of $33,684, constituting a first ranking hypothec on term deposits and/or guaranteed investment certificates in the amount of $33,684;

(c) A deed of moveable hypothec representing all present and future obligations in the amount of $34,153, constituting a first ranking hypothec on term deposits and/or guaranteed investment certificates in the amount of $34,153;

(d) Insurance provided by Export Development Canada covering losses pertaining to specific accounts receivable, naming the bank as beneficiary;

(e) An assignment constituting a first charge on all inventory.

Borrowings made under Facility 1 are also secured by a guarantee from Export Development Canada of up to 65% of the aggregate outstanding borrowing amount under this facility. The guarantee bears interest at 4.4% of the amount guaranteed.

Borrowings made under Facility 2 are also secured by a performance security guarantee from Export Development Canada guaranteeing 100% of each issued letter of guarantee. This guarantee also bears interest at 4.4% of the amount guaranteed.

As at January 31, 2021, no amount (October 31, 2020 – nil) was drawn under Facility 1 and there were letters of guarantee under Facility 2, denominated in U.S. dollars, totaling $451,237 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 January 31, 2021, this ratio was not met, however was tolerated by the financial institution. On March 18, 2021, the total liabilities to tangible net worth ratio was replaced with a minimum tangible net worth calculation of $1,000,000.

8. 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:

(i) 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;

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

(iii) the date a refund is received; or

(iv) April 30, 2021.

As at January 31, 2021 the Company has borrowed an amount of $165,511 under this facility, which is presented as a short-term liability in the Company's interim condensed consolidated statements of financial position.

During June 2020, the Company entered into another credit facility agreement with IQ for a term loan of up to $341,530, to be used specifically to finance the refundable tax credits for experimental scientific research and development for the Company's 2020 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 $410,000, with the addition of an irrevocable letter of credit in the amount of $34,153, representing 10% of the credit facility amount.

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

(i) 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;

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

(iii) the date a refund is received; or

(iv) April 30, 2022.

As at January 31, 2021 the Company has borrowed an amount of $168,220 under this facility, which is presented as a short-term liability in the Company's interim condensed consolidated statements of financial position.

(In Canadian dollars)

9. Long-term debt

Espresso Capital Ltd.

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

Accordingly, as at January 31, 2021, the Company's authorized credit limit is $3,847,000 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 7.

The amount outstanding as at January 31, 2021 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 was to be made in 12 equal monthly instalments commencing December 31, 2020. The amendment also provided, that in addition to interest payments, the Company would 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 would expire on June 7, 2027 and can be converted into common shares on a cashless exercise basis. On February 22, 2021, the agreement was amended again to postpone the commencement date of the 12 monthly installments, required to settle the $1,000,000, from December 31, 2020 to March 31, 2021 and to cancel the issuance of the warrants for an exit fee of $20,000 to be paid upon repayment of the $1,000,000.

The Company must respect certain covenants and financial ratios associated with the facility, including maintaining a monthly net working capital ratio of no less than $8,000,000. As at January 31, 2021 all covenants were respected.

The changes to the loan during the three-months ended January 31, 2021 are as follows:

	January 31, 2021
	$
Balance at the beginning of period	**3,650,000**
Additions	**-**
Balance at the end of period	**3,650,000**
Short-term	**916,667**
Long-Term	**2,733,333**

(In Canadian dollars)

9. 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 was 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 measured 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 was recorded as a reduction of the Company's tangible assets balance.

Accordingly, on March 17, 2020 the Company recorded a liability of $154,157. The interest is accreted over the life of the loan through a charge in the statement of loss and comprehensive loss using the effective interest method.

The changes to the loan during the three-months ended January 31 are as follows:

	January 31, 2021
	$
Balance at the beginning of period	161,499
Interest accretion expense	2,843
Balance at the end of period	164,342
Short-term	32,954
Long-Term	131,388

The Economic Development Agency of Canada for the Regions of Quebec

On August 5, 2020 the Company entered into a $500,000 non-interest bearing loan agreement with the Economic Development Agency of Canada for the Regions of Quebec ("EDAC") under the Regional Relief and Recovery Fund and borrowed $400,000. Under the agreement, the funds received are meant specifically to finance the Company's operations by providing liquidity and ensuring business continuity. The loan is payable in 60 equal monthly instalments commencing January 1, 2023.

(In Canadian dollars)

9. Long-term debt (continued)

The Economic Development Agency of Canada for the Regions of Quebec (continued)

The loan was initially measured at the present value of all future loan payments, discounted using comparable interest market rate for a similar loan and is subsequently measured 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 was recorded as a reduction of the Company's related expenses.

Accordingly, on August 5, 2020 the Company recorded a liability of $116,364. The interest is accreted over the life of the loan through a charge in the statement of loss and comprehensive loss.

On January 18, 2021 the Company borrowed the remaining $100,000 tranche, thereby increasing the loan amount to $500,000. This tranche was measured at issuance by applying the same methodology used in determining the initial borrowed amount of $400,000, resulting in the addition of $32,465 to the liability.

The changes to the loan during the three-months ended January 31, 2021 are as follows:

	January 31, 2021
	$
Balance at the beginning of period	**124,284**
Additions	**32,465**
Interest accretion expense	**9,181**
Balance at the end of period	**165,930**
Short-term	**-**
Long-Term	**165,930**

10. 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.

(In Canadian dollars)

10. Convertible debenture units (continued)

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 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, payment of indebtedness thereunder is fully postponed and subordinated to secured creditors of the Company, and 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 January 31, 2021, no such approval was required.

Between April 14 and June 5, 2020, the Company issued 3,940 convertible debenture units for total gross proceeds of $3,940,000.

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 $179,243 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.

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

	Number of units	Fair value per unit	Fair value
		$	$
Warrants	2,364,000	0.28017	662,328
Embedded derivatives	4,925,000	0.29417	1,448,800
Convertible debt (net of transaction costs)	3,940,000	0.44351	1,747,425
Total liability			3,858,553

10. Convertible debenture units (continued)

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 are re-measured at FVTPL at each period-end (see note 12 and note 13). The allocated transaction costs of $97,796 are included in the Company's financial expenses (note 17).

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 are embedded in the effective interest rate and are expensed through accreted interest charges over the term of the liability.

The weighted average effective interest rate of the convertible debt calculated at initial recognition is 31.21%, which represents the rate that discounts the estimated future cash flows throughout its term.

11. Convertible debt

Convertible debt represents the debt component of the convertible debentures issued, described in note 10, independently of the conversion feature embedded derivative.

The changes to the convertible debt during the three-months ended January 31, 2021 and October 31, 2020 are as follows:

	January 31, 2021
	$
Balance at the beginning of period	**2,269,160**
Interest accretion expense	**329,535**
Interest settled by shares issuance	**(197,000)**
Balance at the end of period	**2,401,695**

Interest in the amount of $197,000 paid during the three-months ended January 31, 2021 (2020 - nil) relating to the semi-annual 10% coupon was settled by issuing 562,862 common shares from treasury.

(In Canadian dollars)

12. 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 10. The weighted-average assumptions used to estimate the fair value of the embedded derivatives using the Black-Scholes option pricing model at January 31, 2021 and October 31, 2020 are as follows:

	January 31, 2020	October 31, 2020
Volatility	**105%**	102%
Risk-free rate	**0.14%**	0.24%
Expected life of embedded derivative (years)	**1.20**	1.45
Common share value	**$0.45**	$0.39
Exercise price	**$0.80**	$0.80
Fair value	**$0.126**	$0.108

The changes to the embedded derivatives during the three-months ended January 31, 2021 are as follows:

	Number of Embedded derivatives	**$**
Balance as at October 31, 2020	**4,925,000**	**531,900**
Change in fair value of embedded derivatives		**88,650**
Cumulative translation adjustment		**-**
Balance as at January 31, 2021	**4,925,000**	**620,550**

13. Warrants

On November 13, 2018, in conjunction with its reverse takeover transaction, the Company issued 1,969,662 warrants, providing their holders an option to purchase one common share for $4.50 up to 36 months following November 13, 2018.

These warrants are classified as 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, each warrant was re-valued at $0.004 on January 31, 2021 (October 31, 2020 - $0.004), resulting in a non-cash gain of nil for the three-months ended January 31, 2021.

(In Canadian dollars)

13. Warrants (continued)

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

	January 31, 2021	**October 31, 2020**
Volatility	**114%**	**106%**
Risk-free rate	**0.14%**	**0.24%**
Expected life of warrant (years)	**0.75**	**1.00**
Common share value	**$0.45**	**$0.39**
Exercise price	**$4.50**	**$4.50**
Fair value	**$0.004**	**$0.004**

During April and June 2020, in conjunction with the convertible debenture units issuance as described in note 10, the Company issued 2,364,000 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 January 31, 2021 and October 31, 2020 are as follows:

	January 31, 2021	October 31, 2020
Volatility	**105%**	102%
Risk-free rate	**0.14%**	0.24%
Expected life of embedded derivative (years)	**1.20**	1.45
Common share value	**$0.45**	$0.39
Exercise price	**$0.85**	$0.85
Fair value	**$0.119**	$0.103

On June 10, 2020 in conjunction with the debt agreement amendment as described in note 9, the Company committed to issue 285,714 warrants to Espresso Capital Ltd. The weighted-average assumptions used to estimate the fair value of these warrants using the Black-Scholes option pricing model at January 31, 2021 and October 31, 2020 are as follows:

	January 31, 2021	October 31, 2020
Volatility	**113%**	108%
Risk-free rate	**0.14%**	0.24%
Expected life of embedded derivative (years)	**0.92**	1.17
Common share value	**$0.45**	$0.39
Exercise price	**$0.70**	$0.70
Fair value	**$0.129**	$0.110

(In Canadian dollars)

13. Warrants (continued)

The changes to the warrants balance during the three-months ended January 31, 2021 are as follows:

	Number of Warrants	$
Balance as at October 31, 2020	**4,619,376**	**282,800**
Change in fair value of warrants		**43,252**
Cumulative translation adjustment		**-**
Balance as at January 31, 2021	**4,619,376**	**326,052**

On February 22, 2021, the Espresso Capital Ltd. agreement (see note 9) was amended to cancel the issuance of the 285,714 warrants originally committed as part of a previous debt agreement.

14. Share capital

	Number of shares	Share capital
		$
Balance as at October 31, 2020	**26,998,103**	**38,776,368**
Shares issued as coupon payment on convertible loan	**562,862**	**197,000**
Balance as at January 31, 2021	**27,560,965**	**38,973,368**

On December 31, 2020, the Company settled the coupon payable on its convertible debt by issuing 562,862 common shares from treasury (see note 11).

15. 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 periods ended January 31, 2021 and January 31, 2020, the Company granted stock options to its employees totaling nil and 320,000 respectively, at a weighted average exercise price of nil and $1.75 respectively per share and expiring eight years after the grant date.

(In Canadian dollars)

15. 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 during the three-month periods ended January 31, 2021 and 2020 are as follows:

	January 31, 2021	January 31, 2020
Volatility	**-**	84%
Risk-free rate	**-**	1.56%
Expected life of options (years)	**-**	4.00
Dividend yield	**-**	-
Common share value	**-**	$1.66
Exercise price	**-**	$1.75
Fair value	**-**	$0.998

The weighted average fair value of options granted during the three-months ended January 31, 2021 was nil (2020 - $1.00).

Share-based payments expense of $64,111 was recorded for the three-months ended January 31, 2021 (2020 - $449,108).

The changes to the number of stock options granted and their weighted average exercise price during the three-month periods ended January 31 are as follows:

	January 31, 2021		January 31, 2020	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of period	**2,160,000**	**2.78**	2,135,000	2.99
Granted	**-**	**-**	320,000	1.75
Forfeited/cancelled	**(175,000)**	**2.68**	-	-
Outstanding, end of period	**1,985,000**	**2.79**	2,455,000	2.83
Exercisable, end of period	**1,181,669**	**2.90**	610,000	2.99
Weighted average remaining contractual life (years)		**6.04**		7.02

15. Share-based payments (continued)

Stock Options issued to agent

In connection with the Company's reverse acquisition of Steamsand in 2019, the Company granted 144,238 compensation options to the agent as part of its commissions. Each compensation option gives the holder the right to purchase one common share for $3.00 up to 24 months following November 13, 2018. These compensation options expired on November 13, 2020.

In connection with the Company's market offering of shares in 2019, the Company granted 88,427 compensation options to the agent as part of its commissions. Each compensation option gives the holder the right to purchase one common share for $1.75 up to 24 months following October 10, 2019.

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 2,650,000.

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 became fully vested on October 31, 2020.

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

Share-based payments expense of nil was recorded for the three-months ended January 31, 2021 (2020 - $47,655).

(In Canadian dollars)

15. Share-based payments (continued)

Deferred share unit plan (continued)

The changes to the number of DSUs granted for the three-month periods ended January 31 are as follows:

	January 31, 2021	January 31, 2020
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**147,153**	173,908
Granted	**-**	-
Forfeited/cancelled	**-**	-
Outstanding, end of period	**147,153**	173,908
Vested, end of period	**147,153**	108,700

On February 26, 2021, the Company granted 475,000 DSUs to its Directors, of which 118,750 vest immediately and the remaining 356,250 will vest in equal tranches at the end of each of the following three quarters, with the result that all DSUs granted will be fully vested on October 31, 2021.

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.

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 2,650,000.

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 220,000 RSUs to key management personnel, which vest three months from the date of grant. The RSUs are redeemable by their holders on April 14, 2022 at the earliest unless approved by the Company.

(In Canadian dollars)

15. Share-based payments (continued)

Restricted share unit plan (continued)

On June 30, 2020, the Company adopted a Long-term Incentive Plan ("LTIP"), whereby the Company granted 880,000 RSUs to key management personnel and one employee, of which 440,000 RSUs vest in equal tranches over a three-year vesting period, while the remaining 440,000 RSUs fully vest on:

(a) June 30, 2023 if the weighted average closing price of the Company's common shares on the TSX Venture Exchange over the previous 20 trading days is $1.45 or more; or failing that

(b) on July 31, 2023 if the Company's EBITDA is determined to be $2.5 million or more for the prior 12 calendar months;

Notwithstanding, 770,000 RSUs shall fully and automatically vest in the event of a change of control (as defined in the RSU plan) or upon the participants' retirement.

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.

No new RSUs grants were made during the three-month periods ended January 31, 2021.

Share-based payments expense of $67,324 was recorded for the three-months ended January 31, 2021 (2020 - $34,609).

The changes to the number of RSUs granted during the three-month periods ended January 31 are as follows are as follows:

	January 31, 2021	January 31, 2020
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	**1,153,504**	53,504
Granted	**-**	-
Forfeited/cancelled	**-**	-
Outstanding, end of period	**1,153,504**	53,504
Vested, end of period	**266,816**	20,064

On February 26, 2021, the Company granted 460,000 RSUs to certain employees, which vest over three years.

16. Revenue

	Three-months ended January 31,	
	2021	2020
	$	$
Products	**5,777,073**	5,592,122
After sales services and extended warranty	**547,142**	449,894
	6,324,215	6,042,016

(In Canadian dollars)

17. Financial expenses

	Three-months ended January 31,	
	2021	2020
	$	$
Interest, bank and related charges	**209,373**	174,752
Interest accretion expense on convertible debt	**329,535**	-
Interest accretion on long-term debt	**12,023**	-
Foreign exchange (gain) loss	**358,040**	(52,256)
Significant financing component interest on extended warranties	**142,586**	109,083
Interest on lease liabilities	**25,931**	24,946
	1,077,488	256,525

18. Loss per share

	Three-months ended January 31,	
	2021	2020
	$	$
Loss attributable to common shareholders for the year	**(1,130,531)**	(2,224,603)
Weighted average number of shares for basic and diluted EPS	**27,187,763**	26,716,136
Basic and diluted loss per share	**(0.04)**	(0.08)

A net loss was reported for the three-month periods ended January 31, 2021 and 2020 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.

19. 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.

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

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

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

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

The convertible debt, which includes valuations based on less observable inputs and the warrants and embedded derivatives, which are classified as financial liabilities at FVTPL since they are denominated in a currency other than the Company's functional currency, are measured as level 3.

20. Government Assistance

In response to the negative economic impact of COVID-19, various government programs have been enacted to provide financial relief to businesses. The Company determined that it qualified for the Canada Emergency Wage Subsidy ("CEWS") program under the COVID-19 Economic Response plan for certain periods, which subsidizes a portion of eligible Canadian employee wages, and the amount eligible is based on demonstrating a decline in revenue, the calculation of which varies in accordance with the CEWS program.

(In Canadian dollars)

20. Government Assistance (continued)

The contribution received for the three-month periods ended January 31, 2021 and 2020 was recorded as a reduction to the following accounts:

	Three-months ended January 31,	
	2021	2020
	$	$
Consolidated statements of loss and comprehensive loss		
Cost of sales	**110,146**	-
General and administrative	**79,785**	-
Selling and distribution	**122,404**	-
Research and development	**80,755**	-
	393,090	-
Consolidated statements of financial position		
Inventories	**23,988**	-
Intangible assets	**42,298**	-
	66,286	-
	459,376	-

21. 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.

(In Canadian dollars)

21. Segment information (continued)

The following table summarizes revenue by geographical area for the three-month periods ended January 31, 2021 and 2020:

	Three-months ended January 31,	
	2021	2020
	%	%
United States	**73**	67
Europe, Middle East, and Africa	**11**	15
Asia-Pacific	**10**	10
Latin America	**4**	7
Canada	**2**	1
	100	100

The following table summarizes non-current assets information by geography at January 31, 2021 and October 31, 2020:

	January 31, 2021	October 31, 2020
	$	$
Canada	**6,250,938**	6,593,100
Malaysia	**56,044**	63,578
United Arab Emirates	**40,311**	47,301
	6,347,293	6,703,979