

Interim condensed consolidated financial statements of

VOTI Detection Inc.

**For the three-month and six-month periods ended
April 30, 2021 and 2020 (Unaudited)**

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

As at April 30, 2021 and October 31, 2020 (Unaudited)

(In Canadian dollars)

	Notes	April 30 2021 \$	October 31 2020 \$
Assets			
Current assets			
Cash		1,676,461	2,088,825
Short-term investments		82,837	82,837
Trade and other receivables	4	2,614,486	1,928,906
Research and development tax credits receivable		536,226	617,358
Inventories	5	8,535,650	9,579,181
Prepaid expenses and deposits		554,192	512,822
Total current assets		13,999,852	14,809,929
Non-current assets			
Property and equipment		944,349	1,037,115
Right of use assets	6	807,450	1,013,599
Intangible assets		4,621,398	4,653,265
Total non-current assets		6,373,197	6,703,979
Total assets		20,373,049	21,513,908
Liabilities			
Current liabilities			
Bank indebtedness	7	-	-
Trade payables and accrued liabilities		4,911,689	3,664,385
Current portion of lease liabilities	6	285,750	275,550
Customer deposits		248,804	302,128
Deferred revenue		1,164,236	732,001
Term debt	8	168,220	421,220
Current portion of convertible debt	11	2,570,194	-
Current portion of long-term debt	9	1,042,938	937,313
Total current liabilities		10,391,831	6,332,597
Non-current liabilities			
Lease liabilities	6	652,324	788,483
Deferred revenue		2,379,195	2,142,536
Convertible debt	11	163,604	2,269,160
Embedded derivatives	12	920,975	531,900
Warrants	13	435,368	282,800
Long-term debt	9	3,197,289	2,998,470
Total liabilities		18,140,586	15,345,946
Shareholders' equity			
Share capital	14	38,973,368	38,776,368
Stock option reserve	15	4,062,546	3,581,662
Deficit		(39,657,382)	(35,641,678)
Cumulative translation adjustment		(1,146,069)	(548,390)
Total shareholders' equity		2,232,463	6,167,962
Total liabilities and shareholders' equity		20,373,049	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 and six-month periods ended April 30, 2021 and 2020 (Unaudited)

(In Canadian dollars)

	Notes	Three-months ended April 30		Six-months ended April 30	
		2021	2020	2021	2020
		\$	\$	\$	\$
Revenue	16	5,878,960	4,263,857	12,203,175	10,305,873
Cost of sales	5	(4,048,671)	(2,897,598)	(8,008,050)	(7,034,415)
Gross profit		1,830,289	1,366,259	4,195,125	3,271,458
Expenses					
General and administrative		1,144,492	983,768	2,026,791	2,159,481
Selling and distribution		1,470,992	1,383,461	2,512,164	3,171,298
Research and development		285,642	163,191	516,713	350,339
Financial expenses, net	17	1,010,003	150,451	2,087,491	406,976
Change in fair value of warrants	13	154,459	(876,601)	197,711	(685,394)
Change in fair value of embedded derivatives	12	300,425	(406,970)	389,075	(406,970)
Share-based payments	15	349,449	318,479	480,884	849,851
		4,715,462	1,715,779	8,210,829	5,845,581
Net loss		(2,885,173)	(349,520)	(4,015,704)	(2,574,123)
Other comprehensive loss					
Foreign currency translation adjustment		(249,851)	228,944	(597,679)	162,809
Comprehensive loss		(3,135,024)	(120,576)	(4,613,383)	(2,411,314)
Basic and diluted net loss per share	18	(0.10)	(0.01)	(0.15)	(0.10)

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 and six-month periods ended April 30, 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	-	-	480,884	-	-	480,884
Other comprehensive loss for the period		-	-	-	(597,679)	-	(597,679)
Net loss for the period		-	-	-	-	(4,015,704)	(4,015,704)
Balance, April 30, 2021		27,560,965	38,973,368	4,062,546	(1,146,069)	(39,657,382)	2,232,463
		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		-	-	849,851	-	-	849,851
Share issuance costs		-	(20,000)	-	-	-	(20,000)
Other comprehensive loss for the period		-	-	-	162,809	-	162,809
Net loss for the period		-	-	-	-	(2,574,123)	(2,574,123)
Balance, April 30, 2020		26,744,086	38,611,761	3,284,561	(217,769)	(31,480,391)	10,198,162

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 and six-month periods ended April 30, 2021 and 2020 (Unaudited)

(In Canadian dollars)

	Notes	Six-months ended April 30	
		2021	2020
		\$	\$
Operating activities			
Net loss for the period		(4,015,704)	(2,574,123)
Adjustments for:			
Depreciation of property and equipment		201,515	129,716
Amortization of right of use asset		160,962	173,275
Amortization of intangible assets		222,921	56,103
Interest expense, bank charges and transaction costs	17	1,432,848	839,081
Non-cash gain from cancellation of warrants	17	(25,213)	-
Change in fair value of warrants	13	197,711	(685,394)
Change in fair value of embedded derivatives	12	389,075	(406,970)
Net foreign exchange loss (gain)	17	679,856	(432,105)
Share-based payments	15	480,884	849,851
		(275,145)	(2,050,566)
Net change in non-cash working capital items			
Short-term investments		-	(34,153)
Trade and other receivables	4	(685,580)	900,576
Research and development tax credits receivable		81,132	(142,453)
Inventories	5	824,128	(3,412,439)
Prepaid expenses and deposits		(41,370)	(52,902)
Trade payables and accrued liabilities		1,247,304	768,687
Customer deposits		(53,324)	(107,605)
Deferred revenue		377,853	544,850
		1,474,998	(3,586,005)
Investing activities			
Net additions to property and equipment		(88,469)	(54,093)
Net additions to intangible assets		(562,654)	(1,423,486)
		(651,123)	(1,477,579)
Financing activities			
Changes in bank indebtedness	7	-	(330,000)
Proceeds from long-term debt	9	282,465	1,190,000
Interest expense and bank charges paid		(408,439)	(342,053)
Payment of lease liabilities	6	(196,410)	(188,912)
Repayment of term debt	8	(253,000)	-
Consideration received from issuance of convertible debenture units	10	-	3,700,000
Convertible debenture units issuance costs	10	-	(77,500)
Consideration received from issuance of shares		-	300,000
Share issuance costs		-	(20,000)
		(575,384)	4,231,535
Net change during the period		248,491	(832,049)
Net effect of foreign exchange rate changes on cash		(660,855)	182,730
Cash, beginning of period		2,088,825	1,941,507
Cash, end of period		1,676,461	1,292,188

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

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

1. Description of the business

VOTI Detection Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is domiciled in St-Laurent, Québec. The principal activities of the Company involve the development, manufacturing and selling of X-ray security systems for critical infrastructures, as well as ports, borders, military, and transportation facilities 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-month and six-month periods ended April 30, 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 June 29, 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 April 30, 2021, the Company had not yet achieved profitable operations and had a net loss of \$2,885,173 and \$4,015,704 for the three-month and six-month periods ended April 30, 2021 and a positive cash flows from operations of \$1,474,998. As at April 30, 2021, the Company also had current assets less current liabilities of \$3,608,021 and a deficit of \$39,657,382. 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 cancel them, our revenues, cash flows and financial performance may be adversely impacted.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

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 loan is subject to a minimum working capital calculation, which may not be respected as a result of the balance of the Espresso loan 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 \$4,275,012 of financing through the sale of common shares and warrants in May 2021 (see note 14).
- Raised \$3,940,000 of financing through the sale of convertible debenture units in April through June 2020, and in May 2021 exchanged \$3,640,000 convertible debentures into common shares and warrants (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 refinancing a portion of the Espresso loan 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.

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

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

2. Significant accounting policies (continued)

Basis of consolidation (continued)

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").

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.

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

4. Trade and other receivables

	April 30, 2021	October 31, 2020
	\$	\$
Trade receivables	2,271,289	1,591,957
Allowance for expected credit loss	100,293	100,293
	2,170,996	1,491,664
Sales tax receivable	190,119	116,198
Other receivables	253,371	321,044
	2,614,486	1,928,906

Trade receivables are generally on terms of 30 to 60 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.

During the six-months period ended April 30, 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.

Two customers (two in 2020) represented approximately 46% of the trade accounts receivable balance as at April 30, 2021 (October 31, 2020 - 30%).

	April 30, 2020	October 31, 2020
	%	%
Customer A	41	-
Customer B	5	-
Customer C	-	16
Customer D	-	14
	46	30

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

	April 30, 2020	October 31, 2020
	\$	\$
0-30 days	2,022,353	1,276,040
31-60 days	9,374	80,593
61-90 days	1,762	25,272
Over 90 days	137,507	109,759
	2,170,996	1,491,664

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

5. Inventories

	April 30, 2020	October 31, 2020
	\$	\$
Raw materials	6,420,140	5,985,093
Finished goods	2,115,510	3,594,088
	8,535,650	9,579,181

Inventories sold and recognized in cost of sales during the three-month and six-month periods ended April 30, 2021 were \$4,048,671 and \$8,008,050 respectively (2020 - \$2,897,598 and \$7,034,415 respectively).

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
Additions	-	20,045	20,045
Depreciation expense	(145,342)	(15,620)	(160,962)
Cumulative translation adjustment	(61,006)	(4,226)	(65,232)
Balance as at April 30, 2021	727,882	79,568	807,450

Lease liabilities

The changes to the lease liabilities are as follows:

	Lease liabilities
	\$
Balance as at October 31, 2020	1,064,033
Additions	20,045
Interest accretion expense	50,406
Payment of lease liabilities	(196,410)
Balance as at April 30, 2021	938,074
Short-term	285,750
Long-term	652,324

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

6. Leases (continued)**Lease liabilities (continued)**

The amounts recognized in the interim condensed consolidated statements of loss and comprehensive loss for the three-month and six-month periods ended April 30, 2021 and 2020 are as follows:

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	\$			\$
Interest accrued on lease liabilities	24,475	41,313	50,406	66,259
Expenses related to short-term leases	4,206	11,613	12,093	31,750

At April 30, 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:

	April 30, 2021	October 31, 2020
	\$	\$
<i>Maturity schedule - contractual undiscounted cash flows</i>		
Less than one year	387,952	391,455
One to three years	673,594	733,075
Four to five years	18,340	126,274
Total undiscounted lease liabilities	1,079,886	1,250,804

7. Bank indebtedness

The Company has an available revolving demand facility with a 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, Indian Rupee or U.S. currency which is repayable on demand.

All borrowings under Facility 1 and Facility 2 are secured by the following:

- A deed of moveable hypothec representing all present and future obligations in the amount of \$3,100,000, constituting a security interest on the universality of all present and future assets excluding tax credits to be received;
- 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;
- 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;
- Insurance provided by Export Development Canada covering losses pertaining to specific accounts receivable, naming the bank as beneficiary;
- An assignment constituting a first charge on all inventory.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

7. Bank indebtedness (continued)

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 April 30, 2021, nil (October 31, 2020 – nil) was drawn under Facility 1 and there were letters of guarantee under Facility 2, denominated in Canadian dollars, U.S. dollars and Indian Rupees, totaling \$500,697 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 minimum tangible net worth of \$1,000,000 to be measured on a quarterly basis. As at April 30, 2021, this covenant was respected.

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.

On April 30, 2021 the Company repaid the outstanding balance under this facility of \$165,511.

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.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

8. Term debt (continued)

As at April 30, 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.

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. ("Espresso") 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, 2021, the Company's authorized credit limit is \$4,137,000 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 April 30, 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 would 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 adjusted shortly thereafter by deferring the commencement of installments from March 31, 2021 to May 31, 2021.

The February 22, 2021 amendment resolved to cancel the warrants issued for an exit fee of \$20,000, payable upon the full repayment of the \$1,000,000. Accordingly, the corresponding cancellation of \$45,143 fair value of the warrants liability (measured on February 22, 2021 using the Black-Scholes option pricing model – see note 13) resulted in a non-cash gain from extinguishment of financial liability, which was recorded in the Company's net financial expenses.

The Company must respect certain covenants and financial ratios associated with the facility, including maintaining a monthly net working capital of no less than \$8,000,000. As at April 30, 2021, this covenant was not respected. On April 30, 2021, Espresso agreed to waive such default and will not demand repayment in the future as a result of this default.

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

9. Long-term debt (continued)***Espresso Capital Ltd. (continued)***

The changes to the loan during the six-months ended April 30, 2021 are as follows:

	April 30, 2021
	\$
Balance as at October 31, 2020	3,650,000
Additions	-
Balance as at April 30, 2021	3,650,000
Short-term	1,000,000
Long-Term	2,650,000

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 six-months ended April 30, 2021 are as follows:

	April 30, 2021
	\$
Balance as at October 31, 2020	161,499
Interest accretion expense	4,822
Payments made	(4,166)
Balance as at April 30, 2021	162,155
Short-term	37,459
Long-Term	124,696

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

9. Long-term debt (continued)

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.

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 six-months ended April 30, 2021 are as follows:

	April 30, 2021
	\$
Balance at October 31, 2020	124,284
Additions	32,465
Interest accretion expense	20,474
Balance as at April 30, 2021	177,223
Short-term	-
Long-Term	177,223

The Business Development Bank of Canada Highly Affected Sectors Credit Availability Program

On February 17, 2021 the Company entered into a \$250,000 loan agreement with the Royal Bank of Canada under the Business Development of Canada's ("BDC") Highly Affected Sectors Credit Availability Program ("HASCAP"), which provides Canadian businesses access to a non-revolving government guaranteed loans, meant to fund operational cash flow needs, in attempts to curtail any adverse effects caused by the COVID-19 global pandemic.

The loan carries the following terms:

- (i) 4% fixed interest rate per annum, payable at the end of each month;
- (ii) Amortization period of 10 years;
- (iii) No principal repayments for 12 months from the date of drawdown; and
- (iv) Borrowings made under this agreement are secured by a security guarantee from BDC, guaranteeing 100% of the value of the loan.

On March 15, 2021 the Company borrowed the funds and recorded a liability of \$250,000. As at April 30, 2021, the borrowed principal amount remains the same and is presented within long-term debt.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

9. Long-term debt (continued)

The Business Development Bank of Canada Highly Affected Sectors Credit Availability Program (continued)

The changes to the loan during the six-months ended April 30, 2021 are as follows:

	April 30, 2021
	\$
Balance as at October 31, 2020	-
Additions	250,000
Interest	1,699
Payments made	(850)
Balance as at April 30, 2021	250,849
Short-term	5,479
Long-Term	245,370

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.

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 April 30, 2021, no such approval was required.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

10. Convertible debenture units (continued)

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 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

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.

On May 13, 2021, the Company signed share for debt agreements, whereby it exchanged 3,640 convertible debenture units, at their undiscounted cash value of \$3,640,000, for common shares at \$0.42 per share with the issuance of 4,333,333 warrants, each of which entitling its holder to purchase one common share at a price of \$0.55 per share for a period of 3 years from the date of closing, and settled accrued interest by issuing common shares at \$0.52 per share. This resulted in the cancellation of the 3,640 convertible debenture units for total consideration of 8,906,392 and 4,333,333 newly issued common shares and warrants respectively. Following the closing of the transaction, only 300 convertible debenture units, representing an undiscounted cash value of \$300,000 remain outstanding.

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

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 six-months ended April 30, 2021 are as follows:

	April 30, 2021
	\$
Balance as at October 31, 2020	2,269,160
Interest accretion expense	661,638
Interest settled by shares issuance	(197,000)
Balance as at April 30, 2021	2,733,798
Short-term	2,570,194
Long-term	163,604

Interest in the amount of \$197,000 paid during the six-months ended April 30, 2021 (2020 - nil) relating to the semi-annual 10% coupon was settled by issuing 562,862 common shares from treasury.

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 April 30, 2021 and October 31, 2020 are as follows:

	April 30, 2021	October 31, 2020
Volatility	129%	102%
Risk-free rate	0.29%	0.24%
Expected life of embedded derivative (years)	0.95	1.45
Common share value	\$0.52	\$0.39
Exercise price	\$0.80	\$0.80
Fair value	\$0.187	\$0.108

The changes to the embedded derivatives during the six-months ended April 30, 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		389,075
Cumulative translation adjustment		-
Balance as at April 30, 2021	4,925,000	920,975

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

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 \$0.005 on April 30, 2021 and at \$0.004 on January 31, 2021 (October 31, 2020 - \$0.004), resulting in a non-cash loss of \$1,969 and \$1,969 for the three-month and six-month periods ended April 30, 2021.

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

	April 30, 2021	October 31, 2020
Volatility	135%	106%
Risk-free rate	0.29%	0.24%
Expected life of warrant (years)	0.50	1.00
Common share value	\$0.52	\$0.39
Exercise price	\$4.50	\$4.50
Fair value	\$0.005	\$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 April 30, 2021 and October 31, 2020 are as follows:

	April 30, 2021	October 31, 2020
Volatility	129%	102%
Risk-free rate	0.29%	0.24%
Expected life of embedded derivative (years)	0.95	1.45
Common share value	\$0.52	\$0.39
Exercise price	\$0.85	\$0.85
Fair value	\$0.180	\$0.103

On May 13, 2021, following the completion of shares for debt agreements between the Company and participating convertible debenture units' holders, the Company cancelled 3,640 convertible debenture units, which included warrants to purchase 2,184,000 common shares, valued at \$393,120 as at April 30, 2021 (see note 10).

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

13. Warrants (continued)

On June 10, 2020 in conjunction with the debt agreement amendment as described in note 9, these warrants were cancelled (see note 9) and resulted in a non-cash gain during the three-month period ended April 30, 2021 of \$25,213, recorded in net financial expenses.

Accordingly, using the Black-Scholes option pricing model, the Company re-measured the value of these warrants at \$0.158 prior to their cancellation on February 22, 2021 (October 31, 2020 - \$0.110), resulting in a non-cash loss of \$8,286 and \$13,714 for the three-month and six-month periods ended April 30, 2021.

The weighted-average assumptions used to estimate the fair value of these warrants using the Black-Scholes option pricing model at February 22, 2021 and October 31, 2020 are as follows:

	February 22, 2021	October 31, 2020
Volatility	135%	108%
Risk-free rate	0.22%	0.24%
Expected life of embedded derivative (years)	0.85	1.17
Common share value	\$0.45	\$0.39
Exercise price	\$0.70	\$0.70
Fair value	\$0.158	\$0.110

The changes to the warrants balance during the six-months ended April 30, 2021 are as follows:

	Number of Warrants	\$
Balance as at October 31, 2020	4,619,376	282,800
Change in fair value of warrants		197,711
Cancellation of warrants	(285,714)	(45,143)
Cumulative translation adjustment		-
Balance as at April 30, 2021	4,333,662	435,368

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 April 30, 2021	27,560,965	38,973,368

During January 2021, the Company settled the December 31, 2020 coupon payable on its convertible debt by issuing 562,862 common shares from treasury (see note 11).

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

14. Share capital (continued)

On May 6, 2021, the Company completed a brokered private placement of 10,178,600 units at a price of \$0.42 per unit for aggregate gross proceeds of \$4,275,012.

Each unit consists of one common share of the Company and one-half of one common share purchase warrant, which entitles its holder to acquire one common share at a price of \$0.55 per share for a period of 36 months. Additionally, the Company issued 804,883 broker warrants in connection with the private placement, whereby each warrant entitles its holder the option to acquire one common share at a price of \$0.42 per share for a period of 24 months. In addition to the broker warrants, transaction fees were approximately \$530,000.

On May 13, 2021, the Company signed share for debt agreements whereby it exchanged 3,640 convertible debenture units, at their undiscounted cash value of \$3,640,000, for common shares at \$0.42 per share with the issuance of 4,333,333 warrants, each of which entitling its holder to purchase one common share at a price of \$0.55 per share for a period of 3 years from the date of closing, and settled accrued interest by issuing common shares at \$0.52 per share. This resulted in the cancellation of the 3,640 convertible debenture units, for total consideration of 8,906,392 and 4,333,333 newly issued common shares and warrants, respectively.

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 and six-month periods ended April 30, 2021 the Company granted stock options to its employees totaling 100,000 and 100,000 respectively (55,000 and 375,000 for the three-month and six-month periods ended April 30, 2020 respectively), at a weighted average exercise price of \$0.58 and \$0.58 respectively per share (\$0.80 and \$1.61 for the three-month and six-month periods ended April 30, 2020, respectively) and expiring eight years after the grant date.

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.

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

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

The weighted average principal components of the pricing model for measuring the fair value of the options granted during the six-month periods ended April 30, 2021 and 2020 are as follows:

	April 30, 2021	April 30, 2020
Volatility	85%	85%
Risk-free rate	0.30%	1.43%
Expected life of options (years)	5.00	4.00
Dividend yield	-	-
Common share value	\$0.53	\$1.53
Exercise price	\$0.58	\$1.61
Fair value	\$0.34	\$0.92

The weighted average fair value of options granted during the six-months ended April 30, 2021 was \$0.34 (2020 - \$0.92).

Share-based payments expense of \$93,389 and \$157,500 were recorded for the three-month and six-month periods ended April 30, 2021 respectively (2020 - \$243,608 and \$692,716 respectively).

The changes to the number of stock options granted and their weighted average exercise price during the six-month periods ended April 30, 2021 and 2020 are as follows:

	April 30, 2021		April 30, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, October 31, 2020	2,160,000	2.78	2,135,000	2.99
Granted	100,000	0.58	375,000	1.61
Forfeited/cancelled	(175,000)	2.68	(100,000)	-
Outstanding, April 30, 2021	2,085,000	2.68	2,410,000	2.37
Exercisable, April 30, 2021	1,354,587	2.87	793,333	2.99
Weighted average remaining contractual life (years)		5.89		6.78

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.

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

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(In Canadian dollars)

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

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

The purpose of the DSU Plan is to assist the Company in the recruitment and retention of qualified persons to serve as Directors of the Company and to align the interests of eligible Directors with the long-term interests of the shareholders of the Company.

A Deferred Share Unit ("DSU") is a notional unit credited by the Company to an eligible Director, to be exchanged for fully paid Common Shares or, at the option of the Company, for a cash payment equivalent to its fair market value when the eligible Director ceases to be a director of the Company. The Company intends to exchange the DSUs for fully paid Common Shares.

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

On February 26, 2021, the Company granted 475,000 DSUs to its Directors, of which 118,750 vested 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.

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 \$167,509 and \$167,509 were recorded for the three-month and six-month periods ended April 30, 2021 respectively (2020 - \$30,407 and \$78,062 respectively).

The changes to the number of DSUs granted for the six-month periods ended April 30, 2021 and 2020 are as follows:

	April 30, 2021	April 30, 2020
	Number of DSUs	Number of DSUs
Outstanding as at October 31, 2020	147,153	173,908
Granted	475,000	-
Forfeited/cancelled	-	-
Outstanding as at April 30, 2021	622,153	173,908
Vested as at April 30, 2021	384,653	130,436

VOTI Detection Inc.

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(In Canadian dollars)

15. Share-based payments (continued)

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. Accordingly, on April 30, 2021 these RSUs became fully vested.

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 unless approved earlier by the Company.

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.

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

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 \$88,551 and \$155,875 were recorded for the three-month and six-month periods ended April 30, 2021 respectively (2020 - \$44,464 and \$79,073 respectively).

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

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(In Canadian dollars)

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

The changes to the number of RSUs granted during the six-month periods ended April 30, 2021 and 2020 are as follows:

	April 30, 2021	April 30, 2020
	Number of RSUs	Number of RSUs
Outstanding as at October 31, 2020	1,153,504	53,504
Granted	460,000	220,000
Forfeited/cancelled	-	-
Outstanding as at April 30, 2021	1,613,504	273,504
Vested as at April 30, 2021	266,816	26,752

16. Revenue

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Products	5,320,539	3,750,846	11,097,612	9,342,968
After sales services and extended warranty	558,421	513,011	1,105,563	962,905
	5,878,960	4,263,857	12,203,175	10,305,873

During the three-month and six-month periods ended April 30, 2021, the Company generated 20% and 13%, respectively (2020 – 61% and 60% respectively) of its revenue, from one customer (2020 - four) in the approximate amounts of \$1.2 million and \$1.6 million for the three-month and six-month periods ended April 30, 2021 respectively (2020 – \$1.8 million and \$5.1 million respectively), and as follows:

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	%	%	%	%
Customer A	20	10	13	8
Customer B	-	23	-	28
Customer C	-	17	-	17
Customer D	-	11	-	7
	20	61	13	60

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

17. Financial expenses

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest, bank and related charges	193,395	233,079	402,768	407,831
Transaction costs on issuance of convertible debenture units	-	82,629	-	82,629
Interest accretion expense on convertible debt	332,103	45,061	661,638	45,061
Interest accretion on long-term debt	14,972	1,804	26,995	1,804
Foreign exchange (gain) loss	321,816	(379,849)	679,856	(432,105)
Significant financing component interest on extended warranties	148,455	126,414	291,041	235,497
Non-cash gain from cancellation of warrants	(25,213)	-	(25,213)	-
Interest on lease liabilities	24,475	41,313	50,406	66,259
	1,010,003	150,451	2,087,491	406,976

18. Loss per share

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Loss attributable to common shareholders for the year	(2,885,173)	(349,520)	(4,015,704)	(2,574,123)
Weighted average number of shares for basic and diluted EPS	27,560,965	26,744,086	27,371,271	26,729,957
Basic and diluted loss per share	(0.10)	(0.01)	(0.15)	(0.10)

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

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

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.

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

20. Government Assistance (continued)

The contributions received for the three-month and six-month periods ended April 30, 2021 and 2020 were recorded as a reduction to the following accounts:

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Consolidated statements of loss and comprehensive loss				
Cost of sales	33,974	11,521	144,120	11,521
General and administrative	26,841	67,402	106,626	67,402
Selling and distribution	45,472	115,298	167,876	115,298
Research and development	22,166	15,784	102,921	15,784
	128,453	210,005	521,543	210,005
Consolidated statements of financial position				
Inventories	8,795	72,779	32,783	72,779
Intangible assets	18,072	59,374	60,370	59,374
	26,867	132,153	93,153	132,153
	155,320	342,158	614,696	342,158

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.

The following table summarizes revenue by geographical area for the three-month and six-month periods ended April 30, 2021 and 2020:

	Three-months ended April 30		Six-months ended April 30	
	2021	2020	2021	2020
	%	%	%	%
United States	65	39	68	55
Europe, Middle East & Africa	16	44	15	27
Asia-Pacific	7	3	9	7
Latin America	7	7	5	8
Canada	5	7	3	3
	100	100	100	100

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

Three-month and six-month periods ended April 30, 2021 (Unaudited)

(In Canadian dollars)

21. Segment information (continued)

The following table summarizes non-current assets information by geography at April 30, 2021 and October 31, 2020:

	April 30, 2021	October 31, 2020
	\$	\$
Canada	6,291,909	6,593,100
Malaysia	47,329	63,578
United Arab Emirates	33,959	47,301
	6,373,197	6,703,979