Management's Discussion and Analysis of

VOTI Detection Inc.

For the three-month and nine-month periods ended July 31, 2021

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Basis of Presentation

The following has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition as at July 31, 2021 and October 31, 2020 and operating results of VOTI Detection Inc. ("the Company" or "VOTI") for the three-month and nine-month periods ended July 31, 2021 and 2020.

This MD&A was prepared as of September 28, 2021 with information available at this date. All references in this MD&A to Fiscal 2021 are to the fiscal year ended October 31, 2021 and all references to Fiscal 2020 are to the fiscal year ending October 31, 2020. This document should be read in conjunction with the interim condensed consolidated financial statements of VOTI Detection Inc. for the three-month and nine-month periods ended July 31, 2021 and 2020. All amounts herein are expressed in Canadian dollars (unless otherwise indicated). All financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain financial measures used in this MD&A do not have any standardized meaning under IFRS, including "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA margin", "Adjusted net loss" and "Adjusted loss per share". For a reconciliation of these non-IFRS financial measures to the most comparative IFRS measure, see the "Non-IFRS Financial Measures" section of this MD&A.

Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of applicable securities laws. Forward-looking statements may relate to VOTI's financial outlook and anticipated events or results and may include information regarding VOTI's financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, plans and objectives. Particularly, information regarding VOTI's expectations of future results, performance, achievements, prospects or opportunities or the markets in which it operates and the impact thereon of the ongoing COVID-19 pandemic declared by the World Health Organization on March 11, 2020 ("COVID-19"), as well as statements relating to expectations regarding industry trends, growth rates, expectations regarding revenue and the revenue generation potential, business plans and strategies and VOTI's competitive position in its industry constitute forward-looking statements.

In some cases, when used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "does not anticipate", "believe", "seek", "propose", "estimate", "project", "expect", "does not expect", "forecasts", "projection", "prospects", "outlook", "targets", or similar expressions, variations of such terms or the negative of such terms are intended to identify forward-looking statements. Such forward-looking statements reflect VOTI's then current views with respect to future events based on certain material facts, assumptions, opinions and estimates in light of management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors VOTI currently believes are appropriate and reasonable in the circumstances and as of the date such forward-looking statements are made. Despite a careful process to prepare and review the forward-looking statements, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. The forward-looking statements are based on certain key expectations and assumptions made by VOTI, including expectations and assumptions concerning availability of capital resources and ability to finance, business performance, market conditions, and customer demand. Although VOTI believes that the expectations and assumptions on which such forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that they will prove to be correct.

Forward-looking statements are necessarily based on a number of opinions, estimates and assumptions that VOTI considered appropriate and reasonable as of the date such statements are made, are subject to certain known and unknown risks and uncertainties that may cause the actual results or events to differ materially from anticipated in such forward-looking statements, including without limitation risks regarding the threat detection technology industry, failure to obtain regulatory approvals, or changes in regulatory environment, economic factors, management's ability to manage and to operate the business of VOTI Detection, the equity markets generally and risks associated with growth and competition, in addition to other risks identified in this MD&A and in other publicly filed documents under VOTI's profile at www.sedar.com as well as other unknown risks.

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

This MD&A includes certain trademarks, such as "3D Perspective", which are protected under applicable intellectual property laws and are the property of VOTI. Solely for convenience, the trademarks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that VOTI will not assert, to the fullest extent under applicable law, its rights to its trademarks and trade names.

Additional information relating to VOTI can be found on its SEDAR profile at www.sedar.com

Business Strategy

Company Overview

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

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

Key Business Strategic objectives

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

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

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

Financial Outlook

The impact of COVID-19 on the markets and industries to which VOTI sells its products, including government buildings and perimeters, transportation, travel and events & entertainment industries (including cruise line, aviation and public venues such as sporting venues) has been significant and continues to evolve at this time, however, through a series of mitigating strategies, the Company has emerged stronger and better positioned for growth despite the ongoing uncertainties related to the global pandemic. These strategies included the shoring up of the company's cash position through capital injections from shareholders, leveraging available government programs, and the cutting of operating costs. The company entered Fiscal 2021 with a significantly leaner operating structure and a focus on improved processes and policies.

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

- Critical Assets and Infrastructures – data centers and telecom installations; government buildings; energy infrastructure and public utilities; offices and corporate headquarters; metal refineries and mining sites.
- Transportation – mass transit systems; airports (cargo); rail transit facilities; cruise ship terminals; logistics operations.

- Secured Perimeters and Buildings – schools and universities; justice and correction centers; police stations and military sites; events and attractions; embassies.
- Ports and Borders – land checkpoints; seaports; customs.
- Commercial, Manufacturing and Retail – warehouses; fulfillment and manufacturing facilities; retail locations.

While VOTI continues to benefit from the upturn in the post-COVID economy as well as the significant efficiency initiatives that were implemented in Fiscal 2020, the recovery has been somewhat slower and the Company is now expecting a 26% increase in year over year Fiscal 2021 revenues versus original expectation of a 47% revenue increase, which will also impact the company's ability to achieve positive adjusted EBITDA and positive cash flow from operations for the year. However, the delayed revenue is expected to be recovered in Fiscal 2022. In addition to the slower post-COVID recovery, VOTI, like most other industries has been impacted by the COVID-led global supply chain disruption. Massive dislocations are evident within shipping routes and all other forms of transportation and warehousing. The result creates the potential for shortages of key manufacturing components, order backlogs, delivery delays and an increase in transportation costs. VOTI is mitigating these challenges by pre-ordering certain long lead time components and prioritizing logistics and inventory management functions within the business. It's important to note that Fiscal 2021 is a success and Management is proud of the company's sales volume of X-ray scanning systems and after-sale service, as well as its development activities. As important, the company is looking at continued growth into Fiscal 2022 and is buoyed by the strong demand that it is seeing for its X-ray scanners, the strength of the company's margins resulting from the introduction of new products, as well as the continuing wide and growing distribution of transactions which position VOTI for sustainable growth.

The above noted forecasts are based on VOTI's current expectations and assumptions and are subject to the forward-looking disclaimer set forth above in this MD&A, as well as the various risks and uncertainties referenced therein, including, among other things, the impact and uncertainty of the COVID-19 pandemic. The impact of the COVID-19 pandemic on the Company, its stakeholders and the markets is still evolving and to the extent that there is a continued adverse affect, the growth strategy of VOTI could be affected and the disclosure in this MD&A including any assumptions and future plans or expectations that are made in this context. See also "Business Risks" below in this MD&A. Information about VOTI's expectations on forecasts and projections are provided in order to give context to the nature of VOTI's future plans and may not be appropriate for other purposes. There are no assurances that VOTI will be able to successfully implement its strategies and plans as described above, and all statements made are expressly qualified by the cautionary statements relating to "forward-looking statements" included above.

Trends and Seasonality

Industry Trends

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

VOTI Trends

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

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

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

Cyclicality

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

Financial Highlights

For the three-month period ended July 31, 2021

- Revenue for the three-month period ended July 31, 2021 totaled $5,602,091 compared to $3,855,653 for the same period in Fiscal 2020, an increase of $1,746,438 or 45%. The Company sold 170 security scanning systems compared to 95 during the same period in Fiscal 2020. The increase is primarily attributed to the greater number of systems sold, partially offset by a decrease in the average selling price per scanner resulting from the change in product mix sold and the decrease in the US dollar foreign exchange rate.
- Gross profit increased to $2,151,109 or 38% of revenue, compared to $1,227,675 or 32% of revenue, for the same period in Fiscal 2020, an increase of $923,434 or 6% of revenue. The increase in gross margin of 6% is primarily due to a decrease in the average component cost per scanner resulting from the cost reduction initiatives that were executed by the Company, partially offset by a decrease in revenue from after sales services and extended warranty as a percentage of overall revenue, which carry higher margins, and an increase in freight costs allocated to inventory being sold.
- Net loss decreased to $1,008,299 compared to $1,944,838 for the same period in Fiscal 2020. The decrease in net loss of $936,539 is primarily related to the increase in gross profit, a decrease in net financial expenses, general and administrative expenses, non-cash share-based payments expense, and the increase in the non-cash gain from change in fair value of warrants, partially offset by an increase in research and development and selling and distribution expenses, and the decrease in non-cash gain from changes in fair value of embedded derivatives.
- Adjusted EBITDA increased to a positive $112,535 compared to a negative ($409,861) for the same period of Fiscal 2020. The increase of $522,396 is primarily related to the increase in gross profit, partially offset by an increase in net operating expenses.
- The Company completed a brokered private placement for gross proceeds of $4,275,012 and exchanged $3,650,000 of its convertible debenture units for newly issued common shares and warrants.

For the nine-month period ended July 31, 2021

- Revenue for the nine-month period ended July 31, 2021 totaled $17,805,266 compared to $14,161,526 for the same period in Fiscal 2020, an increase of $3,643,740 or 26%. The Company sold 515 security scanning systems compared to 390 during the same period in Fiscal 2020. The increase is primarily attributed to the greater number of systems sold during the period, the Company's first-time sales of its VotiINSIGHTS fleet management and analytics dashboard, an increase in the average price per scanner resulting from the change in product mix sold, and an increase in after-sale services and extended warranties, partially offset by the decrease in the US dollar foreign exchange rate.
- Gross profit increased to $6,346,234 or 36% of revenue, compared to $4,499,133 or 32% for the same period in Fiscal 2020. The 4% increase in gross margin compared to the same period in Fiscal 2020 is primarily due to a decrease in the average component cost per scanner resulting from the cost reduction initiatives that were executed by the Company, the Company's first time sales of its VotiINSIGHTS fleet management and analytics dashboard, and the increase in after sale services and revenue from extended warranty, partially offset by an increase in freight costs allocated to inventory being sold and certain scanner sales with low margins.
- Net loss increased to $5,024,003 compared to $4,518,961 for the same period in Fiscal 2020. The increase of $505,042 is primarily related to an increase in loss in change in fair value of embedded derivatives and warrants, and an increase in net financial expenses and research and development expenses, partially offset by an increase in gross profit, a decrease in non-cash share-based payments expenses and the decrease in general and administrative expenses and selling and distribution expenses.
- Adjusted EBITDA increased to ($95,842) compared to ($2,430,427) for the same period of Fiscal 2020. The increase of $2,334,585 is primarily related to the increase in gross profit and a decrease in net operating expenses.
- The Company began commercializing its next generation of X-ray scanners, a series that represents the convergence between technological improvements, cost savings and a push towards a SaaS model for high margin, repeat business.

Non-IFRS Financial Measures

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

EBITDA, Adjusted EBITDA and Adjusted EBITDA margin

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

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

The reconciliation of net loss to EBITDA, Adjusted EBITDA and then to Adjusted EBITDA margin 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
	$	$	**$**	$
Revenue	**5,602,091**	3,855,653	**17,805,266**	14,161,526
Net loss	**(1,008,299)**	(1,944,838)	**(5,024,003)**	(4,518,961)
Financial expenses[1]	**641,767**	1,266,978	**2,729,258**	1,673,954
Depreciation and amortization	**313,194**	194,618	**898,592**	553,712
EBITDA	**(53,338)**	(483,242)	**(1,396,153)**	(2,291,295)
Change in fair value of warrants	**(556,685)**	(348,665)	**(358,974)**	(1,034,059)
Change in fair value of embedded derivatives	**(30,050)**	(568,820)	**359,025**	(975,790)
Share based payments[2]	**88,358**	442,935	**569,242**	1,292,786
Unusual and non-recurring items				
Trade receivables write-off[3]	**-**	547,931	**-**	547,931
Severance[4]	**581,538**	-	**581,538**	30,000
Other items[5]	**82,712**	-	**149,480**	-
Adjusted EBITDA	**112,535**	(409,861)	**(95,842)**	(2,430,427)
Adjusted EBITDA margin (%)	**2%**	(11%)	**(1%)**	(17%)

[1] Financial expenses consist of interest and bank charges, foreign exchange gains and losses, significant financing component interest on extended warranties, interest on lease liabilities, interest accretion and transaction costs on convertible debt and other financial charges.

[2] Share based payments are made up of the issuance and vesting of stock options, deferred share units and restricted share units

[3] Trade receivables write-off includes non-cash write-down of receivables. The write-off is adjusted from EBITDA since it is outside the normal course of the Company's day-to-day operations, non-recurring, and relates to the repossession of scanners from customers that default on payment. The write-off is recorded in general and administrative expense as a bad debt and is calculated as the difference between the balance of receivable and the inventories' net realizable value. Since March 2020, almost all sales on credit are insured at 90% or secured through a bank letter of credit, whereas any future write-off of this size is remote, and therefore the trade receivable write-off is considered non-recurring.

[4] Severance includes termination payments expense during the period.

[5] Other items include non-recurring professional fees.

VOTI DETECTION

Adjusted net loss and Adjusted loss per share

Adjusted net loss is defined as net loss adjusted for share-based payments expenses and items Management believes do not necessarily arise as part of the Company's normal day-to-day operations and could distort the analysis of trends in business performance. Adjusted loss per share is defined as adjusted net loss divided by the basic weighted average number of common shares outstanding.

Adjusted net loss and Adjusted loss per share are non-IFRS financial measures. Management believes that Adjusted net loss and Adjusted loss per share are useful measures of performance that can facilitate period-to-period comparisons as they exclude items that do not necessarily arise as part of the Company's normal day-to-day operations and could distort the analysis of trends in business performance.

The reconciliations of net loss to Adjusted net 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
	$	$	**$**	$
Net loss	**(1,008,299)**	(1,944,838)	**(5,024,003)**	(4,518,961)
Change in fair value of warrants	**(556,685)**	(348,665)	**(358,974)**	(1,034,059)
Change in fair value of embedded derivatives	**(30,050)**	(568,820)	**359,025**	(975,790)
Share based payments	**88,358**	442,935	**569,242**	1,292,786
Unusual and non-recurring items				
Trade receivables write-off	**-**	547,931	**-**	547,931
Severance	**581,538**	-	**581,538**	30,000
Other items	**82,712**	-	**149,480**	-
Adjusted net loss	**(842,426)**	(1,871,457)	**(3,723,692)**	(4,658,093)

The reconciliations of basic and diluted loss per share to Adjusted loss per share 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
	$	$	**$**	$
Basic and diluted loss per share	**(0.02)**	(0.07)	**(0.15)**	(0.17)
Impact of adjustments to net loss	**(0.00)**	(0.00)	**0.04**	(0.00)
Adjusted loss per share	**(0.02)**	(0.07)	**(0.11)**	(0.17)

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 of the newly issued units 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, 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 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 and share capital at $306,002 and at $504,855, respectively.

Shares-for-debt transaction

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 of the newly issued units 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 recorded in the Company's net financial expenses and share capital at $19,916 and at $39,620 respectively.

Results of Operations

Three-month periods ended July 31, 2021 and 2020

The following table sets forth the major components of the Company's consolidated statements of loss and comprehensive loss for the three-month period ended July 31, 2021 compared to the corresponding period of 2020:

	2021	2020	**Variance**	Variance
	$	$	**$**	%
Revenue	**5,602,091**	3,855,653	**1,746,438**	45%
Cost of goods sold	**3,450,982**	2,627,978	**823,004**	31%
Gross profit	**2,151,109**	1,227,675	**923,434**	75%
Gross margin	**38%**	32%	**6%**	N/A
General and administrative expenses	**906,555**	1,366,653	**(460,098)**	(34%)
Selling and distribution expenses	**1,247,994**	908,991	**339,003**	37%
Research and development expenses	**861,469**	104,441	**757,028**	725%
Net financial expenses	**641,767**	1,266,978	**(625,211)**	(49%)
Change in fair value of warrants	**(556,685)**	(348,665)	**(208,020)**	(60%)
Change in fair value of embedded derivatives	**(30,050)**	(568,820)	**538,770**	95%
Share-based payments expenses	**88,358**	442,935	**(354,577)**	(80%)
Net loss	**(1,008,299)**	(1,944,838)	**936,539**	48%
Basic and diluted loss per share	**(0.02)**	(0.07)	**0.05**	N/A
Adjusted net loss	**(842,426)**	(1,871,457)	**1,029,031**	55%
Basic & diluted Adj. loss per share	**(0.02)**	(0.07)	**0.05**	N/A

Revenue for the three-month period ended July 31, 2021 totaled $5,602,091 compared to $3,855,653 for the same period in Fiscal 2020, an increase of $1,746,438 or 45%. The Company sold 170 security scanning systems compared to 95 during the same period in Fiscal 2020. The increase is primarily attributed to the greater number of systems sold, partially offset by a decrease in the average selling price per scanner resulting from the change in product mix sold and the decrease in the US dollar foreign exchange rate.

Gross profit increased to $2,151,109 or 38% of revenue, compared to $1,227,675 or 32% of revenue, for the same period in Fiscal 2020, an increase of $923,434 or 6% of revenue. The increase in gross margin of 6% is primarily due to a decrease in the average component cost per scanner resulting from the cost reduction initiatives that were executed by the Company, partially offset by a decrease in revenue from after sales services and extended warranty as a percentage of overall revenue, which carry higher margins, and an increase in freight costs allocated to inventory being sold.

General and administrative expenses decreased to $906,555 compared to $1,366,653 for the same period in Fiscal 2020. The decrease of $460,098 is primarily due to the decrease in trade receivable write-off of $547,931 from the third quarter of Fiscal 2020 and a decrease in general corporate costs, partially offset by the increase non-recurring professional fees and reduced funding from the Canadian Federal government CEWS stimulus program.

Selling and distribution expenses increased to $1,247,994 compared to $908,991 for the same period in Fiscal 2020. The increase of $339,003 is primarily due to an increase in personnel costs, reduced funding from the CEWS stimulus program and increase in field service related expenditures.

Research and development expenses increased to $861,469 compared to $104,441 for the same period in Fiscal 2020. The increase of $757,028 is primarily due to severance paid and payable to the Company's CTO upon his retirement on May 21, 2021, as well as increased personnel costs.

Net financial expenses decreased to $641,767 compared to $1,266,978 for the same period in Fiscal 2020. The decrease of $625,211 is primarily due to the decrease in foreign exchange loss, a decrease in interest accretion expense resulting from exchanging the convertible debentures for common shares and warrants, and a decrease in interest expense, partially offset by an increase in transaction costs in connection with the brokered private placement.

Change in fair value of warrants (gain) increased to $556,685 compared to $348,665 gain for the same period in Fiscal 2020. The gain increase of $208,020 was mainly driven by the increase in the number of warrants issued from the private placement and shares-for-debt transaction in early May 2021, and the re-measurement of the related warrants liability shortly thereafter on July 31, 2021, which resulted in an overall lower liability value, thus creating a gain.

Change in fair value of embedded derivatives (gain) decreased to $30,050 compared to $568,820 for the same period in Fiscal 2020. The $538,770 decrease is attributable to the cancellation of the majority issued and outstanding convertible debentures with embedded derivative as part of the shares-for-debt transaction, partially offset by the relative decrease in fair value of the remaining portion of outstanding embedded derivatives (post shares-for-debt transaction) compared to the previous respective reporting period valuation.

Share-based payments expenses decreased to $88,358 compared to $442,935 for the same period in Fiscal 2020. The $354,577 decrease is primarily due to the reduced number of outstanding and unvested stock options, RSUs and DSUs compared to the previous reporting period, partially offset by newly granted stock options during the quarter.

Net loss decreased to $1,008,299 compared to $1,944,838 for the same period in Fiscal 2020. The decrease in net loss of $936,539 is primarily related to the increase in gross profit, a decrease in net financial expenses, general and administrative expenses, non-cash share-based payments expense, and the increase in the non-cash gain from change in fair value of warrants, partially offset by an increase in research and development and selling and distribution expenses, and the decrease in non-cash gain from changes in fair value of embedded derivatives.

Nine-month periods ended July 31, 2021 and 2020

The following table sets forth the major components of the Company's consolidated statements of loss and comprehensive loss for the nine-month period ended July 31, 2021 compared to the corresponding period of 2020:

	2021	2020	**Variance**	Variance
	$	$	**$**	%
Revenue	**17,805,266**	14,161,526	**3,643,740**	26%
Cost of goods sold	**11,459,032**	9,662,393	**1,796,639**	19%
Gross profit	**6,346,234**	4,499,133	**1,847,101**	41%
Gross margin	**36%**	32%	**4%**	N/A
General and administrative expenses	**2,933,346**	3,526,134	**(592,788)**	(17%)
Selling and distribution expenses	**3,760,158**	4,080,289	**(320,131)**	(8%)
Research and development expenses	**1,378,182**	454,780	**923,402**	203%
Net financial expenses	**2,729,258**	1,673,954	**1,055,304**	63%
Change in fair value of warrants	**(358,974)**	(1,034,059)	**675,085**	65%
Change in fair value of embedded derivatives	**359,025**	(975,790)	**1,334,815**	137%
Share-based payments expenses	**569,242**	1,292,786	**(723,544)**	(56%)
Net loss	**(5,024,003)**	(4,518,961)	**(505,042)**	(11%)
Basic and diluted loss per share	**(0.15)**	(0.17)	**0.02**	N/A
Adjusted net loss	**(3,723,692)**	(4,658,093)	**934,401**	20%
Basic & diluted Adj. loss per share	**(0.12)**	(0.17)	**0.06**	N/A

Revenue for the nine-month period ended July 31, 2021 totaled $17,805,266 compared to $14,161,526 for the same period in Fiscal 2020, an increase of $3,643,740 or 26%. The Company sold 515 security scanning systems compared to 390 during the same period in Fiscal 2020. The increase is primarily attributed to the greater number of systems sold during the period, the Company's first time sales of its VotiINSIGHTS fleet management and analytics dashboard, an increase in the average price per scanner resulting from the change in product mix sold, and an increase in after-sale services and extended warranties, partially offset by the decrease in the US dollar foreign exchange rate.

Gross profit increased to $6,346,234 or 36% of revenue, compared to $4,499,133 or 32% for the same period in Fiscal 2020. The 4% increase in gross margin compared to the same period in Fiscal 2020 is primarily due to a decrease in the average component cost per scanner resulting from the cost reduction initiatives that were executed by the Company, the Company's first time sales of its VotiINSIGHTS fleet management and analytics dashboard, and the increase in after sale services and revenue from extended warranty, partially offset by an increase in freight costs allocated to inventory being sold and certain scanner sales with low margins.

General and administrative expenses decreased to $2,933,346 compared to $3,526,134 for the same period in Fiscal 2020. The $592,788 decrease is primarily due to the decrease in trade receivable write-off from the third quarter of Fiscal 2020 and reduced personnel and general corporate costs, partially offset by an increase in non-recurring professional fees and a decrease in the funding received from the CEWS stimulus program.

Selling and distribution expenses decreased to $3,760,158 compared to $4,080,289 for the same period in Fiscal 2020. The decrease of $320,131 is primarily due to reduction in field service support, travel expenses, and tradeshows attended, partially offset by an increase in personnel costs, as well as a decrease in the funding received from the CEWS stimulus program.

Research and development expenses increased to $1,378,182 compared to $454,780 for the same period in Fiscal 2020. The increase of $923,402 is primarily due to severance paid and payable to the Company's CTO upon his retirement on May 21, 2021, and an increase in the funding received from the CEWS stimulus program.

Net financial expenses increased to $2,729,258 compared to $1,673,954 for the same period in Fiscal 2020. The increase of $1,055,304 is primarily due to the increase in foreign exchange loss, increased interest accretion expenses on the convertible debt, an increase in capital raise transaction costs, and increased significant financing component interest on extended warranties, partially offset by a decrease in interest expense.

Change in fair value of warrants decreased to a gain of $358,974 compared to a gain of $1,034,059 for the same period in Fiscal 2020. The decrease of $675,085 is primarily due to the relative increase in fair value of the warrants from the previous respective reporting period valuation, as well as the additional warrants that were issued as part of the private placement and shares-for-debt transaction in early May 2021.

Change in fair value of embedded derivatives decreased to a $359,025 loss compared to a gain of $975,790 for the same period in Fiscal 2020. The decrease in loss of $1,334,815 is primarily attributable to the relative increase in fair value of the embedded derivatives from the previous respective reporting period valuation, partially offset by the relative decrease in fair value of the remaining portion of outstanding embedded derivatives (post shares-for-debt transaction) compared to the previous respective reporting period valuation.

Share-based payments expenses decreased to $569,242 compared to $1,292,786 for the same period in Fiscal 2020. The decrease of $723,544 is primarily due to the reduced number of the outstanding and unvested stock options, RSUs and DSUs compared to the previous reporting period, partially offset by newly granted stock options, RSUs and DSUs in Fiscal 2021.

Net loss increased to $5,024,003 compared to $4,518,961 for the same period in Fiscal 2020. The increase of $505,042 is primarily related to an increase in loss in change in fair value of embedded derivatives and warrants, and an increase in net financial expenses and research and development expenses, partially offset by an increase in gross profit, a decrease in non-cash share-based payments expenses and the decrease in general and administrative expenses and selling and distribution expenses.

Financial Position

The following table provides an analysis of the Company's consolidated statement of financial position as at July 31, 2021 compared to October 31, 2020:

	July 31, 2021	October 31, 2020	Variance
	$	$	$
Total Assets	**23,703,124**	**21,513,908**	**2,189,216**
Variance mainly due to:			
Cash	**3,209,713**	2,088,825	1,120,888
Trade and other receivables	**2,842,782**	1,928,906	913,876
Inventories	**9,926,922**	9,579,181	347,741
Right of use asset	**740,710**	1,013,599	(272,889)
Total Liabilities	**17,836,731**	**15,345,946**	**2,490,785**
Variance mainly due to:			
Trade payables and accrued liabilities	**5,661,525**	3,664,385	1,997,140
Warrants liability	**2,601,810**	282,800	2,319,010
Embedded derivatives liability	**44,625**	531,900	(487,275)
Long-term debt[6]	**4,242,158**	3,935,783	306,375
Deferred revenue	**3,663,409**	2,874,537	788,872
Convertible debt	**238,975**	2,269,160	(2,030,185)
Total Shareholders' Equity (Deficit)	**5,866,393**	**6,167,962**	**(301,569)**
Variance mainly due to:			
Share capital	**43,765,056**	38,776,368	4,988,688
Stock option reserve	**4,023,437**	3,581,662	441,775
Deficit	**(40,665,681)**	(35,641,678)	(5,024,003)
Cumulative translation adjustment	**(1,256,419)**	(548,390)	(708,029)

Cash increased to $3,209,713 at July 31, 2021 compared to $2,088,825 at October 31, 2020. The increase of $1,120,888 is primarily attributed to the increase from financing activities, partially offset by a decrease in operating and investing activities and the foreign exchange impact on cash.

Trade and other receivables increased to $2,842,782 at July 31, 2021 compared to $1,928,906 at October 31, 2020. The increase of $913,876 is primarily due to the increase in sales on credit near the end of the quarter.

Inventories increased to $9,926,922 at July 31, 2021 compared to $9,579,181 at October 31, 2020. The increase of $347,741 is primarily due to the increase in freight costs allocated to inventory due to increased shipping and container costs during the nine-month period ending July 31, 2021, partially offset by depletion of excess inventory purchased in 2020.

Right of use asset decreased to $740,710 at July 31, 2021 compared to $1,013,599 at October 31, 2020. The decrease of $272,889 is mainly due to the amortization of the assets.

Trade payables and accrued liabilities increased to $5,661,525 at July 31, 2021, compared to $3,664,385 at October 31, 2020. The increase of $1,997,140 is primarily due to increased component purchases near the end of the third quarter of Fiscal 2021 compared to the fourth quarter of Fiscal 2020, and the accrual recorded for severance payable.

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[6] Long-term debt also includes the current portion of the long-term debt.

Warrants liability increased to $2,601,810 at July 31, 2021 compared to $282,800 at October 31, 2020. The increase of $2,319,010 is primarily attributed to the increase in the number of outstanding warrants at July 31, 2021, as well as the increase in the Company's share price which has an increasing effect on the warrants' fair value.

Embedded derivative liability decreased to $44,625 at July 31, 2021 compared to $531,900 at October 31, 2020. The decrease of $487,275 is primarily due to the exchange and cancellation of 4,550,000 embedded derivatives as part of the shares-for-debt transaction.

Long-term debt increased to $4,242,158 at July 31, 2021 compared to $3,935,783 at October 31, 2020. The increase of $306,375 is primarily due to additional funds borrowed during the period.

Deferred revenue increased to $3,663,409 at July 31, 2021 compared to $2,874,537 at October 31, 2020. The increase of $788,872 is primarily due to selling additional prepaid extended warranties, partially offset by the revenue recognized during the period.

Convertible debt decreased to $238,975 at July 31, 2021 compared to $2,269,190 at October 31, 2020. The decrease of $2,030,185 is primarily due to the exchange and cancellation of debt as part of the exchange of 3,640 convertible debenture units participated in the shares-for-debt transaction.

Share capital increased to $43,765,056 at July 31, 2021 compared to $38,776,368 at October 31, 2020. The increase of $4,988,688 is primarily due to the issuance of 10,178,600 and 8,666,666 common shares during the third quarter of Fiscal 2021 as part of the private placement and shares-for-debt transaction respectively, and the issuance of 802,588 common shares as settlement of interest related to the semi-annual 10% convertible debentures coupon.

Stock option reserve increased to $4,023,437 at July 31, 2021 compared to $3,581,662 at October 31, 2020. The increase of $441,775 is due to the share-based payments expense recorded during the nine-months ended July 31, 2021, partially offset by the exchange of 111,752 fully vested RSUs for 111,752 fully paid common shares from treasury to two former executives and one advisor.

Deficit increased to $40,665,681 at July 31, 2021 compared to $35,641,678 at October 31, 2020. The increased deficit of $5,024,003 is due to the net loss incurred during the nine-months ended July 31, 2021.

Cumulative translation adjustment increased to a negative position of $1,256,419 at July 31, 2021 compared to a negative position of $548,390 at October 31, 2021. The increase of $708,029 is related to the impact of translating the balance sheet from the Company's functional currency USD to its CAD presentation currency.

Liquidity and Capital Resources

Capital Management

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

Cash Flows

A summary of net cash flows by activity for the nine-month period ended July 31, 2021 compared to the corresponding period of Fiscal 2020 is presented below:

	2021	2020	Variance
	$	$	$
Net cash from (used in) operating activities	**(6,762)**	(2,880,442)	2,873,680
Net cash used in investing activities	**(906,238)**	(1,844,470)	938,232
Net cash (used in) from financing activities	**2,815,285**	4,143,954	(1,328,669)
Net change in cash	**1,902,285**	(580,958)	**2,483,243**
Net effect of foreign exchange rate changes on cash	**(781,397)**	(231,283)	(550,114)
Cash and restricted cash, beginning of period	**2,088,825**	1,941,507	147,318
Cash, end of period	**3,209,713**	**1,129,266**	**2,080,447**

Net cash from operating activities during the nine-month period ended July 31, 2021 increased by $2,873,680 when compared to Fiscal 2020. The increase in net cash from operations is primarily due to the improvement of the Company's cash-based operating results for the nine-month period ended July 31, 2021, and the positive impact from the change in the Company's non-cash working capital.

Net cash used in investing activities during the nine-month period ended July 31, 2021 decreased by $938,232 when compared to the same period in Fiscal 2020 primarily resulting from a reduction in development activities.

Net cash from financing activities during the nine-month period ended July 31, 2021 decreased by $1,328,669 compared to the same period in Fiscal 2020. The decrease in net cash from financing activities primarily resulted from a decrease in proceeds from long-term debt, a decrease in net proceeds from capital raises, and a decrease from the repayment of term debt, partially offset by a decrease in the repayment of bank indebtedness and a decrease in interest expense and bank charges paid.

Other Cash Considerations

Bank indebtedness & letters of guarantee

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.

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, whereas 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.

Term debt

On August 2, 2019, the Company entered into a credit facility agreement with Investissement Quebec ("IQ") for a term loan of up to $336,840, to be used specifically to finance the refundable tax credits for experimental scientific research and development for the Company's 2019 fiscal year.

The term loan bears interest at 2.55% above the bank prime rate and is secured by a senior-ranking hypothec on the Company's research and development tax credits receivable and other assets totaling $404,000, with the addition of an irrevocable letter of credit in the amount of $33,684, representing 10% of the credit facility amount.

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

a) the date the Company files its income tax return, if the refundable tax credits receivable is deducted from the income tax payable at that time;

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

c) the date a refund is received; or

d) April 30, 2021.

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:

a) the date the Company files its income tax return, if the refundable tax credits receivable is deducted from the income tax payable at that time;

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

c) the date a refund is received; or

d) April 30, 2022.

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.

Long-term debt

(i) 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.

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 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.

(ii) Investissement Quebec

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

The loan 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.

(iii) 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.

(iv) 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:

a) 4% fixed interest rate per annum, payable at the end of each month;

b) Amortization period of 10 years;

c) No principal repayments for 12 months from the date of drawdown; and

d) Borrowings made under this agreement are secured by a guarantee from BDC, guaranteeing 100% of the loan's value.

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 the same.

Convertible debentures

The Company issued $3,940,000 in convertible debenture units in Fiscal 2020, where each unit is comprised of:

a) 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

b) 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.

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

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 a deemed price of $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 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.

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 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 the equity instrument.

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. The allocated transaction costs of $19,916 are included in the Company's financial expenses.

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.

The convertible debt represents the debt component of the convertible debentures issued, 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	**(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**

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).

Selected Quarterly Information

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

	Revenue	Net loss	Basic and diluted loss per share	Adjusted net (loss) income	Adjusted loss per share
	$	$	$	$	$
July 31, 2021	**5,602,091**	**(1,008,299)**	**(0.02)**	**(842,426)**	**(0.02)**
April 30, 2021	5,878,960	(2,885,173)	(0.10)	(2,014,072)	(0.07)
January 31, 2021	6,324,215	(1,130,531)	(0.04)	(867,194)	(0.03)
October 31, 2020	4,852,379	(2,216,449)	(0.08)	(1,412,863)	(0.07)
July 31, 2020	3,855,653	(1,944,838)	(0.07)	(1,871,457)	(0.07)
April 30, 2020	4,263,857	(349,520)	(0.01)	(1,284,612)	(0.04)
January 31, 2020	6,042,016	(2,224,603)	(0.08)	(1,502,024)	(0.06)
October 31, 2019	5,310,129	(1,314,494)	(0.05)	(1,216,052)	(0.05)

Dividend Policy

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

Financial Instruments and Risk Management

Financial risk

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

(i) Credit risk

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

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

The typical credit period on sales is between 30 and 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.

(ii) Liquidity risk

Liquidity risk is the risk that a company cannot meet its obligations as they become due. The Company is subject to liquidity risk on its accounts payable which arise from its daily operations, bank indebtedness, term debt and long-term debt. The Company mitigates this risk by reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring adequate funds exist to support the execution of business strategies and operational growth. The Company may need to raise additional capital through debt or equity financings and source additional liquidity to meet its operational objectives over the next 12 months.

The following are amounts due on contractual maturities of financial liabilities as at July 31, 2021:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	Over 3 years
	$	$	$	$	$
Trade payables and accrued liabilities[7]	**5,511,579**	**5,511,579**	**5,511,579**	**-**	**-**
Term debt	**168,220**	**168,220**	**168,220**	**-**	**-**
Obligation under finance lease	**862,862**	**976,626**	**381,230**	**582,468**	**12,928**
Convertible debt	**238,975**	**300,000**	**300,000**	**-**	**-**
Long-term debt[8]	**4,242,158**	**4,573,768**	**3,708,974**	**308,689**	**556,105**
	11,023,794	**11,530,193**	**10,070,003**	**891,157**	**569,033**

[7] Net of warranty provision.

[8] Long-term debt also includes the current portion of the long-term debt.

Market risk

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

(i) Currency risk

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

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

(ii) Interest rate risk

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

(iii) Fair values

Financial assets and financial liabilities are measured on an ongoing basis at amortized cost.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, judgment is required to develop these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize or would pay in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

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.

(iv) Other price risk

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

(v) Investment policy

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

(vi) Derivatives

The Company did not enter into significant derivative contracts during the nine-month period ended July 31, 2021.

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.

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

Off-Balance Sheet Arrangements

The Company does not currently have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material.

Related Party Transactions

Remuneration payable to key management personnel[9]

The following table summarizes the remuneration payable to key management personnel included in accounts payable and accrued liabilities for the nine-month periods ended July 31, 2021 and 2020:

	July 31, 2021	July 31, 2020
	$	$
Trade payables and accrued liabilities	**601,765**	18,014

Compensation of directors and key management personnel

The following table summarizes the remuneration of directors and key management personnel from transactions which took place in the normal course of business for the three-month and nine-month periods ended July 31, 2021 and 2020. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties.

	Three months ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
	$	$	$	$
Short-term benefits	**832,446**	251,008	**1,457,938**	857,883
Share-based payments	**31,483**	331,763	**441,371**	868,689

Outstanding Share Data

On July 31, 2021 the Company had 46,757,709 common shares issued and outstanding, 12,377,178 warrants, 88,427 compensation options and 2,510,000 stock options outstanding convertible on a one-for one basis into common shares, as well as 622,153 DSUs and 1,471,752 RSUs outstanding convertible on a one-for-one basis into common shares or, at the option of the Company, for a cash payment equivalent to its fair market value.

Additionally, on July 31, 2021 the Company had senior unsecured convertible debentures in the principal amount of $300,000, convertible all, or in part into the Company's common shares at a conversion price of $0.80 per share. The convertible debenture carries a coupon rate of 10%, payable semi-annually in arrears on June 30 and December 31 of each year commencing June 30, 2020, until the maturity date. The Company may, at its sole discretion, pay all or part of the interest in cash or in common shares, in which case the amount will be converted into the Company's common shares based on the five-day volume-weighted average trading price of the common shares on the day prior to the date on which the interest is payable.

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

Segment Reporting

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, and 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

The following table summarizes non-current assets information by geography at 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

Basis of presentation and going concern assumption

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities as described in the notes to the consolidated financial statements. Historical cost is based on the fair value of the consideration given in exchange for goods and services.

The preparation of financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. As at 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.

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.
- 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.
- Extended payment terms with Espresso Capital Ltd.
- 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.

Critical Accounting Estimates

Preparing financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgments about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are periodically reviewed. Any change to accounting estimates is recognized in the period in which the estimate is revised.

In preparing the interim condensed consolidated financial statements for the three-month and nine-month periods ended July 31, 2021, 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, other than the considerations described above under basis of preparation and going concern assumption.

Business Risks

The Company believes that the growth and success of its business depends on many factors, some of which are discussed in this MD&A, including the section below, and in other filings made by the Company with the Canadian securities regulatory authorities, such as the ones described under "Part I – Risk Factors" in the Company's Filing Statement dated November 5, 2018. All filings can be found under the Company's profile on SEDAR at *www.sedar.com.*

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

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

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness.

Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

The impact of COVID-19 on the markets and industries to which the Company sells its products, including government buildings and perimeters, transportation, travel and events & entertainment industries (including cruise line, aviation and public venues such as sporting venues) has been significant and is evolving. Specifically, the level of sales orders that were expected prior to the onset of COVID-19 to be received and shipments delivered since the onset of COVID-19 were significantly reduced. To the extent that customer orders do not materialize as expected, our customers postpone orders, or can cancel them, our revenues, cash inflows and financial performance may be adversely impacted.

Although the Company has not, to date, experienced an inability to fulfill customer orders, the future impact of the COVID-19 pandemic on the Company's business, financial condition and results of operations remains uncertain. VOTI has taken measures to help ensure the availability of components on hand to fulfill existing customer orders. To the extent that VOTI's suppliers push 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.

The COVID-19 pandemic and related restrictions may also disrupt or delay the ability of employees to work because they become sick or are required to care for those who become sick, cause delays or disruptions in services provided by VOTI's suppliers, increase its vulnerability and that of its partners and service providers to security breaches, denial of service attacks or other hacking or phishing attacks, or cause other unpredictable events. Additionally, although the Company has attempted to identify all the COVID-19-related risks faced by its business, the uncertainty and lack of predictability around the COVID-19 pandemic means there may be other risks not presently known to the Company or that it presently believes are not material that could also affect the Company's business, financial condition and results of operations. A material adverse effect on the Company's employees, customers, suppliers, partners and/or other stakeholders could have a material adverse effect on the Company.

It is not possible to reliably estimate the length and severity of these developments and the future impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

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

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

Disclosure controls and procedures and internal control over financial reporting

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

Management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the reality judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.