

Interim condensed consolidated financial statements of

VOTI Detection Inc.

(formerly Steamsand Capital Corp.)

For the three-month and nine-month periods ended July 31, 2019 and 2018
(Unaudited)

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

As at July 31, 2019 and October 31, 2018

(In Canadian dollars)

	Notes	July 31, 2019 (Unaudited)	October 31, 2018
		\$	\$
Assets			
Current assets			
Cash		961,951	643,067
Restricted cash	6	—	9,242,973
Short-term investments		15,000	15,000
Trade and other receivables		7,146,625	2,228,594
Research and development tax credits receivable		450,682	719,780
Inventory		6,296,424	7,267,017
Prepaid expenses and deposits		970,994	1,101,305
Capitalized listing fee expenses	9	—	924,190
Total current assets		15,841,676	22,141,926
Non-current assets			
Property and equipment		571,925	366,008
Intangible assets	7	2,588,406	424,705
Total non-current assets		3,160,331	790,713
Total assets		19,002,007	22,932,639
Liabilities			
Current liabilities			
Bank indebtedness	13	—	1,860,000
Trade payables and accrued liabilities		5,335,345	6,673,475
Subscription receipts held for investors	6	—	9,242,973
Customer deposits		42,700	194,098
Deferred revenue		676,824	290,476
Shareholder loans	15	—	2,020,734
Term debt	16	—	550,000
Total current liabilities		6,054,869	20,831,756
Non-current liabilities			
Deferred revenue		1,696,858	—
Convertible notes	14	—	2,575,000
Warrants	18	1,043,921	—
Long-term debt	8	2,650,000	—
Total liabilities		11,445,648	23,406,756
Shareholders' equity (deficit)			
Share capital	17	33,809,962	18,616,079
Stock option reserve	19	1,726,068	5,781,038
Warrants reserve	18	—	90,298
Deficit		(27,591,774)	(24,701,919)
Cumulative translation adjustment		(387,897)	(259,613)
Total shareholders' equity (deficit)		7,556,359	(474,117)
Total liabilities and shareholders' equity (deficit)		19,002,007	22,932,639

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

Approved by the Board

_____, (s) Neil Hindle, Director

_____, (s) Rory Olson, Director

VOTI Detection Inc.**Interim condensed consolidated statements of loss and comprehensive loss**

Three-month and nine-month periods ended July 31, 2019 and 2018 (Unaudited)

(In Canadian dollars)

		Notes		Three months ended July, 31,		Nine months ended July 31,	
				2019	2018	2019	2018
				\$	\$	\$	\$
Revenue	20			7,818,328	4,974,879	23,116,894	17,538,476
Cost of sales				(4,700,002)	(3,418,170)	(14,709,862)	(11,274,447)
Gross profit				3,118,326	1,556,709	8,407,032	6,264,029
Expenses							
General and administrative				1,135,695	933,681	3,781,863	2,241,759
Selling and distribution				1,403,032	869,295	4,448,697	2,369,953
Research and development				264,670	360,398	568,355	928,636
Financial expenses, net	10			417,985	79,025	520,318	223,306
Change in fair value of warrants	18			343,185	—	(767,548)	—
Reverse acquisition of Steamsand	5			—	—	964,038	—
Share-based payments	19			770,041	376,341	1,871,462	764,239
				4,334,608	2,618,740	11,387,185	6,527,893
Net loss				(1,216,282)	(1,062,031)	(2,980,153)	(263,864)
Other comprehensive loss							
Foreign currency translation adjustment				(100,525)	(108,064)	(128,284)	(123,249)
Comprehensive loss				(1,316,807)	(1,170,095)	(3,108,437)	(387,113)
Basic and diluted net loss per share	11			(0.05)	(0.07)	(0.13)	(0.02)

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

VOTI Detection Inc.
Interim condensed consolidated statements of changes in total equity (deficit)

Nine-month period ended July 31, 2019 (Unaudited)

(In Canadian dollars)

	Notes	Number of common shares	Share capital	Stock option reserve	Warrants reserve	Cumulative translation adjustment	Deficit	Total equity (deficit)
			\$	\$	\$	\$	\$	\$
Balance, October 31, 2018		15,624,508	18,616,079	5,781,038	90,298	(259,613)	(24,701,919)	(474,117)
Cancelled outstanding warrants	1				(90,298)		90,298	—
Accelerated vesting of share-based payments	1			236,264				236,264
Exercising of stock options	19	3,542,157	6,017,302	(6,017,302)				—
Issue of common shares under private placement	1	3,080,991	7,825,717					7,825,717
Conversion of convertible notes	1	858,332	2,180,163					2,180,163
Effect of the reverse acquisition of Steamsand	1	388,767	987,468					987,468
Share issuance costs	1		(1,725,897)					(1,725,897)
Options issued to agents	1		(90,870)	90,870				—
Share-based payments expense	19			1,635,198				1,635,198
Other comprehensive loss for the period						(128,284)		(128,284)
Net loss for the period							(2,980,153)	(2,980,153)
Balance, July 31, 2019		23,494,755	33,809,962	1,726,068	—	(387,897)	(27,591,774)	7,556,359

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

VOTI Detection Inc.**Interim condensed consolidated statements of changes in total equity (deficit) (continued)**

Nine-month period ended July 31, 2018 (Unaudited)

(In Canadian dollars)

	Notes	Number of common shares	Share capital	Stock option reserve	Warrants reserve	Cumulative translation adjustment	Deficit	Total equity (deficit)
			\$	\$	\$	\$	\$	\$
Balance, October 31, 2017		15,624,508	18,616,079	3,604,678	90,298	(307,321)	(21,014,395)	989,339
Share-based payments expense	19			764,239				764,239
Other comprehensive loss for the period						(123,249)		(123,249)
Net loss for the period							(263,864)	(263,864)
Balance, July 31, 2018		15,624,508	18,616,079	4,368,917	90,298	(430,570)	(21,278,259)	1,366,465

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

VOTI Detection Inc.**Interim condensed consolidated statements of cash flows**

Nine-month periods ended July 31, 2019 and 2018 (Unaudited)

(In Canadian dollars)

	Notes	2019	2018
		\$	\$
Operating activities			
Net loss for the period		(2,980,153)	(263,864)
Adjustments for:			
Depreciation of property and equipment		120,857	57,618
Amortization of intangible assets		28,283	1,060
Interest expense and bank charges		367,763	175,763
Change in fair value of warrants		(767,548)	—
Share-based payments	19	1,871,462	764,239
Unrealized foreign exchange (gain) loss		(55,702)	47,543
Reverse acquisition of Steamsand	5	964,038	—
Net change in non-cash working capital items			
Trade and other receivables		(4,918,031)	596,851
Research and development tax credits receivable		269,098	(76,400)
Inventories		970,593	(621,636)
Prepaid expenses and deposits		130,311	(255,652)
Trade payables and accrued liabilities		(413,940)	634,112
Customer deposits		(151,398)	(3,297,441)
Deferred revenue		2,083,206	11,627
		(2,481,161)	(2,226,180)
Investing activities			
Additions to property and equipment		(319,309)	(125,439)
Additions to intangible assets		(2,173,773)	(42,389)
		(2,493,082)	(167,828)
Financing activities			
Changes in bank indebtedness	13	(1,860,000)	220,152
Proceeds from long-term debt	8	2,650,000	447,000
Proceeds from convertible notes		—	2,575,000
Repayment of obligations under finance leases		—	(7,856)
Repayment of shareholder loans	15	(2,020,734)	—
Repayment of term debt	16	(550,000)	(600,000)
Interest and bank charges paid		(367,763)	(175,763)
Consideration received from Steamsand	4	328,000	—
Share issuance costs	17	(2,030,467)	—
		(3,850,964)	2,458,533
Net change during the period		(8,825,207)	64,525
Net effect of foreign exchange rate changes on cash		(98,882)	5,904
Cash and restricted cash, beginning of period		9,886,040	714,855
Cash, end of period		961,951	785,284

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

1. Description of the business

VOTI Detection Inc. (the "Company"), formerly Steamsand Capital Corp. ("Steamsand") up to the completion of the Amalgamation, as defined below, is incorporated under the *Canada Business Corporations Act* and is domiciled in St-Laurent, Québec. The principal activities of the Company involve development, manufacturing and selling X-ray security systems for critical infrastructures, as well as ports, borders, military and transportation facilities.

On November 8, 2018, Steamsand Capital Corp. ("Steamsand"), together with its wholly-owned subsidiary ("Subco"), entered into an amalgamation agreement with VOTI Inc. pursuant to which Subco would amalgamate with VOTI Inc. (the "Amalgamation") to complete an arm's length qualifying transaction by way of reverse takeover in accordance with the policies of the TSX Venture Exchange (the "RTO"). The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation was to become a wholly-owned subsidiary of Steamsand at the time of the completion of the Amalgamation.

On November 13, 2018, the Amalgamation was completed and Steamsand changed its name to VOTI Detection Inc. On November 19, 2018, the common shares of VOTI Detection Inc. began trading on the TSX Venture Exchange under the symbol "VOTI".

Pursuant to the terms of the Amalgamation Agreement, immediately prior to the completion of the RTO, the following occurred:

- All of VOTI Inc.'s outstanding stock options described in Note 19 were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc.;
- VOTI Inc. cancelled all outstanding warrants described in Note 18;
- VOTI Inc. consolidated its common shares on the basis of one common share for every 30.7015984573 common shares. This share consolidation has been reflected throughout these statements retroactively. Similarly, Steamsand consolidated its common shares on the basis of one post-consolidation Steamsand common share for every 18 Steamsand common shares existing before such consolidation;
- Each issued and outstanding VOTI Inc. common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share (on a post-VOTI Consolidation basis), for an aggregate issuance of 19,166,665 VOTI Detection Inc. common shares;
- The issued and outstanding VOTI Inc. convertible notes of \$2,575,000 described in Note 14 were converted into 858,332 VOTI Detection Inc. common shares and 429,166 VOTI Detection Inc. warrants;
- Each post-consolidated Steamsand common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 388,767 VOTI Detection Inc. common shares; and
- Each issued and outstanding subscription receipt described in Note 6 was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 3,080,991 VOTI Detection Inc. common shares and 1,540,496 VOTI Detection Inc. warrants.

In connection with the RTO, the gross proceeds of the private placement described in Note 6, net of issuance costs described in Note 5, were released from escrow to the Company. The agent commission included cash and 144,238 VOTI Detection Inc. compensation options.

Each VOTI Detection Inc. warrant described above gives the holder an option to purchase one common share for \$4.50 up to 36 months following November 13, 2018, and each compensation option gives the holder an option to purchase one common share for \$3.00 up to 24 months following November 13, 2018.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

1. Description of the business (continued)

Following the completion of the RTO, 23,494,755, 1,969,662 and 144,238 post-consolidation VOTI Detection Inc. common shares, warrants, and compensation options, respectively, were issued and outstanding (see Notes 17, 18 and 19). The former security holders of VOTI Inc. along with new subscription receipt holders own approximately 98.3% of the issued and outstanding post-consolidation common shares of VOTI Detection Inc.

For accounting purposes, it has been determined that Steamsand was the accounting acquiree and VOTI Inc. was the accounting acquirer since the shareholders of the former VOTI Inc. now control VOTI Detection Inc., based on the guidance of *IFRS 10, Consolidated Financial Statements*, and *IFRS 3, Business Combinations*, to identify the accounting acquirer (refer to Note 4). These interim condensed consolidated financial statements are prepared as a continuation of the financial statements of VOTI Inc., reflecting the equity instruments of Steamsand. As a result, comparative information included herein is solely the one of VOTI Inc. For simplicity, transactions undertaken by VOTI Inc. are referred to as being undertaken by the Company in these interim condensed consolidated financial statements.

2. Significant accounting policies

Statement of compliance

The Company's interim condensed consolidated financial statements for the three-month and nine-month periods ended July 31, 2019 have been prepared 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, 2018, which were prepared in compliance with International Financial Reporting Standards (IFRS).

The Board of Directors approved the interim condensed consolidated financial statements of the Company as at July 31, 2019 and authorized their issuance on September 12, 2019.

Basis of preparation

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities as explained 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.

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.

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

Translation to presentation currency

The interim condensed consolidated financial statements of the Company are translated from their functional currency to 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").

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

2. Significant accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective

Refer to the annual audited consolidated financial statements for the year ended October 31, 2018, as there have been no changes.

Change in significant accounting policies

On November 1, 2018, the Company adopted the new rules under IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. The adoption of the new revenue standard did not have a significant impact on the Company's financial statements.

The Company generates revenue from the sale of X-ray security screening units, services and extended warranty. For the sale of security screening units, the Company recognizes revenue at a point in time when it transfers control of the finished goods to a customer, which generally occurs upon shipment of the finished goods from the Company's facilities. In certain arrangements, control is transferred and revenue is recognized upon delivery of the finished goods to the customer's premises.

Revenues from extended warranty sales are recognized on a straight-line monthly basis over the term of the extended warranty.

The Company accounts for a significant financing component on contracts of more than 12 months where timing of cash receipts and revenue recognition differ substantially. The Company has certain extended warranty contracts where cash is received before the delivery of service and therefore a significant financing component is accounted for when certain criteria are met. The transaction price of such contracts is adjusted to reflect the time value of money using the rate that would be reflected in a separate financing transaction between the Company and its customers at contract inception. The result is that interest expense is accrued during the advance period and the transaction price will be increased by a corresponding amount.

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

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

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

sources of information were the same as those applied to the annual audited consolidated financial statements for the year ended October 31, 2018.

4. Reverse acquisition of Steamsand by VOTI Inc.

As described in Note 1, Steamsand acquired legal control of VOTI Inc. by way of a three-cornered amalgamation. However, as the shareholders of VOTI Inc. gained voting control of Steamsand pursuant to the issuance of Steamsand common shares to the shareholders of VOTI Inc., representing a significant majority interest, VOTI Inc. is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Steamsand by VOTI Inc. As Steamsand does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, pursuant to *IFRS 2, Share-based Payment*.

The acquisition-date fair value of the consideration transferred by VOTI Inc. for its interest in Steamsand of \$987,468 is determined based on the fair value of the equity interest VOTI Inc. would have had to give to the owners of Steamsand, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition, and is recorded as an increase in common shares in the interim consolidated statement of financial position.

As the fair value of Steamsand's identifiable net assets at the reverse acquisition date was \$328,000, the excess of consideration transferred over the net assets acquired of \$659,468 is reflected as a non-cash reverse acquisition of Steamsand expense (Note 5) in the interim condensed consolidated statements of loss and comprehensive loss.

5. Reverse acquisition expenses

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Steamsand by VOTI Inc.:

	\$
Consideration transferred to Steamsand in excess of net assets acquired (note 4)	659,468
Transaction costs (note 17)	304,570
	<u>964,038</u>

6. Restricted cash and subscription receipts held for investors

In August 2018, VOTI completed a private placement of 3,080,991 subscription receipts at a price of \$3.00 per subscription receipt for aggregate gross proceeds of \$9,242,973 less broker agent commission and issuance costs. The gross proceeds were held in trust until the completion of the RTO transaction and were initially classified as restricted cash with a corresponding credit to subscription receipts held for investors. Upon the completion of the reverse acquisition transaction on November 13, 2018, each subscription receipt was exchanged into one common share of the issuer resulting from the RTO, namely VOTI Detection Inc., and one half of one VOTI Detection Inc. common share purchase warrant, where each warrant gives the holder an option to purchase one common share for \$4.50 up to 36 months following

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

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

6. Restricted cash and subscription receipts held for investors (continued)

November 13, 2018 (see Notes 17 and 18). The RTO was completed on November 13, 2018 (see Note 1).

7. Intangible assets

Included in intangible assets are capitalized development costs, software, intellectual property and patents. During the nine-month period ended July 31, 2019, the Company capitalized \$1,970,992 in development costs.

8. Long-term debt

On January 8, 2019, the Company entered into a revolving term debt credit facility with Espresso Capital Ltd. which matures on June 30, 2022. The authorized credit limit as at July 31, 2019 is \$3,621,000 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 13. The amount outstanding as at July 31, 2019 was \$2,650,000.

9. Capitalized listing fee expenses

Capitalized listing fee expenses include capitalized costs associated with the reverse acquisition transaction (see Note 1). The costs include professional legal fees, professional accounting fees, consulting fees, contractual work from third parties involved in completing the RTO filing statement and regulatory fees, all of which were incremental costs relating to issuing new shares and warrants. Similar additional costs were incurred in November 2018 when the RTO closed on November 13, 2018. On the reverse acquisition date, \$304,570 relating to the warrants was reclassified to Reverse acquisition expense and the remainder to Share capital as share issuance costs.

10. Financial expenses

	Three months ended July 31,		Nine months ended July 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Interest and bank charges	168,669	87,475	367,763	175,763
Foreign exchange (gain) loss	41,059	(8,450)	(55,702)	47,543
Significant financing component interest on extended warranties	208,257	—	208,257	—
	417,985	79,025	520,318	223,306

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

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

11. Loss per share

	Three months ended July 31,		Nine months ended July 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net (loss) earnings attributable to ordinary equity holders for the period	(1,216,282)	(1,062,031)	(2,980,153)	(263,864)
Weighted average number of shares for basic and diluted EPS	23,494,755	15,624,508	23,119,981	15,624,508
Basic and diluted net loss per share	(0.05)	(0.07)	(0.13)	(0.02)

12. Financial instruments*Fair values*

Financial assets and financial liabilities are measured on an ongoing basis at amortized cost, except for warrants which are classified as a financial liability at FVTPL and are re-measured at fair value at each reporting period. The disclosures in the "Financial instruments" section of the annual audited consolidated financial statements describe how the categories of financial instruments are measured and how income and expenses are recognized.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable 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.

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.

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 fair values of cash, restricted cash, short-term investments, trade and other receivables, research and development tax credits receivable, bank indebtedness, trade payables and accrued liabilities, shareholder loans, term debt, long-term debt and convertible notes approximate their carrying values (level 2).

The warrants are classified as financial liabilities at FVTPL since they are denominated in a currency other than the Company's functional currency.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

13. Bank indebtedness

On June 25, 2019, the Company amended its existing credit facilities. The Company has an available revolving demand facility of \$2,500,000 based on eligible accounts receivable and inventory, and will be reduced to \$500,000 on January 31, 2020. 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 \$670,000 by way of letters of guarantee in Canadian or American currency which is repayable on demand. The facility is secured by performance security guarantees issued by Export Development Canada for each letter of guarantee issued.

As at July 31, 2019, no amount (October 31, 2018 - \$1,860,000) was drawn under the credit facility and there were letters of guarantee denominated in U.S. dollars totaling \$644,358 in Canadian dollars equivalent.

These facilities are reviewed periodically, and the Company must respect certain covenants and financial ratios associated with the facilities, including a maximum total liabilities to tangible net worth rate of 3:1 to be measured at the Company's fiscal year end date.

14. Convertible notes

On April 30, 2018, the Company issued \$2,275,000 of convertible notes bearing interest at a rate of 12% per annum and maturing on April 30, 2021, of which \$150,000 was issued to Directors and \$2,125,000 to other existing shareholders. The Company issued an additional \$300,000 of convertible notes to existing shareholders in July 2018. In the event that the Company proceeds to effect a reverse takeover prior to December 31, 2018 (see Note 1), these notes are automatically convertible into securities, on the same terms as are issued to investors in connection with the RTO, at a conversion price equal to the price paid for subscription receipts by investors. In the event the RTO does not take effect, these notes are either repaid in full or convertible at the option of the holder only upon another qualifying financing or change of control into related securities at a conversion price equal to 80% of the lowest price paid per security at such financing date. These notes were secured by a third ranking hypothec on the movable assets of the Company.

On November 13, 2018, and in connection with the Company's RTO transaction (see Note 1), these notes were converted into 858,332 common shares and 429,166 warrants giving the holders an option to purchase one common share for \$4.50 up to 36 months following November 13, 2018. The carrying value of the convertible notes was allocated to share capital and warrants in the amounts of \$2,180,163 and \$394,837, respectively. The fair value of the warrants was determined using the Black-Scholes option pricing model described in Note 18.

15. Shareholder loans

During 2018, the Company received loans from a shareholder in the amount of \$1,979,695. The terms of the loan include a placement fee of 1.5% and an interest at 12% per annum and is repayable on demand. The loan was repaid during the first quarter of 2019.

16. Term debt

The Company had a debt facility for an initial amount of \$712,000, bearing interest at 11.2% compounded monthly, based on research and development tax credits to be received for the 2017 and 2018 fiscal years. The facility was secured by a movable hypothec on the universality of movable property for an amount of \$800,000. The amount owed as at October 31, 2018 was \$550,000. \$138,000 was repaid on November 14, 2018 and the balance of \$412,000 was repaid on January 11, 2019.

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

17. Share capital

The Company is authorized to issue an unlimited number of voting and participating common shares. Pursuant to the terms of the Amalgamation Agreement, and immediately prior to the completion of the RTO described in Note 1, the following occurred:

- All of VOTI Inc.'s outstanding stock options described in Note 19 were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc.;
- VOTI Inc. consolidated its common shares on the basis of one common share for every 30.7015984573 common shares. This share consolidation has been reflected throughout these statements retroactively. Similarly, Steamsand consolidated its common shares on the basis of one post-consolidation Steamsand common share for every 18 Steamsand common shares existing before such consolidation;
- Each issued and outstanding VOTI Inc. common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share (on a post-VOTI Consolidation basis), for an aggregate issuance of 19,166,665 VOTI Detection Inc. common shares;
- The issued and outstanding VOTI Inc. convertible notes of \$2,575,000 described in Note 14 were converted into 858,332 VOTI Detection Inc. common shares and 429,166 VOTI Detection Inc. warrants (see Note 18);
- Each post-consolidated Steamsand common share was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 388,767 VOTI Detection Inc. common shares; and
- Each issued and outstanding subscription receipt described in Note 6 was exchanged for one fully-paid and non-assessable VOTI Detection Inc. common share, for an aggregate issuance of 3,080,991 VOTI Detection Inc. common shares and 1,540,496 VOTI Detection Inc. warrants;
- Transaction costs totalling \$2,030,467 were allocated as a reduction of share capital in the amount of \$1,725,897 and the remainder relating to the warrants of \$304,570 was expensed; and
- In connection with the RTO, the gross proceeds of the private placement described in Note 6, net of issuance costs described in Note 5, were released from escrow to the Company.

The fair value split of the subscription receipts and convertible notes to share capital and warrants was determined using the Black-Scholes option pricing model (see Note 18), which resulted in a fair value per common share and one half warrant of \$2.54 and \$0.46, respectively.

In connection with the RTO, the agent commission included cash and 144,238 VOTI Detection Inc. compensation options. Each compensation option gives the holder the right to purchase one common share for \$3.00 up to 24 months following November 13, 2018. These compensation options are recorded at a fair value of \$90,870 using the Black-Scholes option pricing model and were recorded as a reduction of share capital.

The assumptions used to estimate the fair value of the agent compensation options are as follows:

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(In Canadian dollars)

17. Share capital (continued)

Volatility	53%
Risk-free rate	1.93%
Expected life of options	2 years
Common share value at grant	\$2.54
Exercise price	\$3.00

18. Warrants

On November 13, 2018, and in connection with the Company's RTO transaction (see Note 1), the subscription receipts described in Note 6, and the convertible notes described in Note 14, in addition to being converted into common shares of the Company, were converted into 1,540,496 and 429,166 warrants, respectively, giving the holders an option to purchase one common share for \$4.50 up to 36 months following November 13, 2018. These warrants are classified as financial liabilities at FVTPL since they are denominated in a currency other than the Company's functional currency. The fair value of the warrants was determined using the Black-Scholes option pricing model, which resulted in a fair value per warrant of \$0.92. The fair value as at November 13, 2018 amounted to \$1,812,090. The warrants were re-measured at fair value on January 31, 2019, April 30, 2019 and July 31, 2019, resulting in non-cash gains (losses) of \$612,000, \$498,733 and (\$343,185), respectively, for a cumulative gain of \$767,548 for the nine-month period ended July 31, 2019.

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

	July 31, 2019	November 13, 2018
Volatility	70%	77%
Risk-free rate	1.61%	1.93%
Expected life of options	2.25 years	3 years
Common share value	\$2.30	\$2.54
Exercise price	\$4.50	\$4.50

The changes to the warrants balance during the period are as follows:

	Number of warrants	\$
Balance, November 1, 2018	5,212	90,298
Cancellation of outstanding warrants	(5,212)	(90,298)
Warrants issued to subscription receipts holder	1,540,496	1,417,257
Warrants issued to convertible notes holders	429,166	394,833
Change in fair value of warrants	—	(767,548)
Cumulative translation adjustment	—	(621)
Balance, July 31, 2019	1,969,662	1,043,921

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19. Share-based payments

On August 22, 2018, in contemplation of the going public transaction described in Note 1, the Board of Directors approved that all outstanding stock options be accelerated and exercised on a share appreciation basis for common shares of VOTI Inc. upon the completion of the going public transaction. As a result of the modified vesting conditions, the Company began accelerating the share-based payments expense for unvested options over the remaining life of the options in the fourth quarter of 2018. Pursuant to the terms of the Amalgamation Agreement described in Note 1, immediately prior to the completion of the RTO on November 13, 2018, all of VOTI Inc.'s outstanding stock options were accelerated and exercised on a share appreciation basis for common shares of VOTI Inc.

The share-based payments expense amounted to \$236,264 following the acceleration of the vesting period of the stock options. Following the completion of the Reverse acquisition of Steamsand, all of VOTI Inc.'s stock option plans were terminated.

Options granted under stock option plan

In December 2016, the Company established a new stock option plan, replacing the plan previously established. Under this plan, the recipients are awarded stock options to acquire common shares. The number of stock options and the exercise price are determined by the Board of Directors where said exercise price shall be not less than the fair market value at the grant date. The stock options become fully vested annually on a pro rata basis over a three-year period commencing on the grant date. The maximum number of common shares that can be under option at any time shall be 25% of the number of common shares of the Company issued and outstanding at such time.

During the nine-month period ended July 31, 2018, the Company granted 1,821,676 stock options to its employees, executives, officers and directors with an exercise price of \$0.61 and a contractual life of seven years.

The Company applies the fair value method of accounting for stock-based compensation awards granted. Fair value is calculated based on a Black-Scholes option pricing model. The weighted average principal components of the pricing model were as follows:

	July 31, 2019	July 31, 2018
Volatility	n/a	132%
Risk-free interest rate	n/a	1.61%
Dividend yield	n/a	Nil
Expected life of option	n/a	4.3 years

The weighted average fair value of options granted during the nine-month period ended July 31, 2019 was nil (\$0.92 in 2018).

The changes to the number of stock options granted and their weighted average exercise price are as follows:

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(In Canadian dollars)

19. Share-based payments (continued)***Options granted under stock option plan (continued)***

	July 31, 2019		July 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	3,782,315	0.54	1,716,004	0.61
Granted	—	—	1,821,676	0.61
Exercised	(3,782,315)	0.54	—	—
Outstanding, end of period	—	—	3,537,680	0.61
Exercisable, end of period	—	—	868,091	0.61
Weighted average remaining contractual life (years)				4.43

The options begin vesting on a pro rata basis over three years after the first anniversary date of the grant. Share-based compensation expenses of nil and \$236,264 were respectively recorded for the three-month and the nine-month periods ended July 31, 2019 (\$376,341 and \$731,426 in 2018, respectively) for options granted under stock option plan.

Options granted outside stock option plan

In addition, the Company grants stock options to its officers, directors and consultants outside the stock option plan described above. The recipients are awarded stock options to acquire common shares. The number of stock options, exercise price and terms of vesting are determined by the Board of Directors.

During the three and nine-month period ended July 31, 2019, no options were granted outside the stock option plan (nil and \$57,000 respectively in 2018).

The changes to the number of stock options granted and their weighted average exercise price are as follows:

	July 31, 2019		July 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of year	892,298	0.61	835,298	0.61
Granted	—	—	57,000	0.61
Exercised	(892,298)	0.61	—	—
Outstanding, end of period	—	—	892,298	0.61
Exercisable, end of period	—	—	892,298	0.61
Weighted average remaining contractual life (years)		—		4.5

VOTI Detection Inc.

Notes to the interim condensed consolidated financial statements

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

19. Share-based payments (continued)

Share-based compensation expense of nil was recorded for the three-month and nine-month periods ended July 31, 2019 (nil and \$32,813 in 2018).

The result of exercising all of VOTI Inc.'s stock options on November 13, 2018 increased share capital by \$6,017,302.

Stock Options Issued to Agent

In connection with the RTO described in Note 1, the agent commission included cash and 144,238 VOTI Detection Inc. compensation options. Each compensation option gives the holder the right to purchase one common share for \$3.00 up to 24 months following November 13, 2018 (see Note 17).

Stock Option Plan

On November 13, 2018, the Company established a new Stock Option Plan ("Plan"). The purpose of the Plan is to advance the interests of VOTI Detection Inc. and its shareholders by providing to the directors, officers, employees and consultants a performance incentive for continued and improved services. The Plan is administered by VOTI Detection Inc.'s Board of Directors.

Under this Plan, 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 and nine-month period ended July 31, 2019, the Company granted a total of 255,000 and 2,295,000 stock options to employees of the Company at an exercise price of \$2.99 per share and expiring eight years after the grant date, of which nil and 1,375,000 were granted to key management personnel.

The Company applies the fair value method of accounting for share-based compensation awards granted. Fair value is calculated based on a Black-Scholes option pricing model. The weighted average principal components of the pricing model for the nine-month period ended July 31, 2019 are as follows:

Volatility
Risk-free rate
Dividend yield
Expected life of option

	78%
	1.86%
	-
	5 years

The weighted average fair value of options granted during the nine-month period ended July 31, 2019 was \$1.84 (nil in 2018).

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

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

19. Share-based payments (continued)

Share-based payments expenses of \$515,701 and \$1,380,858 were recorded for the three-month and nine-month periods ended July 31, 2019 (nil and nil, respectively, in 2018).

The changes to the number of stock options granted and their weighted average exercise price are as follows:

	July 31, 2019	
	Number of options	Weighted average exercise price
		\$
Outstanding, beginning of period	—	—
Granted	2,295,000	2.99
Cancelled/forfeited	(130,000)	2.99
Outstanding, end of period	2,165,000	2.99
Exercisable, end of period	—	—
Weighted average remaining contractual life (in years)		7.41

Deferred Share Unit Plan

On November 13, 2018, the Board of Directors adopted, as amended on March 22, 2019, a Deferred Share Unit Plan ("DSU Plan"), which was approved by the Company's shareholders on April 30, 2019.

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 Corporation, including the DSU Plan and the RSU Plan and excluding any shares issuable under the Stock Option Plan, is 450,000.

On May 1, 2019, the Company granted 173,908 DSUs to its Directors, of which 43,492 vested immediately and the remaining 130,416 will vest in equal tranches at the end of each of the following six quarters, with the result that all DSUs granted will be fully vested on October 31, 2020.

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

The weighted average fair value of DSUs granted during the nine-month period ended July 31, 2019 was \$2.30 (nil in 2018).

Share-based payments expenses of \$222,178 was recorded for the three-month and nine-month periods ended July 31, 2019 (nil and nil, respectively, in 2018).

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

Three-month and nine-month periods ended July 31, 2019 (Unaudited)

(In Canadian dollars)

19. Share-based payments (continued)

The changes to the number of DSUs granted are as follows:

	July 31, 2019
	Number of DSUs
	\$
Outstanding, beginning of period	—
Granted	173,908
Outstanding, end of period	173,908
Exercisable, end of period	65,228
Weighted average remaining contractual life (in years)	1.25

Restricted Share Unit Plan

On November 13, 2018, the Board of Directors adopted, as amended on March 22, 2019, a Restricted Share Unit Plan ("RSU Plan"), which was approved by the Company's shareholders on April 30, 2019.

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 450,000.

On June 14, 2019, the Company granted 53,504 RSUs to members of its advisory board. The units will vest in equal tranches at the end of each of the following eight quarters, with the result that all RSUs granted will be fully vested on April 30, 2021.

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.

The weighted average fair value of RSUs granted during the nine-month period ended July 31, 2019 was \$2.35 (nil in 2018).

Share-based payments expenses of \$32,162 were recorded for the three-month and nine-month periods ended July 31, 2019 (nil and nil, respectively, in 2018).

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

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(In Canadian dollars)

19. Share-based payments (continued)

The changes to the number of RSUs granted are as follows:

	July 31, 2019
	Number of RSUs
	\$
Outstanding, beginning of period	—
Granted	53,504
Outstanding, end of period	53,504
Exercisable, end of period	6,688
Weighted average remaining contractual life (in years)	1.75

20. Revenue

	Three months ended July 31,		Nine months ended July 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Products	7,209,800	4,951,786	21,753,518	16,966,414
After sales services and extended warranty	608,528	23,093	1,363,376	572,062
	7,818,328	4,974,879	23,116,894	17,538,476

21. Segment information

The Company has determined that it has only one reportable operating segment, the development and marketing of security screening 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.

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

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(In Canadian dollars)

21. Segment information (continued)

The following table summarizes revenue by geographical area for the period ended:

	Three months ended July 31,		Nine months ended July 31,	
	2019	2018	2019	2018
			%	%
Asia-Pacific	47%	47%	41%	63%
Europe, Middle East, and Africa	9%	18%	9%	17%
United States	40%	24%	42%	11%
Canada	4%	11%	7%	9%
Other	—	—	1%	—
	100%	100%	100%	100%

The following table summarizes non-current assets information by geography for the year ended:

	July 31, 2019	October 31, 2018
	\$	\$
Canada	3,034,343	696,159
Malaysia	67,294	73,952
United Arab Emirates	58,694	20,602
	3,160,331	790,713