Interim condensed consolidated financial statements of

VOTI Detection Inc.

For the three-month periods ended January 31, 2022 and 2021 (Unaudited)

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(In Canadian dollars)

	Notes	January 31, 2022	October 31, 2021
		$	$
Assets			
Current assets			
Cash		**1,218,684**	2,187,172
Short-term investments		**49,153**	49,153
Trade and other receivables	4	**2,471,953**	2,616,210
Research and development tax credits receivable		**202,220**	160,531
Inventories	5	**12,312,428**	9,353,460
Prepaid expenses and deposits		**558,119**	522,979
Total current assets		**16,812,557**	14,889,505
Non-current assets			
Property and equipment		**642,329**	760,345
Right of use assets	6	**603,288**	659,588
Intangible assets		**5,175,068**	4,757,874
Total non-current assets		**6,420,685**	6,177,807
Total assets		**23,233,242**	21,067,312
Liabilities			
Current liabilities			
Trade payables and accrued liabilities		**8,713,509**	5,661,258
Current portion of lease liabilities	6	**295,913**	290,434
Customer deposits		**251,330**	55,271
Deferred revenue		**1,678,664**	1,166,569
Current portion of convertible debt	11	**277,573**	254,556
Current portion of long-term debt	9	**1,066,942**	973,753
Total current liabilities		**12,283,931**	8,401,841
Non-current liabilities			
Lease liabilities	6	**415,735**	496,117
Deferred revenue		**2,319,678**	2,461,045
Embedded derivatives	12	**3,000**	8,625
Warrants	13	**1,028,272**	1,627,832
Long-term debt	9	**3,183,240**	3,272,060
Total liabilities		**19,233,856**	16,267,520
Shareholders' equity			
Share capital	14	**43,895,924**	43,780,056
Stock option reserve	15	**4,041,157**	4,020,178
Deficit		**(42,896,938)**	(41,706,436)
Cumulative translation adjustment		**(1,040,757)**	(1,294,006)
Total shareholders' equity		**3,999,386**	4,799,792
Total liabilities and shareholders' equity		**23,233,242**	21,067,312

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

Approved by the Board

(s) Neil Hindle, Director

(s) Rory Olson, Director

(In Canadian dollars)

		Three months ended January 31,	
	Notes	**2022**	2021
		$	$
Revenue	16	**4,284,856**	6,324,215
Cost of sales	5	**(2,852,975)**	(3,959,379)
Gross profit		**1,431,881**	2,364,836
Expenses			
General and administrative		**1,276,078**	882,299
Selling and distribution		**1,322,970**	1,041,172
Research and development, net		**285,261**	231,071
Financial expenses, net	17	**221,412**	1,077,488
Change in fair value of warrants	13	**(599,560)**	43,252
Change in fair value of embedded derivatives	12	**(5,625)**	88,650
Share-based expenses	15	**121,847**	131,435
		2,622,383	3,495,367
Net loss		**(1,190,502)**	(1,130,531)
Other comprehensive loss			
Foreign currency translation adjustment		**253,249**	(347,828)
Comprehensive loss		**(937,253)**	(1,478,359)
Basic and diluted net loss per share	18	**(0.03)**	(0.04)

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

(In Canadian dollars)

	Notes	Number of common shares	Share capital	Stock option reserve	Cumulative translation adjustment	Deficit	Total equity
			$	$	$	$	$
Balance, October 31, 2021		**46,783,134**	**43,780,056**	**4,020,178**	**(1,294,006)**	**(41,706,436)**	**4,799,792**
Issue of common shares as coupon payment on convertible debt	11	34,884	15,000	-	-	-	**15,000**
Restricted share units redeemed for common shares	15	70,085	100,868	(100,868)	-	-	**-**
Share-based expenses	15	-	-	121,847	-	-	**121,847**
Other comprehensive gain for the period		-	-	-	253,249	-	**253,249**
Net loss for the period		-	-	-	-	(1,190,502)	**(1,190,502)**
Balance, January 31, 2022		**46,888,103**	**43,895,924**	**4,041,157**	**(1,040,757)**	**(42,896,938)**	**3,999,386**
Balance, October 31, 2020		**26,998,103**	**38,776,368**	**3,581,662**	**(548,390)**	**(35,641,678)**	**6,167,962**
Issue of common shares as coupon payment on convertible debt		562,862	197,000	-	-	-	**197,000**
Share-based payments expense		-	-	131,435	-	-	**131,435**
Other comprehensive loss for the period		-	-	-	(347,828)	-	**(347,828)**
Net loss for the period		-	-	-	-	(1,130,531)	**(1,130,531)**
Balance, January 31, 2021		**27,560,965**	**38,973,368**	**3,713,097**	**(896,218)**	**(36,772,209)**	**5,018,038**

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

(In Canadian dollars)

	Notes	Three months ended January 31, 2022	2021
		$	$
Operating activities			
Net loss for the period		**(1,190,502)**	(1,130,531)
Adjustments for:			
Depreciation of property and equipment		**97,542**	100,341
Amortization of right of use assets	6	**76,655**	81,564
Amortization of intangible assets		**149,456**	111,176
Interest expense, bank charges and other	17	**406,156**	719,448
Change in fair value of warrants	13	**(599,560)**	43,252
Change in fair value of embedded derivatives	12	**(5,625)**	88,650
Net foreign exchange (gain) loss	17	**(184,744)**	358,040
Share-based expenses	15	**121,847**	131,435
		(1,128,775)	503,375
Net change in non-cash working capital items			
Trade and other receivables	4	**144,257**	(824,039)
Research and development tax credits receivable		**(41,689)**	77,951
Inventories	5	**(2,893,595)**	807,988
Prepaid expenses and deposits		**(35,140)**	(207,815)
Trade payables and accrued liabilities		**3,052,251**	576,029
Customer deposits		**196,059**	502,068
Deferred revenue		**224,283**	767,462
		(482,349)	2,203,019
Investing activities			
Net additions to property and equipment		**(23,509)**	(13,567)
Net additions to intangible assets		**(444,097)**	(204,187)
		(467,606)	(217,754)
Financing activities			
Proceeds from long-term debt	9	**-**	32,465
Interest expense and bank charges paid	17	**(198,504)**	(201,418)
Payment of lease liabilities	6	**(93,726)**	(97,810)
Repayment of term debt	8	**-**	(87,489)
		(292,230)	(354,252)
Net change during the period		**(1,242,185)**	1,631,013
Net effect of foreign exchange rate changes on cash		**273,697**	(365,736)
Cash, beginning of period		**2,187,172**	2,088,825
Cash, end of period		**1,218,684**	3,354,102

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

1. Description of the business

VOTI Detection Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is domiciled in St-Laurent, Québec. The principal activities of the Company involve the development, manufacturing and selling of X-ray security systems for critical infrastructures, as well as ports, borders, military, and transportation facilities for threat detection and loss prevention.

The Company's common shares are traded on the TSX Venture Exchange under the symbol "VOTI" as of November 19, 2018.

The address of its registered office is 790 Begin Street, St-Laurent, Quebec, H4M 2N5, Canada.

2. Significant accounting policies

Statement of compliance

The Company's interim condensed consolidated financial statements for the three months ended January 31, 2022, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and in accordance with IAS 34, *Interim Financial Reporting*, and using the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended October 31, 2021.

The Board of Directors approved these interim condensed consolidated financial statements of the Company and authorized their issuance on March 29, 2022.

Basis of preparation and going concern assumption

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

The preparation of financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. As at January 31, 2022, the Company had not yet achieved profitable operations and had a net loss of $1,190,502 for the three months ended January 31, 2022, and a negative cash flows from operations of $482,349. As at January 31, 2022, the Company had current assets less current liabilities of $4,528,626 and a deficit of $42,896,938.

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. To the extent that customer orders do not materialize as expected, orders being postponed or cancelled, our revenues, cash flows and financial performance will be adversely impacted.

Additionally, the Company's loan from Espresso Capital Ltd. and its revolving demand credit facility (note 9 and note 7 respectively) are subject to a minimum tangible net worth calculation, while its non-interest bearing loan from Investissement Quebec (note 9) is subject to a minimum EBITDA financial ratio. It may be the case, that one or both the covenant and the financial ratio may not be respected during the next 12 months, and consequently any remaining loan balances and amounts due in respect of the revolving demand facility would immediately become due and payable on demand. To the extent that the Company's cash needs exceed its available borrowing capacity, or in the event that it is unable to obtain and maintain sufficient financial support, the Company will experience difficulties in meeting its financial obligations.

2. Significant accounting policies (continued)

Basis of preparation and going concern assumption (continued)

To date, the Company has successfully fulfilled customer orders. However, there have been infrequent delays in fulfilling some of the orders, most notably due the global component shortages (electronic and other) and the increasing freight forwarding lead times. To the extent that the Company's suppliers continue to delay fulfillment of orders, do not carry sufficient inventory of components on-hand, close their facilities for an extended duration, or if securing containers with freight forwarders becomes increasingly more difficult, the Company is likely to present a larger volume of delayed deliveries to customers, which will result in an adverse impact on financial performance and cash flow.

Moreover, the Company is entering negotiations with few of its suppliers for the settlement of trade payables that are already in arrears. Failure to reach a successful conclusion will also result in an adverse impact on the Company's financial performance and cash flow.

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.

As this uncertainty may result in the Company experiencing difficulties in meeting its obligations, Management has been continuing to undertake the following actions:

- Raised $4,275,012 and $2,357,615 of financing through the sale of common shares and warrants in May 2021 and March 2022 respectively.
- Extended payment terms with Espresso Capital Ltd.
- Obtained funding and relief in connection with COVID-19 government assistance programs.

The Company continues to update its plans with respect to its cash flow and financing. The Company believes that its past ability to generate and fulfill customer orders, the cost reduction initiatives currently in place and successful funding initiatives, generate sufficient cash flow for the Company to continue as a going concern in its present form. Notwithstanding, no pledges can be made to persistently achieve such results. In the absence of attaining sufficient revenues and/or sufficient operating cost reductions to achieve positive cash flow objectives, obtain additional financing and continue to receive the support of its suppliers and employees, there is a material uncertainty regarding the Company's ability to continue as a going concern. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Basis of consolidation

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

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

2. Significant accounting policies (continued)

Functional and presentation currency

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

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

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

Translation to presentation currency

The annual consolidated financial statements of the Company are translated from their functional currency to the Canadian dollar, the presentation currency. Assets and liabilities are translated at the closing exchange rates prevailing at the financial position date, and income and expenses are translated using the average exchange rates. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are included as a separate component of other comprehensive income ("OCI").

3. Critical judgments, estimates and assumptions in applying the Company's accounting policies

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

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by Management in applying the Company's accounting policies and the key sources of information were the same as those applied to the annual audited consolidated financial statements for the year ended October 31, 2021.

(In Canadian dollars)

4. Trade and other receivables

	January 31, 2022	October 31, 2021
	$	$
Trade receivables	**2,186,693**	2,430,029
Allowance for expected credit loss	**(100,293)**	(100,293)
	2,086,400	2,329,736
Sales tax receivable	**322,955**	161,735
Other receivables	**62,598**	124,739
	2,471,953	2,616,210

Trade receivables are generally on terms of 30 to 60 days and from time to time may be extended further. Allowances for expected credit losses are recognized against trade receivables based on estimated irrecoverable amounts determined using the expected credit loss model.

During the three months ended January 31, 2022, the Company provided for an expected credit loss of $nil (October 31, 2021 - $nil) of trade receivables.

Two customers (three in 2021) represented approximately 42% of the trade accounts receivable balance as at January 31, 2022 (49% at October 31, 2021).

	January 31, 2022	October 31, 2021
	%	%
Customer A	**31**	-
Customer B	**11**	-
Customer C	**-**	21
Customer D	**-**	15
Customer E	**-**	13

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

	January 31, 2022	October 31, 2021
	$	$
0-30 days	**1,959,704**	2,166,168
31-60 days	**28,591**	104,183
61-90 days	**57,089**	1,743
Over 91 days	**41,016**	57,642
	2,086,400	2,329,736

(In Canadian dollars)

5. Inventories

	January 31, 2022	October 31, 2021
	$	$
Raw materials	**9,580,203**	6,391,815
Work in progress	**218,945**	297,203
Finished goods	**2,513,280**	2,664,442
	12,312,428	9,353,460

Inventories sold and recognized in cost of sales during the three months ended January 31, 2022, were $2,055,109 (2021 - $3,959,379).

6. Leases

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

Right of use assets

	Building and office space	Machinery and equipment	Total
	$	$	$
Net carrying amount			
Balance as at October 31, 2021	**596,356**	**63,232**	**659,588**
Additions	-	-	-
Amortization expense	(69,305)	(7,350)	(76,655)
Cumulative translation adjustment	18,404	1,951	20,355
Balance as at January 31, 2022	**545,455**	**57,833**	**603,288**

Lease liabilities

The changes to the lease liabilities are as follows:

	Lease liabilities
	$
Balance as at October 31, 2021	**786,551**
Additions	**-**
Interest accretion expense	**18,823**
Payment of lease liabilities	**(93,726)**
Balance as at January 31, 2022	**711,648**
Short-term	**295,913**
Long-term	**415,735**

(In Canadian dollars)

6. Leases (continued)

Lease liabilities (continued)

The amounts recognized in the interim condensed consolidated statements of loss and comprehensive loss for the three-month periods ended January 31, 2022, and 2021 are as follows:

	Three months ended January 31,	
	2022	2021
	$	$
Interest accrued on lease liabilities	**18,823**	25,931
Expenses related to short-term leases	**2,099**	7,887

At January 31, 2022 and October 31, 2021, under the terms of the operating lease contracts for premises and equipment, the Company committed to pay, over the following five fiscal years, the following payments:

	January 31, 2022	October 31, 2021
	$	$
Maturity schedule - contractual undiscounted cash flows		
Less than one year	**369,886**	375,753
One to three years	**406,654**	492,618
Four to five years	**9,253**	11,148
Total undiscounted lease liabilities	**785,793**	879,519

7. Bank indebtedness

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

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

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

- A deed of moveable hypothec representing all present and future obligations in the amount of $3,100,000, constituting a security interest on the universality of all present and future assets excluding tax credits to be received;
- A deed of moveable hypothec representing all present and future obligations in the amount of $33,684, constituting a first ranking hypothec on term deposits and/or guaranteed investment certificates in the amount of $33,684;
- A deed of moveable hypothec representing all present and future obligations in the amount of $34,153, constituting a first ranking hypothec on term deposits and/or guaranteed investment certificates in the amount of $34,153;
- Insurance provided by Export Development Canada covering losses pertaining to specific accounts receivable, naming the bank as beneficiary;
- An assignment constituting a first charge on all inventory.

7. Bank indebtedness (continued)

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

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

As at January 31, 2022, and October 31, 2021 $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 $480,033 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 January 31, 2022, this covenant was not respected. Nonetheless, as at January 31, 2022 no amounts were drawn under these facilities and therefore this default will not result in any demand for repayment.

8. Term debt

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

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

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

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

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

(iii) the date a refund is received; or

(iv) April 30, 2021.

During June 2020, the Company entered into another credit facility agreement with IQ for a term loan of up to $341,530, to be used specifically to finance the refundable tax credits for experimental scientific research and development for the Company's 2020 fiscal year.

The term loan bears interest at 2.55% above the bank prime rate and is secured by a senior-ranking hypothec on the Company's research and development tax credits receivable and other assets totaling $410,000, with the addition of an irrevocable letter of credit in the amount of $34,153, representing 10% of the credit facility amount.

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

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

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

(iii) the date a refund is received; or

(iv) April 30, 2022.

(In Canadian dollars)

8. Term debt (continued)

During the year ended October 31, 2021, the Company concluded the full repayment of the balances owed under both facilities, and accordingly, as at January 31, 2022 there are no outstanding amounts.

9. Long-term debt

Espresso Capital Ltd.

On January 8, 2019, and as amended thereafter, the Company entered into a $7,500,000 revolving long-term debt facility with Espresso Capital Ltd. ("Espresso") which matures on July 30, 2023. Based on the terms of the agreement, the authorized credit limit is determined based on the Company's average monthly gross margin for the preceding twelve months, multiplied by 7.5, and less any debt in priority and any borrowings already made on this facility.

Accordingly, as at January 31, 2022, the Company's authorized credit limit is $4,430,000 less any borrowings on this facility.

Amounts drawn on this facility include a placement fee of 1.25% and bear interest at 15.25% per annum. The facility is secured by a $9,000,000 movable hypothec on the universality of the Company's movable property, subject to a first ranking security interest held by the creditor of the Company's bank indebtedness as described in note 7.

The amount outstanding as at January 31, 2022, is $3,650,000, of which an amount of $1,000,000 was originally payable on April 30, 2020, and the remaining balance on June 30, 2023. On September 27, 2021, the agreement was amended, such that it resulted in the extension of the repayment of the $1,000,000 by way of making 12 equal monthly instalments commencing December 31, 2021. The maturity of the remaining balance was extended as well until July 30, 2023.

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. A subsequent amendment resolved to cancel the warrants issued for an exit fee of $20,000 payable upon the full repayment of the $1,000,000 tranche.

The Company must respect certain covenants and financial ratios associated with this facility, including having maintained a monthly net working capital of no less than $8,000,000, which was then replaced, on September 27, 2021, with a monthly minimum Tangible Net Worth covenant of $1,000,000.

As at January 31, 2022, the minimum Tangible Net Worth covenant was not respected. Nonetheless, on January 31, 2022, Espresso agreed to waive the default thereof, and will not demand repayment in the future as a result of this default.

The changes to the loan during the three months ended January 31, 2022 are as follows:

	January 31, 2022
	$
Balance as at October 31, 2021	**3,650,000**
Additions	**-**
Balance as at January 31, 2022	**3,650,000**
Short-term	**1,000,000**
Long-Term	**2,650,000**

(In Canadian dollars)

9. Long-term debt (continued)

Investissement Quebec

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

The loan is secured by a senior-ranking hypothec on the Company's movable assets totaling $200,000, with the addition of a subordinated hypothec totaling 20% of the Company's entire movable assets.

The loan principal is payable in 48 equal monthly instalments commencing March 31, 2021.

Commencing October 31, 2021, the Company must respect a specific financial ratio of EBITDA, as defined in the agreement, divided by interest and short-term debt paid of no less than 1.2:1. As at January 31, 2022, this financial ratio was not respected nor any waiver was obtained.

The loan was initially measured at the present value of all future loan payments, discounted using comparable interest market rate for a similar loan. The loan is subsequently measured at amortized cost using the effective interest method. The difference between the discounted value of the loan at inception and the carrying amount of the loan was recorded as a reduction of the Company's tangible assets balance.

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

The changes to the loan during the three months ended January 31, 2022 are as follows:

	January 31, 2022
	$
Balance as at October 31, 2021	**143,644**
Additions	**-**
Interest accretion expense	**2,459**
Payments made	**(11,850)**
Balance as at January 31, 2022	**134,253**
Short-term	**39,246**
Long-Term	**95,007**

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.

(In Canadian dollars)

9. Long-term debt (continued)

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

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

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

The changes to the loan during the three months ended January 31, 2022 are as follows:

	January 31, 2022
	$
Balance as at October 31, 2021	202,169
Additions	-
Interest accretion expense	13,760
Balance as at January 31, 2022	215,929
Short-term	2,233
Long-Term	213,696

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

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

The loan carries the following terms:

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

(ii) Amortization period of 10 years;

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

(iv) Borrowings made under this agreement are secured by a security guarantee from BDC, guaranteeing 100% of the value of the loan.

On March 15, 2021, the Company borrowed the funds and recorded a liability of $250,000. As at January 31, 2022, the borrowed principal amount remains unchanged.

(In Canadian dollars)

9. Long-term debt (continued)

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

The changes to the loan during the three months ended January 31, 2022 are as follows:

	January 31, 2022
	$
Balance as at October 31, 2021	250,000
Additions	-
Interest	2,548
Payments made	(2,548)
Balance as at January 31, 2022	250,000
Short-term	25,463
Long-Term	224,537

10. Convertible debenture units

On March 26, 2020, the Company's board of directors authorized a non-brokered private placement to issue convertible debenture units.

Each convertible debenture unit is comprised of:

(i) one senior unsecured convertible debenture in the principal amount of $1,000 having a 2-year term and bearing interest at an annual rate of 10%, entitling their holders to convert all, or any part of the outstanding principal amount into the Company's common shares at a conversion price of $0.80 per share; and

(ii) 600 warrants entitling their holders to purchase one common share of the Company per warrant at an exercise price of $0.85 per share for a period of 24 months after the closing date.

The coupon rate of 10% is payable semi-annually in arrears on June 30 and December 31 of each year commencing June 30, 2020, and the Company may, at its sole option, settle all or part of the interest in cash or in common shares. The Company currently intends on settling the interest payable by issuing common shares. Additionally, the Company may, at its sole option, oblige the conversion of all or any part of the outstanding convertible debenture principal into common shares, if at any time before the maturity date, the daily volume-weighted average trading price of the Company's common shares for any 20 consecutive trading days is equal to or greater than $1.45.

Additionally, the Company is entitled to accelerate the time of expiry of the warrants, thus obliging the conversion of all or any part of the outstanding warrants, if at any time before the maturity date the daily volume-weighted average trading price of the common shares is equal to or greater than $1.65 for 20 consecutive trading days.

According to the terms of the convertible debentures, payment of indebtedness thereunder is fully postponed and subordinated to secured creditors of the Company, and the Company's aggregate secured indebtedness cannot exceed $10,000,000 without obtaining the prior written approval of the debenture holders, representing no less than 66% of the principal amount of all outstanding debentures. As at January 31, 2022, no such approval was required.

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

10. Convertible debenture units (continued)

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

Transaction costs of $179,243 were allocated proportionately to each respective liability component.

The Company allocated the proceeds to each of the financial instruments based on their fair values using the residual method, whereby, the proceeds were first allocated to each of the warrants and embedded derivatives based on their respective fair values and the remainder was allocated to the convertible debt.

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

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

The fair values measured at issuance for both the embedded derivatives and the warrants were determined using the Black-Scholes option pricing model. As the warrants and embedded derivatives are denominated in Canadian dollars and the Company's functional currency is US dollars, both of these financial instruments are classified as financial liabilities at fair value through profit and loss ("FVTPL") and are re-measured at FVTPL at each period-end (note 12 and note 13). The allocated transaction costs of $97,796 were included in the Company's financial expenses.

The convertible debt is measured at amortized cost, using the effective interest method, which allocates the interest expense at a constant rate over the term of the instrument. The respective transaction costs are embedded in the effective interest rate and are expensed through accreted interest charges over the term of the liability.

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

On May 13, 2021, the Company concluded a shares-for-debt transaction with several participating convertible debenture holders, whereby the Company exchanged convertible debenture units at their undiscounted cash value, for newly issued units at $0.42 per unit. Each of the newly issued units consists of one common share of the Company and one-half warrant, whereby a full warrant entitles the holder to purchase one common share at a price of $0.55 per share for a period of 3 years from the date of closing.

At closing, 3,640 convertible debenture units (representing an undiscounted cash value of $3,640,000) participated in the shares-for-debt transaction, resulting in their cancellation for a total consideration of 8,666,666 and 4,333,333 newly issued common shares and warrants, respectively. Following the closing of the transaction, 300 convertible debenture units (representing an undiscounted cash value of $300,000) remain outstanding. In executing this transaction, the Company incurred transaction costs of $59,536, which were 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.

10. Convertible debenture units (continued)

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

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

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

Accordingly, the Company allocated the $3,640,000 undiscounted cash value of the participating convertible debenture units to each of the newly issued financial instruments based on their respective fair values using the residual method, whereby the fair value of each exchanged convertible debenture unit was 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, was allocated to share capital.

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

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

The fair value of the warrants, as measured at issuance, was determined using the Black-Scholes option pricing model. As the warrants are denominated in Canadian dollars and the Company's functional currency is US dollars, the warrants are classified as FVTPL and will be re-measured at FVTPL at each period-end. The allocated transaction costs of $19,916 were 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 transaction costs of $39,620. These transaction costs were 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 was also included in the Company's net financial expenses.

(In Canadian dollars)

11. Convertible debt

The convertible debt represents the debt component of the convertible debentures issued, described in note 10, independently of the conversion feature embedded derivative. The changes to the convertible debt during the three months ended January 31, 2022 are as follows:

	January 31, 2022
	$
Balance as at October 31, 2021	**254,556**
Interest accretion expense	**38,017**
Interest settled by shares issuance	**(15,000)**
Balance as at January 31, 2022	**277,573**
Short-term	**277,573**
Long-term	**-**

During the three months ended January 31, 2022, the Company settled interest related to the semi-annual 10% coupon in the amount of $15,000 (2021 - $197,000) by issuing 34,884 common shares from treasury (2021 – 562,862).

12. Embedded derivatives

The embedded derivatives represent the conversion option feature embedded in the convertible debentures that were issued as part of the convertible debenture units (note 10).

On May 13, 2021, 4,550,000 embedded derivatives were extinguished as part of the shares-for-debt transaction described in note 10. Using the Black-Scholes option pricing model, the Company re-measured the value of these embedded derivatives immediately prior to their extinguishment at $0.186.

The weighted-average assumptions used to estimate the fair value of these embedded derivatives using the Black-Scholes option pricing model on May 13, 2021 and October 31, 2020 were as follows:

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

(In Canadian dollars)

12. Embedded derivatives (continued)

The weighted-average assumptions used to estimate the fair value of the remaining embedded derivatives using the Black-Scholes option pricing model at January 31, 2022 and October 31, 2021 are as follows:

	January 31, 2022	October 31, 2021
Volatility	**153%**	104%
Risk-free rate	**1.23%**	1.00%
Expected life of embedded derivative (years)	**0.20**	0.45
Common share value	**$0.28**	$0.36
Exercise price	**$0.80**	$0.80
Fair value	**$0.008**	$0.023

The changes to the embedded derivatives during the three months ended January 31, 2022 are as follows:

	Number of Embedded derivatives	**$**
Balance as at October 31, 2021	**375,000**	**8,625**
Change in fair value of embedded derivatives		**(5,625)**
Balance as at January 31, 2022	**375,000**	**3,000**

13. Warrants

Warrants issued in a reverse takeover transaction

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

These warrants are classified as FVTPL, since they are denominated in a currency other than the Company's functional currency and are re-measured at the end of each reporting period using the Black-Scholes option pricing model.

On November 13, 2021, these warrants have expired and therefore carry no value (October 31, 2021 - $0.000). During the three months ended January 31, 2022, the cancellation of warrants resulted in $nil non-cash gain/loss (2021 - $nil from re-measurement for the three months ended January 31, 2021).

(In Canadian dollars)

13. Warrants (continued)

Warrants issued in a reverse takeover transaction (continued)

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

	November 13, 2021	October 31, 2021
Volatility	-	0%
Risk-free rate	-	1.00%
Expected life of warrant (years)	-	0.00
Common share value	-	$0.36
Exercise price	-	$4.50
Fair value	-	$0.000

Warrants issued with convertible debenture units

During April and June 2020, in conjunction with the convertible debenture units issuance as described in note 10, the Company issued 2,364,000 warrants, providing their holders an option to purchase one common share for $0.85 up to 24 months from the date of issuance.

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

Using the Black-Scholes option pricing model, the Company re-measured the value of the warrants immediately prior to their cancellation on May 13, 2021, at $0.178 (October 31, 2020 - $0.103), which resulted in a non-cash loss of $163,800 immediately prior to their cancellation.

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

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

(In Canadian dollars)

13. Warrants (continued)

Warrants issued with convertible debenture units (continued)

On January 31, 2022, the Company re-measured the value of the remaining warrants at $0.007 (October 31, 2021 - $0.020), which resulted in a non-cash gain of $2,340 for the three months ended January 31, 2022.

The weighted-average assumptions used on January 31, 2022, and October 31, 2021, in the Black-Scholes option pricing model to estimate the fair value of the remaining warrants are as follows:

	January 31, 2022	October 31, 2021
Volatility	**153%**	104%
Risk-free rate	**1.23%**	1.00%
Expected life of embedded derivative (years)	**0.20**	0.45
Common share value	**$0.28**	$0.36
Exercise price	**$0.85**	$0.85
Fair value	**$0.007**	$0.020

Warrants issued in shares-for-debt transaction

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

Accordingly, using the Black-Scholes option pricing model, on May 13, 2021, the Company measured the value of these warrants at $0.281 and then re-measured their value at $0.157 on October 31, 2021. This resulted in a non-cash gain of $537,334 for the fiscal year ended October 31, 2021.

On January 31, 2022, the Company re-measured the fair value of the warrants at $0.099, which resulted in a non-cash gain of $251,333 for the three months ended January 31, 2022.

The weighted-average assumptions used in estimating the fair value of these warrants using the Black-Scholes option pricing model on January 31, 2022 and October 31, 2021 are as follows:

	January 31, 2022	October 31, 2021
Volatility	**125%**	119%
Risk-free rate	**1.23%**	1.00%
Expected life of embedded derivative (years)	**1.25**	1.50
Common share value	**$0.28**	$0.36
Exercise price	**$0.55**	$0.55
Fair value	**$0.099**	$0.157

(In Canadian dollars)

13. Warrants (continued)

Warrants issued to participants in brokered private placement

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

On May 6, 2021, the Company initially measured the fair value of each of these warrants, using Black-Scholes option pricing model, at $0.317, and at $0.157 when re-measured on October 31, 2021, resulting in a non-cash gain of $814,288 for the fiscal year ended October 31, 2021.

On January 31, 2022, the Company re-measured the fair value of the warrants at $0.099, which resulted in a non-cash gain of $295,179 for the three months ended January 31, 2022.

The weighted-average assumptions used in estimating the fair value of these warrants using the Black-Scholes option pricing model on January 31, 2022 and October 31, 2021 are as follows:

	January 31, 2022	**October 31, 2021**
Volatility	**125%**	**119%**
Risk-free rate	**1.23%**	**1.00%**
Expected life of embedded derivative (years)	**1.25**	**1.50**
Common share value	**$0.28**	**$0.36**
Exercise price	**$0.55**	**$0.55**
Fair value	**$0.099**	**$0.157**

Warrants issued to agents of private placement

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

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

On October 31, 2021, the Company re-measured the value of each warrant at $0.180, which resulted in a non-cash gain of $136,025 for the period ended October 31, 2021.

On January 31, 2022, the Company re-measured the fair value of the warrants at $0.117, which resulted in a non-cash gain of $50,708 for the three months ended January 31, 2022.

(In Canadian dollars)

13. Warrants (continued)

Warrants issued to agents of private placement (continued)

The weighted-average assumptions used in estimating the fair value of these warrants using the Black-Scholes option pricing model on January 31, 2022 and October 31, 2021 are as follows:

	January 31, 2022	October 31, 2021
Volatility	**125%**	**119%**
Risk-free rate	**1.23%**	**1.00%**
Expected life of embedded derivative (years)	**1.25**	**1.50**
Common share value	**$0.28**	**$0.36**
Exercise price	**$0.42**	**$0.42**
Fair value	**$0.117**	**$0.180**

Warrants issued to Espresso

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

Accordingly, on February 22, 2021, immediately prior to their cancellation, the Company, using the Black-Scholes option pricing model, re-measured the value of each of these warrants at $0.158 (October 31, 2020 - $0.110), which resulted in a non-cash loss of $13,714 for the fiscal year ended October 31, 2021. The cancellation of warrants immediately thereafter resulted in a non-cash gain of $25,213 for the fiscal year ended October 31, 2021. Both the non-cash loss and the non-cash gain were recorded in the Company's net financial expenses.

The changes to the warrants balance during the three months ended January 31, 2022 are as follows:

	Number of Warrants	$
Balance as at October 31, 2021	**12,377,178**	**1,627,832**
Expiration of warrants	**(1,969,662)**	**-**
Change in fair value of warrants		**(599,560)**
Balance as at January 31, 2022	**10,407,516**	**1,028,272**

(In Canadian dollars)

14. Share capital

	Number of shares	Share capital
		$
Balance as at October 31, 2021	**46,783,134**	**43,780,056**
Shares issued as coupon payment on convertible loan	**34,884**	**15,000**
RSUs redeemed for common shares	**70,085**	**100,868**
Balance as at January 31, 2022	**46,888,103**	**43,895,924**

Convertible debenture units

During the three months ended January 31, 2022, and as described in note 10 and note 11, the Company settled interest related to the semi-annual 10% coupon in the amount of $15,000 (2021 – $197,000) by issuing 34,884 common shares from treasury (2021 – 562,862).

RSUs redeemed for common shares

On December 17, 2021, the Company redeemed 43,333 fully vested RSUs by issuing of 43,333 fully paid common shares from treasury to a former executive, followed by an additional redemption on January 11, 2022, of 26,752 fully vested RSUs by issuing of 26,752 fully paid common shares from treasury to a former advisor.

On March 10, 2022, the Company redeemed 104,998 fully vested RSUs by issuing of 104,998 fully paid common shares from treasury to current and former employees and executives.

Brokered private placement

On March 29, 2022, the Company completed a brokered private placement of 15,717,434 units at a price of $0.15 per unit for aggregate gross proceeds of $2,357,615. Each unit consists of one common share of the Company and one-half of one common share purchase warrant, which entitles its holder to acquire one common share at a price of $0.20 per share for a period of 3 years. Additionally, in consideration for their services, the Company issued 1,239,060 warrants to the private placement's agents, each of which entitles its holder the option to acquire one common share at a price of $0.15 per share for a period of 36 months.

15. Share-based payments

Stock option plan

On November 13, 2018, the Company established a new Stock Option Plan (the "Plan") for purposes of advancing the interests of VOTI Detection Inc. and its shareholders by incentivizing the Company's directors, officers, employees and consultants to strive for continued and improved services and reward excellent performance.

Under this Plan, which is administered by the Company's Board of Directors, the recipients are awarded stock options to acquire common shares. The aggregate number of options reserved for issuance under the Plan shall be 10% of the issued and outstanding Common Shares at any time.

Unless otherwise determined by the Board at the time of grant, each option shall be exercisable until the eighth anniversary of the date on which it is granted. One third of the Options granted shall vest on the first anniversary of the date of grant and the remaining two thirds shall vest quarterly over two years, totalling a three-year vesting period.

During the three months ended January 31, 2022, the Company granted stock options to its employees totaling nil (2021 - nil).

(In Canadian dollars)

15. Share-based payments (continued)

Stock option plan (continued)

The Company applies the fair value method of accounting for share-based compensation awards granted. Fair value is calculated based on a Black-Scholes option pricing model.

Share-based payments expense of $62,106 were recorded for the three months ended January 31, 2022 (2021 - $64,111). The changes to the number of stock options granted and their weighted average exercise price during the three-month periods ended January 31, 2022 and 2021 are as follows:

	January 31, 2022		January 31, 2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of the period	**2,857,917**	**2.87**	2,160,000	2.78
Granted	**-**	**-**	-	-
Forfeited/cancelled	**(337,917)**	**2.92**	(175,000)	2.68
Outstanding, end of the period	**2,520,000**	**1.35**	1,985,000	2.79
Exercisable, end of the period	**949,167**	**2.84**	1,181,669	2.90
Weighted average remaining contractual life (years)		**6.55**		6.04

Deferred share unit plan

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

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

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

The aggregate maximum number of Common Shares available for issuance from treasury pursuant to any security-based compensation arrangements of the Company, including the DSU Plan and the RSU Plan and excluding any shares issuable under the Stock Option Plan, is 2,650,000.

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

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

Share-based payments expense of $nil were recorded for the three months ended January 31, 2022 (2021 - $nil).

(In Canadian dollars)

15. Share-based payments (continued)

Deferred share unit plan (continued)

The changes to the number of DSUs granted for the three-month periods ended January 31, 2022 and 2021 are as follows:

	January 31, 2022	January 31, 2021
	Number of DSUs	Number of DSUs
Outstanding, beginning of the period	**622,153**	147,153
Granted	**-**	-
Exercised	**-**	-
Forfeited/cancelled	**-**	-
Outstanding, end of the period	**622,153**	147,153
Vested, end of the period	**622,153**	147,153

Restricted share unit plan

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

The purpose of the RSU Plan is to assist the Company in the motivation, attraction and retention of eligible employees, directors and consultants to advance the interests of the Company. RSUs granted to a Participant will entitle the Participant, subject to the satisfaction of any conditions attached to the grant, to receive a payment in fully paid Common Shares or, at the option of the Company, in cash on the date when the RSUs are fully vested. The Company intends to exchange the RSUs for fully paid Common Shares.

The aggregate maximum number of Common Shares available for issuance from treasury pursuant to any security-based compensation arrangements of the Company, including the RSU Plan and the DSU Plan and excluding any share issuable under the Stock Option Plan, is 2,650,000.

On June 14, 2019, the Company granted 53,504 RSUs to members of its advisory board. The units vested in equal tranches at the end of each of the following eight quarters. Accordingly, on April 30, 2021, these RSUs became fully vested.

On April 14, 2020, the Company granted 220,000 RSUs to key management personnel, which vest three months from the date of grant. The RSUs are redeemable by their holders on April 14, 2022, unless approved earlier by the Company.

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

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

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

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

(In Canadian dollars)

15. Share-based payments (continued)

Restricted share unit plan (continued)

On February 26, 2021, the Company granted 460,000 RSUs to certain employees, which vest over three years, and on September 30, 2021, the Company granted an additional 155,932 RSUs to one of its executives.

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

Share-based payments expense of $59,741 were recorded for the three months ended January 31, 2022 (2021 - $67,324).

The changes to the number of RSUs granted during the three-month periods ended January 31, 2022 and 2021 are as follows:

	January 31, 2022	January 31, 2021
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	**1,436,017**	1,153,504
Granted	**-**	-
Exercised	**(70,085)**	-
Forfeited/cancelled	**(30,000)**	-
Outstanding, end of the period	**1,335,932**	1,153,504
Vested, end of the period	**238,333**	266,816

On March 10, 2022, the Company redeemed 104,998 fully vested RSUs by issuing of 104,998 fully paid common shares from treasury to current and former employees and executives.

(In Canadian dollars)

16. Revenue

	Three months ended January 31,	
	2022	2021
	$	$
Products	**3,374,033**	5,777,073
After sales services and extended warranty	**910,823**	547,142
	4,284,856	6,324,215

During the three months ended January 31, 2022, the Company generated 16% (2021 – 37%) of its revenue, from one customer (2021 - three) in the approximate amount of $0.7 million (2021 – $2.3 million), and as follows:

	Three months ended January 31,	
	2022	2021
	%	%
Customer A	**16**	-
Customer B		14
Customer C	**-**	12
Customer D	**-**	11

17. Financial expenses

	Three month ended January 31,	
	2022	2021
	$	$
Interest, bank, and related charges	**184,106**	209,373
Interest accretion expense on convertible debt	**38,015**	329,535
Interest accretion on long-term debt	**18,767**	12,023
Foreign exchange (gain) loss	**(184,744)**	358,040
Significant financing component interest on extended warranties	**146,445**	142,586
Interest on lease liabilities	**18,823**	25,931
	221,412	1,077,488

(In Canadian dollars)

18. Loss per share

	Three months ended January 31,	
	2022	2021
	$	$
Loss attributable to common shareholders for the year	**(1,190,502)**	(1,130,531)
Weighted average number of shares for basic and diluted EPS	**46,826,894**	27,187,763
Basic and diluted loss per share	**(0.03)**	(0.04)

A net loss was reported for the three-month periods ended January 31, 2022 and 2021 and therefore, the denominator for the basic earnings per share calculation was equal to the weighted average number of common stock outstanding with no consideration for outstanding stock options, DSUs, RSUs, warrants and debt conversions to acquire shares of the Company's common stock because to do so would have been anti-dilutive.

19. Financial instruments

Fair values

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

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

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

Level 1 – This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

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

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

The fair values of short-term investments, trade and other receivables, research and development tax credits receivable, trade payables and accrued liabilities, 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.

(In Canadian dollars)

20. Government Assistance

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

The contributions received for the three-month periods ended January 31, 2022 and 2021 were recorded as a reduction to the following accounts:

	Three months ended January 31,	
	2022	2021
	$	$
Consolidated statements of loss and comprehensive loss		
Cost of sales	-	110,146
General and administrative	-	79,785
Selling and distribution	-	122,404
Research and development	-	80,755
	-	393,090
Consolidated statements of financial position		
Inventories	-	23,988
Intangible assets	-	42,298
	-	66,286
	-	459,376

(In Canadian dollars)

21. Segment information

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

The following table summarizes revenue by geographical area for the three-month periods ended January 31, 2022 and 2021:

	Three months ended January 31,	
	2022	2021
	%	%
United States	**54**	73
Europe, Middle East & Africa	**26**	11
Canada	**18**	2
Asia-Pacific	**1**	10
Latin America	**1**	4
	100	100

The following table summarizes non-current assets information by geography on January 31, 2022 and October 31, 2021:

	January 31, 2022	October 31, 2021
	$	$
Canada	**6,373,019**	6,123,401
Malaysia	**31,033**	32,106
United Arab Emirates	**16,633**	22,300
	6,420,685	6,177,807