Interim condensed consolidated financial statements of

VOTI Detection Inc.

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

VOTI Detection Inc.

Interim condensed consolidated statements of financial position

As at July 31, 2021 and October 31, 2020 (Unaudited)
(In Canadian dollars)

	Notes	July 31, 2021	October 31, 2020
		$	$
Assets			
Current assets			
Cash		**3,209,713**	2,088,825
Short-term investments		**82,837**	82,837
Trade and other receivables	4	**2,842,782**	1,928,906
Research and development tax credits receivable		**606,568**	617,358
Inventories	5	**9,926,922**	9,579,181
Prepaid expenses and deposits		**613,806**	512,822
Total current assets		**17,282,628**	14,809,929
Non-current assets			
Property and equipment		**856,432**	1,037,115
Right of use assets	6	**740,710**	1,013,599
Intangible assets		**4,823,354**	4,653,265
Total non-current assets		**6,420,496**	6,703,979
Total assets		**23,703,124**	21,513,908
Liabilities			
Current liabilities			
Trade payables and accrued liabilities		**5,661,525**	3,664,385
Current portion of lease liabilities	6	**289,065**	275,550
Customer deposits		**353,147**	302,128
Deferred revenue		**1,155,847**	732,001
Term debt	8	**168,220**	421,220
Current portion of convertible debt	11	**238,975**	-
Current portion of long-term debt	9	**3,699,474**	937,313
Total current liabilities		**11,566,253**	6,332,597
Non-current liabilities			
Lease liabilities	6	**573,797**	788,483
Deferred revenue		**2,507,562**	2,142,536
Convertible debt	11	**-**	2,269,160
Embedded derivatives	12	**44,625**	531,900
Warrants	13	**2,601,810**	282,800
Long-term debt	9	**542,684**	2,998,470
Total liabilities		**17,836,731**	15,345,946
Shareholders' equity			
Share capital	14	**43,765,056**	38,776,368
Stock option reserve	15	**4,023,437**	3,581,662
Deficit		**(40,665,681)**	(35,641,678)
Cumulative translation adjustment		**(1,256,419)**	(548,390)
Total shareholders' equity		**5,866,393**	6,167,962
Total liabilities and shareholders' equity		**23,703,124**	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 nine-month periods ended July 31, 2021 and 2020 (Unaudited)
(In Canadian dollars)

	Notes	Three months ended July 31		Nine months ended July 31	
		2021	2020	**2021**	2020
		$	$	**$**	$
Revenue	16	**5,602,091**	3,855,653	**17,805,266**	14,161,526
Cost of sales	5	**(3,450,982)**	(2,627,978)	**(11,459,032)**	(9,662,393)
Gross profit		**2,151,109**	1,227,675	**6,346,234**	4,499,133
Expenses					
General and administrative		**906,555**	1,366,653	**2,933,346**	3,526,134
Selling and distribution		**1,247,994**	908,991	**3,760,158**	4,080,289
Research and development, net		**861,469**	104,441	**1,378,182**	454,780
Financial expenses, net	17	**641,767**	1,266,978	**2,729,258**	1,673,954
Change in fair value of warrants	13	**(556,685)**	(348,665)	**(358,974)**	(1,034,059)
Change in fair value of embedded derivatives	12	**(30,050)**	(568,820)	**359,025**	(975,790)
Share-based payments	15	**88,358**	442,935	**569,242**	1,292,786
		3,159,408	3,172,513	**11,370,237**	9,018,094
Net loss		**(1,008,299)**	(1,944,838)	**(5,024,003)**	(4,518,961)
Other comprehensive loss					
Foreign currency translation adjustment		**(110,350)**	(267,755)	**(708,029)**	(104,946)
Comprehensive loss		**(1,118,649)**	(2,212,593)	**(5,732,032)**	(4,623,907)
Basic and diluted net loss per share	18	**(0.02)**	(0.07)	**(0.15)**	(0.17)

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

(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 under private placement	14	10,178,600	2,661,705	-	-	-	**2,661,705**
Issue of common shares as coupon payment on convertible debt	11	802,588	321,658	-	-	-	**321,658**
Issue of common shares under shares for debt transaction	10	8,666,666	2,422,333	-	-	-	**2,422,333**
Restricted share units exchanged for common shares	14	111,752	127,467	(127,467)	-	-	**-**
Share issuance costs	14	-	(544,475)		-	-	**(544,475)**
Share-based payments expense	15	-	-	569,242	-	-	**569,242**
Other comprehensive loss for the period		-	-	-	(708,029)	-	**(708,029)**
Net loss for the period		-	-	-	-	(5,024,003)	**(5,024,003)**
Balance, July 31, 2021		**46,757,709**	**43,765,056**	**4,023,437**	**(1,256,419)**	**(40,665,681)**	**5,866,393**

	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**
Issue of common shares as coupon payment on convertible debt	130,606	78,361	-	-	-	**78,361**
Share-based payments expense	-	-	1,292,786	-	-	**1,292,786**
Share issuance costs	-	(20,000)	-	-	-	**(20,000)**
Other comprehensive loss for the period	-	-	-	(104,946)	-	**(104,946)**
Net loss for the period	-	-	-		(4,518,961)	**(4,518,961)**
Balance, July 31, 2020	**26,874,692**	**38,690,122**	**3,727,496**	**(485,524)**	**(33,425,229)**	**8,506,865**

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 nine-month periods ended July 31, 2021 and 2020 (Unaudited)

(In Canadian dollars)

		Nine months ended July 31	
	Notes	**2021**	2020
		$	$
Operating activities			
Net loss for the period		**(5,024,003)**	(4,518,961)
Adjustments for:			
Depreciation of property and equipment		**316,294**	201,840
Amortization of right of use asset		**244,293**	247,224
Amortization of intangible assets		**338,005**	104,648
Interest expense, bank charges and other	17	**2,206,149**	1,590,262
Non-cash gain from cancellation of warrants	17	**(25,213)**	-
Non-cash gain from shares-for-debt agreement	10, 11	**(15,702)**	-
Change in fair value of warrants	13	**(358,974)**	(1,034,059)
Change in fair value of embedded derivatives	12	**359,025**	(975,790)
Net foreign exchange loss (gain)	17	**564,024**	83,692
Share-based payments	15	**569,242**	1,292,786
		(826,860)	(3,008,358)
Net change in non-cash working capital items			
Short-term investments		**-**	(34,153)
Trade and other receivables	4	**(913,876)**	3,122,267
Research and development tax credits receivable		**10,790**	(176,286)
Inventories	5	**(567,144)**	(1,769,951)
Prepaid expenses and deposits		**(100,984)**	211,079
Trade payables and accrued liabilities		**1,997,140**	(1,419,638)
Customer deposits		**51,019**	35,977
Deferred revenue		**343,153**	158,621
		(6,762)	(2,880,442)
Investing activities			
Net additions to property and equipment		**(96,541)**	(86,406)
Net additions to intangible assets		**(809,697)**	(1,758,064)
		(906,238)	(1,844,470)
Financing activities			
Changes in bank indebtedness	7	**-**	(330,000)
Proceeds from term debt		**-**	168,220
Proceeds from long-term debt	9	**282,465**	1,190,000
Interest expense and bank charges paid		**(605,480)**	(698,281)
Payment of lease liabilities	6	**(294,223)**	(283,157)
Repayment of term debt	8	**(253,000)**	-
Consideration from issuance of convertible debenture units	10	**-**	3,940,000
Convertible debenture units issuance costs	10	**-**	(122,828)
Consideration received from issuance of units	14	**4,275,012**	300,000
Share issuance costs	14	**(589,489)**	(20,000)
		2,815,285	4,143,954
Net change during the period		**1,902,285**	(580,958)
Net effect of foreign exchange rate changes on cash		**(781,397)**	(231,283)
Cash, beginning of period		**2,088,825**	1,941,507
Cash, end of period		**3,209,713**	1,129,266

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-month and nine-month periods ended July 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 September 28, 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 July 31, 2021, the Company had not yet achieved profitable operations and had a net loss of $1,008,299 and $5,024,003 for the three-month and nine-month periods ended July 31, 2021, respectively and negative cash flows from operations of $6,762 for the nine-month period ended July 31, 2021. As at July 31, 2021, the Company also had current assets less current liabilities of $5,716,375 and a deficit of $40,665,681. 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.

2. Significant accounting policies (continued)

Basis of preparation and going concern assumption (continued)

The Company has not, to date, experienced an inability to fulfill customer orders, however, there have been certain delays resulting from increased component supplier and freight forwarding lead times. Measures have been taken to ensure the availability of components on hand to fulfill existing orders. To the extent that our suppliers push our orders, do not have sufficient components to sell in a timely manner, 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 may 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. (see note 9).
- Reduced operating costs.
- Obtained funding and relief in connection with COVID-19 government assistance 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 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 losses have been eliminated upon consolidation. The Company has no interests in special purpose entities.

2. Significant accounting policies (continued)

Functional and presentation currency

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

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.

(In Canadian dollars)

4. Trade and other receivables

	July 31, 2021	October 31, 2020
	$	$
Trade receivables	**2,665,431**	1,591,957
Allowance for expected credit loss	**100,293**	100,293
	2,565,138	1,491,664
Sales tax receivable	**148,325**	116,198
Other receivables	**129,319**	321,044
	2,842,782	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 nine months ended July 31, 2021, the Company provided for an expected credit loss of $nil (October 31, 2020 - $100,293) of trade receivables. Bad debt expenses are reported by the Company within general and administrative expenses.

Three customers (two in 2020) represented approximately 72% of the trade accounts receivable balance as at July 31, 2021 (October 31, 2020 - 30%).

	July 31, 2021	October 31, 2020
	%	%
Customer A	**33**	-
Customer B	**27**	14
Customer C	**12**	-
Customer D	**-**	16
	72	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:

	July 31, 2021	October 31, 2020
	$	$
0-30 days	**2,360,973**	1,276,040
31-60 days	**27,817**	80,593
61-90 days	**-**	25,272
Over 90 days	**176,348**	109,759
	2,565,138	1,491,664

(In Canadian dollars)

5. Inventories

	July 31, 2021	October 31, 2020
	$	$
Raw materials	**7,325,531**	5,985,093
Finished goods	**2,601,391**	3,594,088
	9,926,922	9,579,181

Inventories sold and recognized in cost of sales during the three-month and nine-month periods ended July 31, 2021 were $3,450,982 and $11,459,032 respectively (2020 - $2,627,978 and $9,662,393 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	**(219,758)**	**(24,535)**	**(244,293)**
Cumulative translation adjustment	**(45,730)**	**(2,911)**	**(48,641)**
Balance as at July 31, 2021	**668,742**	**71,968**	**740,710**

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	**73,007**
Payment of lease liabilities	**(294,223)**
Balance as at July 31, 2021	**862,862**
Short-term	**289,065**
Long-term	**573,797**

(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 nine-month periods ended July 31, 2021 and 2020 are as follows:

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	$			$
Interest accrued on lease liabilities	**22,601**	30,008	**73,007**	96,267
Expenses related to short-term leases	**2,057**	6,667	**14,150**	38,417

At July 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:

	July 31, 2021	October 31, 2020
	$	$
Maturity schedule - contractual undiscounted cash flows		
Less than one year	**381,230**	391,455
One to three years	**582,468**	733,075
Four to five years	**12,928**	126,274
Total undiscounted lease liabilities	**976,626**	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) 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.

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 July 31, 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 $506,007 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 July 31, 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.

8. Term debt (continued)

As at July 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.

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 July 30, 2023. 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 July 31, 2021, the Company's authorized credit limit is $4,624,000 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 July 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 would be converted into common shares on a cashless exercise basis.

On February 22, 2021 and subsequently through several amendments during the year, the agreement was amended to postpone the commencement date of the 12 monthly installments, required to settle the $1,000,000, from December 31, 2020 to December 31, 2021.

In addition to the postponement of the monthly installment payments, the first amendment on February 22, 2021, also 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 the $45,143 fair value of the warrants liability (as 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. The non-cash gain was recorded in the Company's net financial expenses.

The Company must respect certain covenants and financial ratios associated with the facility, including having maintained a monthly net working capital calculation of no less than $8,000,000. As at July 31, 2021, this covenant was respected.

On September 27, 2021, the agreement was amended to postpone the commencement date of the 12 monthly installments, required to settle the $1,000,000, to December 31, 2021, and to extend the maturity date of the balance from June 30, 2022 to July 30, 2023. In addition, the working capital covenant was replaced with a minimum Tangible Net Worth covenant of $1,000,000.

(In Canadian dollars)

9. Long-term debt (continued)

Espresso Capital Ltd. (continued)

The changes to the loan during the nine months ended July 31, 2021 are as follows:

	July 31, 2021
	$
Balance as at October 31, 2020	**3,650,000**
Additions	**-**
Balance as at July 31, 2021	**3,650,000**
Short-term	**3,650,000**
Long-Term	**-**

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 nine months ended July 31, 2021 are as follows:

	July 31, 2021
	$
Balance as at October 31, 2020	**161,499**
Interest accretion expense	**7,605**
Payments made	**(16,232)**
Balance as at July 31, 2021	**152,872**
Short-term	**37,900**
Long-Term	**114,972**

(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 nine months ended July 31, 2021 are as follows:

	July 31, 2021
	$
Balance at October 31, 2020	124,284
Additions	32,465
Interest accretion expense	32,537
Balance as at July 31, 2021	189,286
Short-term	-
Long-Term	189,286

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 July 31, 2021, the borrowed principal amount remains unchanged.

(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 nine months ended July 31, 2021 are as follows:

	July 31, 2021
	$
Balance as at October 31, 2020	-
Additions	250,000
Interest	4,247
Payments made	(4,247)
Balance as at July 31, 2021	250,000
Short-term	11,574
Long-Term	238,426

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 July 31, 2021, no such approval was required.

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 (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 concluded a shares-for-debt transaction with several participating convertible debenture holders, whereby the Company exchanged convertible debenture units at their undiscounted cash value, for newly issued units at $0.42 per unit. Each of the newly issued units consists of one common share of the Company and one-half warrant, whereby a full warrant entitles the 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.

At closing, 3,640 convertible debenture units (representing an undiscounted cash value of $3,640,000) participated in the shares-for-debt transaction, resulting in their cancellation for a total consideration of 8,666,666 and 4,333,333 newly issued common shares and warrants, respectively. Following the closing of the transaction, 300 convertible debenture units (representing an undiscounted cash value of $300,000) remain outstanding. In executing this transaction, the Company incurred transaction costs of $59,536, which are included in the Company's net financial expenses (note 17) and share capital at $19,916 and at $39,620, respectively. Furthermore, immediately prior to closing the transaction, the Company settled the interest accrued and unpaid on the participating convertible debenture units, by issuing 239,726 common shares at $0.52 per share (note 11).

10. Convertible debenture units (continued)

Following the closing of the shares-for-debt transaction, the remaining convertible debenture units, as were measured and recognized at issuance, are as follows:

	Number of units	Fair value per unit	Fair value
		$	$
Warrants	180,000	0.28017	50,430
Embedded derivatives	375,000	0.29417	111,314
Convertible debt (net of transaction costs)	300,000	0.44351	133,053
Total liability			294,797

Based on the provisions of IFRS 9, the exchange of the convertible debenture units embodies the exchange of three financial liability instruments (i.e., convertible debt, warrants and embedded derivatives) for an equity instrument (i.e., common shares) and a financial lability instrument (i.e., warrants).

Accordingly, the Company allocated the $3,640,000 undiscounted cash value of the participating convertible debenture units to each of the newly issued financial instruments based on their respective fair values, while implementing the residual method, whereby the fair value of each exchanged convertible debenture unit is first allocated to each of the newly issued warrants based on their fair values, while the remainder, net of the $39,620 of transaction costs attributed to it, is allocated to share capital.

The units issued during the shares-for-debt transaction to replace the convertible debenture units were measured and recognized at issuance as follows:

	Number of units	Fair value per unit	Fair value
		$	$
Warrants	4,333,333	0.2810	1,217,667
Common shares (net of transaction costs)	8,666,666	0.2749	2,382,713
Total			3,600,380

The fair value of the warrants, as measured at issuance, was determined using the Black-Scholes option pricing model. As the warrants are denominated in Canadian dollars and the Company's functional currency is US dollars, the warrants are classified as FVTPL and will be re-measured at FVTPL at each period-end (note 13). The allocated transaction costs of $19,916 are included in the Company's financial expenses (note 17).

The fair value of the common shares at issuance was determined by applying the residual method and represents the value of the undiscounted cash value of the participating convertible debenture units, net of the fair value of the warrants and net of the respective transaction costs of $39,620. These transaction costs are recorded in share capital and presented in the Company's statement of changes in total equity.

The shares-for-debt transaction to exchange the convertible debenture units for common shares and warrants resulted in a non-cash gain of $15,702, which is also included in the Company's net financial expenses (note 17).

(In Canadian dollars)

11. Convertible debt

The 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 nine months ended July 31, 2021 are as follows:

	July 31, 2021
	$
Balance as at October 31, 2020	**2,269,160**
Interest accretion expense	**712,123**
Interest settled by shares issuance (note 10)	**(321,658)**
Book value of convertible debt exchanged in the shares-for-debt transaction	**(2,420,650)**
Balance as at July 31, 2021	**238,975**
Short-term	**238,975**
Long-term	**-**

During the nine months ended July 31, 2021, the Company settled interest related to the semi-annual 10% coupon in the amount of $321,658 by issuing 802,588 common shares from treasury (2020 - nil).

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 (note 10).

On May 13, 2021, 4,550,000 embedded derivatives were exchanged and cancelled as part of the shares-for-debt transaction described in note 10. Using the Black-Scholes option pricing model, the Company re-measured the value of these embedded derivatives immediately prior to their exchange and cancellation at $0.186. The weighted-average assumptions used to estimate the fair value of these embedded derivatives using the Black-Scholes option pricing model on May 13, 2021, and October 31, 2020 are as follows:

	May 13, 2021	October 31, 2020
Volatility	**129%**	102%
Risk-free rate	**0.29%**	0.24%
Expected life of embedded derivative (years)	**0.94**	1.45
Common share value	**$0.51**	$0.39
Exercise price	**$0.80**	$0.80
Fair value	**$0.186**	$0.108

(In Canadian dollars)

12. Embedded derivatives (continued)

The weighted-average assumptions used to estimate the fair value of the remaining, non-participating, embedded derivatives using the Black-Scholes option pricing model at July 31, 2021 and October 31, 2020 are as follows:

	July 31, 2021	October 31, 2020
Volatility	**118%**	102%
Risk-free rate	**0.29%**	0.24%
Expected life of embedded derivative (years)	**0.7**	1.45
Common share value	**$0.50**	$0.39
Exercise price	**$0.80**	$0.80
Fair value	**$0.119**	$0.108

The changes to the embedded derivatives during the nine months ended July 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		**359,025**
Embedded derivatives cancelled as part of the shares-for-debt transaction	**(4,550,000)**	**(846,300)**
Balance as at July 31, 2021	**375,000**	**44,625**

13. Warrants

Warrants issued in a reverse takeover transaction

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 $nil on July 31, 2021, $0.005 on April 30, 2021 and at $0.004 on January 31, 2021 (October 31, 2020 - $0.004), resulting in a non-cash gain of $9,848 and $7,879 for the three-month and nine-month periods ended July 31, 2021 respectively ($30,738 and $527,526 for the three-month and nine-month periods ended July 31, 2020, respectively).

(In Canadian dollars)

13. Warrants (continued)

Warrants issued in a reverse takeover transaction (continued)

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

	July 31, 2021	October 31, 2020
Volatility	**76%**	106%
Risk-free rate	**0.45%**	0.24%
Expected life of warrant (years)	**0.25**	1.00
Common share value	**$0.50**	$0.39
Exercise price	**$4.50**	$4.50
Fair value	**$0.000**	$0.004

Warrants issued with convertible debenture units

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.

On May 13, 2021, following the completion of shares-for-debt transaction between the Company and participating convertible debenture units' holders, 3,640 convertible debenture units were exchanged, resulting in the exchange and cancellation of 2,184,000 warrants to purchase common shares, valued at $388,752 as at May 13, 2021 (note 10).

Using the Black-Scholes option pricing model, the Company re-measured the value of the warrants immediately prior to their exchange and cancellation on May 13, 2021, at $0.178 (October 31, 2020 - $0.103), resulting in a non-cash gain of $4,368 and a non-cash loss of $163,800 for the three-month and nine-month periods ended July 31, 2021.

The weighted-average assumptions used on May 13, 2021, and October 31, 2020, to estimate the fair value of the exchanged and cancelled warrants using the Black-Scholes option pricing model are as follows:

	May 13, 2021	October 31, 2020
Volatility	**129%**	102%
Risk-free rate	**0.29%**	0.24%
Expected life of embedded derivative (years)	**0.94**	1.45
Common share value	**$0.51**	$0.39
Exercise price	**$0.85**	$0.85
Fair value	**$0.178**	$0.103

(In Canadian dollars)

13. Warrants (continued)

Warrants issued with convertible debenture units (continued)

On July 31, 2021, the Company re-measured the value of the remaining (non-participating) warrants at $0.111 (October 31, 2020 - $0.103), which resulted in a non-cash gain of $12,420 and a non-cash loss of $1,440 for the three-month and nine-month periods ended July 31, 2021, respectively.

The weighted-average assumptions used on July 31, 2021 and October 31, 2020 in the Black-Scholes option pricing model to estimate the fair value of the remaining (non-participating) warrants are as follows:

	July 31, 2021	October 31, 2020
Volatility	**118%**	102%
Risk-free rate	**0.45%**	0.24%
Expected life of embedded derivative (years)	**0.70**	1.45
Common share value	**$0.50**	$0.39
Exercise price	**$0.85**	$0.85
Fair value	**$0.111**	$0.103

Warrants issued in shares-for-debt transaction

On May 13, 2021, in conjunction with the shares-for-debt transaction described in note 10, the Company issued 4,333,333 warrants, each of which provides its holder with the option to purchase one common share at a price of $0.55 per share for a period of 36 months from the date of closing.

Accordingly, using the Black-Scholes option pricing model, on May 13, 2021 the Company measured the value of these warrants at $0.281 and then re-measured their value at $0.250 on July 31, 2021. This resulted in a non-cash gain of $134,334 for both the three-month and nine-month periods ended July 31, 2021.

The weighted-average assumptions used in estimating the fair value of these warrants using the Black-Scholes option pricing model at issuance and on July 31, 2021 are as follows:

	July 31, 2021	**May 13, 2021**
Volatility	**110%**	**111%**
Risk-free rate	**0.45%**	**0.32%**
Expected life of embedded derivative (years)	**1.70**	**2.00**
Common share value	**$0.50**	**$0.51**
Exercise price	**$0.55**	**$0.55**
Fair value	**$0.250**	**$0.281**

(In Canadian dollars)

13. Warrants (continued)

Warrants issued to participants in brokered private placement

On May 6, 2021, in conjunction with the closing of the brokered private placement (note 14), the Company issued 5,089,300 warrants, each of which provides its holder with the option to purchase one common share at a price of $0.55 per share for a period of 36 months from the date of closing.

On May 6, 2021, the Company initially measured the fair value of each of these warrants, using Black-Scholes option pricing model, at $0.317, and at $0.250 when re-measured on July 31, 2021, resulting in a non-cash gain of $340,983 for both the three-month and nine-month periods ended July 31, 2021.

The weighted-average assumptions used in estimating the fair value of these warrants using the Black-Scholes option pricing model at issuance and July 31, 2021 are as follows:

	July 31, 2021	May 6, 2021
Volatility	110%	109%
Risk-free rate	0.45%	0.30%
Expected life of embedded derivative (years)	1.70	2.00
Common share value	$0.50	$0.56
Exercise price	$0.55	$0.55
Fair value	$0.250	$0.317

Warrants issued to agents of private placement

On May 6, 2021, in conjunction with the closing of the brokered private placement (note 14), the Company issued 804,883 warrants to the agents of the private placement, as part of their consideration for services rendered. Each of these warrants entitles its holder the option to purchase one common share at a price of $0.42 per share for a period of 24 months from the date of closing.

Accordingly, using the Black-Scholes option pricing model, the Company initially measured the fair value of each of these warrants at $0.349 for a total value of $280,904. This amount was included in the overall transaction costs for the private placement, of which, $106,014 was recorded in the Company's net financial expenses and $174,890 in share capital (proportionally split based on the information provided in note 14).

On July 31, 2021, the Company re-measured the value of each warrant at $0.281, which resulted in a non-cash gain of $54,732 for both the three-month and nine-month periods ended July 31, 2021.

The weighted-average assumptions used in estimating the fair value of these warrants using the Black-Scholes option pricing model at issuance and July 31, 2021 are as follows:

	July 31, 2021	May 6, 2021
Volatility	110%	109%
Risk-free rate	0.45%	0.30%
Expected life of embedded derivative (years)	1.70	2.00
Common share value	$0.50	$0.56
Exercise price	$0.42	$0.42
Fair value	$0.281	$0.349

(In Canadian dollars)

13. Warrants (continued)

Warrants issued to Espresso

On February 22, 2021, in conjunction with the debt agreement amendment described in note 9, it was resolved to cancel the 285,714 warrants that were issued to Espresso as part of a prior amendment to the debt agreement, which occurred on June 8, 2021.

Accordingly, on February 22, 2021, immediately prior to their cancellation, the Company, using the Black-Scholes option pricing model, re-measured the value of each of these warrants at $0.158 (October 31, 2020 - $0.110), which resulted in a non-cash loss of nil and $13,714 for the three-month and nine-month periods ended July 31, 2021 respectively.

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 cancellation of warrants resulted in a non-cash gain of $25,213 for the nine months ended July 31, 2021, which is recorded in the Company's net financial expenses (note 17).

The changes to the warrants balance during the nine months ended July 31, 2021 are as follows:

	Number of Warrants	**$**
Balance as at October 31, 2020	**4,619,376**	**282,800**
Cancellation of warrants	**(285,714)**	**(45,143)**
Warrants issued in shares-for-debt transaction	**4,333,333**	**1,217,667**
Warrants cancelled in shares-for-debt transaction	**(2,184,000)**	**(388,752)**
Warrants issued to participants in private placement	**5,089,300**	**1,613,308**
Warrants issued to agents of private placement	**804,883**	**280,904**
Change in fair value of warrants		**(358,974)**
Cumulative translation adjustment		**-**
Balance as at July 31, 2021	**12,377,178**	**2,601,810**

(In Canadian dollars)

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	802,588	321,658
Shares issued under brokered private placement	10,178,600	2,661,705
Shares issued under shares-for-debt transaction	8,666,666	2,422,333
RSUs exchanged for common shares	111,752	127,467
Share issuance costs	-	(544,475)
Balance as at July 31, 2021	46,757,709	43,765,056

Convertible debenture units and shares-for-debt transaction

During the nine months ended July 31, 2021, and as described in note 10 and note 11, the Company settled interest related to the semi-annual 10% coupon in the amount of $321,658 by issuing 802,588 common shares from treasury (2020 - nil).

On May 13, 2021, the Company concluded on a shares-for-debt transaction to replace 3,640 convertible debenture units at their undiscounted cash value of $3,640,000, in exchange for 8,666,666 units at a price of $0.42 per unit. 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 3 years. Consequently, 3,640 convertible debenture units participated in the shares-for-debt transaction, resulting in the issuance of 8,666,666 common shares and 4,333,333 warrants.

Transaction costs of $59,536 were allocated proportionally between the various components of the units issued in conjunction with the shares-for-debt transaction, and accordingly, $39,620 was recorded in share capital.

Brokered private placement

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 3 years.

Additionally, in consideration for their services, the Company issued 804,883 warrants to the private placement's agents, each of which entitles its holder the option to acquire one common share at a price of $0.42 per share for a period of 24 months.

Transaction costs of $810,857, including the cost of issuing agent warrants described in note 13, were allocated proportionally between the various components of the units issued in conjunction with the private placement and recorded in the Company's net financial expenses (note 17) and share capital at $306,002 and $504,855 respectively.

(In Canadian dollars)

14. Share capital (continued)

RSUs exchanged for common shares

On July 6, 2021, the Company exchanged 111,752 fully vested RSUs for the issuance of 111,752 fully paid common shares from treasury to two former executives and one advisor.

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 nine-month periods ended July 31, 2021 the Company granted stock options to its employees totaling 550,000 and 650,000 respectively (nil and 375,000 for the three-month and nine-month periods ended July 31, 2020 respectively), at a weighted average exercise price of $0.51 and $0.52 respectively per share (nil and $1.61 for the three-month and nine-month periods ended July 31, 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.

The weighted average principal components of the pricing model for measuring the fair value of the options granted during the nine-month periods ended July 31, 2021 and 2020 are as follows:

	July 31, 2021	July 31, 2020
Volatility	**89%**	85%
Risk-free rate	**0.43%**	1.43%
Expected life of options (years)	**5.00**	4.00
Dividend yield	**-**	-
Common share value	**$0.51**	$1.53
Exercise price	**$0.52**	$1.61
Fair value	**$0.35**	$0.92

The weighted average fair value of options granted during the nine-months ended July 31, 2021 was $0.35 (2020 - $0.92).

(In Canadian dollars)

15. Share-based payments (continued)

Stock option plan (continued)

Share-based payments (income) expense of ($61,239) and $96,261 were recorded for the three-month and nine-month periods ended July 31, 2021 respectively (2020 - $254,668 and $947,384 respectively). The changes to the number of stock options granted and their weighted average exercise price during the nine-month periods ended July 31, 2021 and 2020 are as follows:

	July 31, 2021		July 31, 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	**650,000**	**0.52**	375,000	1.61
Forfeited/cancelled	**(300,000)**	**2.72**	(100,000)	2.37
Outstanding, July 31, 2021	**2,510,000**	**2.20**	2,410,000	2.80
Exercisable, July 31, 2021	**1,460,000**	**2.87**	1,004,583	2.99
Weighted average remaining contractual life (years)		**6.16**		6.53

Stock options issued to agents

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 marketed 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.

(In Canadian dollars)

15. Share-based payments (continued)

Deferred share unit plan (continued)

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 $60,799 and $228,308 were recorded for the three-month and nine-month periods ended July 31, 2021 respectively (2020 - $18,400 and $96,462 respectively).

The changes to the number of DSUs granted for the nine-month periods ended July 31, 2021 and 2020 are as follows:

	July 31, 2021	July 31, 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 July 31, 2021	**622,153**	173,908
Vested as at July 31, 2021	**503,403**	152,172

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.

(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.

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 $88,798 and $244,673 were recorded for the three-month and nine-month periods ended July 31, 2021 respectively (2020 - $169,867 and $248,940 respectively).

The changes to the number of RSUs granted during the nine-month periods ended July 31, 2021 and 2020 are as follows:

	July 31, 2021	July 31, 2020
	Number of RSUs	Number of RSUs
Outstanding as at October 31, 2020	**1,153,504**	53,504
Granted	**460,000**	1,100,000
Exercised	**(111,752)**	-
Forfeited/cancelled	**(30,000)**	-
Outstanding as at July 31, 2021	**1,471,752**	1,153,504
Vested as at July 31, 2021	**161,752**	253,440

(In Canadian dollars)

16. Revenue

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Products	**4,890,132**	3,131,793	**15,987,744**	12,474,761
After sales services and extended warranty	**711,959**	723,860	**1,817,522**	1,686,765
	5,602,091	3,855,653	**17,805,266**	14,161,526

During the three-month and nine-month periods ended July 31, 2021, the Company generated 51% and 29%, respectively (2020 – 63% and 54% respectively) of its revenue, from four customers (2020 - four) in the approximate amounts of $2.9 million and $5.1 million for the three-month and nine-month periods ended July 31, 2021 respectively (2020 – $2.4 million and $7.6 million respectively), and as follows:

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	%	%	**%**	%
Customer A	**23**	1	**9**	-
Customer B	**14**	18	**14**	10
Customer C	**10**	-	**3**	-
Customer D	**4**	15	**3**	8
Customer E	**-**	29	**-**	25
Customer F	**-**	-	**-**	11
	51	63	**29**	54

(In Canadian dollars)

17. Financial expenses

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Interest, bank, and related charges	**202,253**	314,263	**605,021**	722,094
Transaction costs on issuance of convertible debenture units	**-**	15,167	**-**	97,796
Transaction costs related to brokered private placement	**306,002**	-	**306,002**	-
Transaction costs related to shares-for-debt transaction	**19,916**	-	**19,916**	-
Interest accretion expense on convertible debt	**50,485**	269,193	**712,123**	314,254
Interest accretion on long-term debt	**17,366**	2,745	**44,361**	4,549
Foreign exchange (gain) loss	**(115,832)**	515,797	**564,024**	83,692
Significant financing component interest on extended warranties	**154,678**	119,805	**445,719**	355,302
Interest on lease liabilities	**22,601**	30,008	**73,007**	96,267
Non-cash gain from cancellation of warrants	**-**	-	**(25,213)**	-
Non-cash gain from shares-for-debt transaction	**(15,702)**	-	**(15,702)**	-
	641,767	1,266,978	**2,729,258**	1,673,954

18. Loss per share

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Loss attributable to common shareholders for the year	**(1,008,299)**	(1,944,838)	**(5,024,003)**	(4,518,961)
Weighted average number of shares for basic and diluted EPS	**44,772,231**	26,788,095	**33,235,331**	26,749,478
Basic and diluted loss per share	**(0.02)**	(0.07)	**(0.15)**	(0.17)

A net loss was reported for the three-month and nine-month periods ended July 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 contributions received for the three-month and nine-month periods ended July 31, 2021 and 2020 were recorded as a reduction to the following accounts:

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Consolidated statements of loss and comprehensive loss				
Cost of sales	**52,469**	88,602	**196,589**	100,123
General and administrative	**38,723**	111,464	**145,349**	178,866
Selling and distribution	**65,636**	199,910	**233,512**	315,208
Research and development	**58,268**	28,980	**161,189**	44,764
	215,096	428,956	**736,639**	638,961
Consolidated statements of financial position				
Inventories	**17,313**	64,246	**50,096**	137,025
Intangible assets	**3,599**	109,022	**63,969**	168,396
	20,912	173,268	**114,065**	305,421
	236,008	602,224	**850,704**	944,382

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 nine-month periods ended July 31, 2021 and 2020:

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	%	%	**%**	%
United States	**70**	81	**70**	62
Europe, Middle East & Africa	**17**	10	**14**	22
Asia-Pacific	**9**	7	**9**	7
Canada	**3**	2	**4**	3
Latin America	**1**	-	**3**	6
	100	100	**100**	100

(In Canadian dollars)

21. Segment information (continued)

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

	July 31, 2021	October 31, 2020
	$	$
Canada	**6,353,348**	6,593,100
Malaysia	**39,756**	63,578
United Arab Emirates	**27,392**	47,301
	6,420,496	6,703,979