



# GATEKEEPER

## **Fiscal 2019 First Quarter Report**

**GATEKEEPER SYSTEMS INC.  
Condensed Interim Consolidated  
Financial Statements**

**For the Three Months Ended November 30, 2018**



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

**MANAGEMENT'S COMMENTS ON  
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Gatekeeper Systems Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgment based on information currently available.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of unaudited condensed interim consolidated financial statements by an entity's auditor.

**GATEKEEPER SYSTEMS INC.  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)  
AS AT**

(expressed in Canadian dollars)

	November 30, 2018	August 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 6)	\$ 3,343,032	\$ 4,166,622
Restricted cash (note 7)	400,000	313,078
Trade and other receivables (note 8)	1,331,870	1,678,876
Inventories (note 9)	1,138,399	898,068
Prepaid expenses and other current assets	439,440	245,824
	6,652,741	7,302,468
<b>Non-Current Assets</b>		
Property, plant and equipment (note 11)	435,667	444,362
Goodwill (note 10)	147,442	147,442
<b>Total Assets</b>	<b>\$ 7,235,850</b>	<b>\$ 7,894,272</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Line of credit (note 12)	\$ -	\$ -
Trade and other payables and accrued liabilities (note 13)	838,218	872,441
Unearned revenue	1,376	1,376
<b>Total Liabilities</b>	<b>839,594</b>	<b>873,817</b>
<b>Shareholders' Equity</b>		
Common shares (note 14)	15,881,627	15,881,627
Other capital reserves (notes 15 and 16)	2,115,362	2,052,182
Deficit	(11,600,733)	(10,913,354)
	6,396,256	7,020,455
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 7,235,850</b>	<b>\$ 7,894,272</b>

**COMMITMENTS AND CONTINGENCIES** (note 25)

**APPROVED ON BEHALF OF  
THE BOARD OF DIRECTORS**

**"Robert Galbraith"**

(signed)

Director

**"Robert C. Hill"**

(signed)

Director

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

**GATEKEEPER SYSTEMS INC.  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)  
FOR THE THREE MONTHS ENDED**

*(expressed in Canadian dollars)*

	<b>November 30, 2018</b>	<b>November 30, 2017</b>
<b>Revenues</b>	\$ 1,839,478	\$ 1,429,899
<b>Cost of Sales</b>	928,192	657,885
<b>Gross Profit</b>	911,286	772,014
<b>Operating Expenses</b>		
General and administrative (note 17a)	654,275	504,176
Selling and marketing (note 17b)	664,341	477,837
Research and development (note 17c)	345,644	223,918
	1,664,260	1,205,931
<b>Operating Loss</b>	(752,974)	(433,917)
<b>Other Income (Expenses)</b>		
Interest	12,586	944
Foreign exchange gain (loss)	56,853	86,929
Finance costs	(3,715)	6,723
Write-down of Inventory	(129)	(1,394)
<b>Loss Before Taxes</b>	(687,379)	(340,715)
<b>Net Loss and Comprehensive Loss for the period</b>	<b>\$ (687,379)</b>	<b>\$ (340,715)</b>
<b>Basic Loss Per Share</b> (note 19)	\$ (0.01)	\$ (0.00)
<b>Diluted Loss Per Share</b> (note 19)	\$ (0.01)	\$ (0.00)
<b>Basic Weighted Average Number of Shares Outstanding</b> (note 19)	87,597,144	87,597,144
<b>Diluted Weighted Average Number of Shares Outstanding</b> (note 19)	87,597,144	87,597,144

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

**GATEKEEPER SYSTEMS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED**

*(expressed in Canadian dollars)*

	November 30, 2018	November 30, 2017
<b>Cash Flows from (used in) Operating Activities</b>		
Net loss	\$ (687,379)	\$ (340,715)
Items not affecting cash from operations –		
Depreciation and impairment (note 11)	51,408	15,012
Write-down of inventory (note 9)	129	1,394
Bad debt expense (note 17)	114	738
Share-based payments (note 16)	63,180	140,656
Unrealized foreign exchange gain	(13,135)	(53,179)
	(585,683)	(236,094)
Changes in non-cash working capital balances related to operations –		
Decrease in trade and other receivables	346,892	461,001
(Increase) Decrease in inventories	(240,460)	155,620
Increase in prepaid expenses and other current assets	(193,616)	(43,755)
Decrease in trade and other payables	(34,222)	(219,427)
	(707,089)	117,345
<b>Cash Flows used in Investing Activities</b>		
Purchase of property, plant and equipment (note 11)	(42,713)	(29,768)
Increase in restricted cash (note 7)	(86,923)	(2,430)
	(129,636)	(32,198)
<b>Cash Flows used in Financing Activity</b>		
Repayment of line of credit (note 12)	-	(259,294)
	-	(259,294)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(836,725)	(174,147)
<b>Foreign Exchange Gain on Cash and Cash Equivalents held in USD</b>	13,135	53,179
<b>Cash and Cash Equivalents – Beginning of Period</b>	4,166,622	6,312,093
<b>Cash and Cash Equivalents – End of Period</b>	\$ 3,343,032	\$ 6,191,125

**SUPPLEMENTAL CASH FLOW INFORMATION** (note 24)

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

**GATEKEEPER SYSTEMS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2018 AND 2017**

*(expressed in Canadian dollars, except per share and share amounts)*

	<u>Common Shares</u>		<u>Reserves (\$)</u>	<u>Deficit (\$)</u>	<u>Total (\$)</u>
	<u>Shares</u>	<u>Amount (\$)</u>			
<b>Balance – August 31, 2017</b>	87,597,144	15,881,627	1,753,598	(9,590,077)	8,045,148
Net loss and comprehensive loss for the year	-	-	-	(1,323,277)	(1,323,277)
Share-based payments (note 16)	-	-	298,584	-	298,584
<b>Balance – August 31, 2018</b>	87,597,144	15,881,627	2,052,182	(10,913,354)	7,020,455
Net loss and comprehensive loss for the period	-	-	-	(687,379)	(687,379)
Share-based payments (note 16)	-	-	63,180	-	63,180
<b>Balance – November 30, 2018</b>	87,597,144	15,881,627	2,115,362	(11,600,733)	6,396,256

**Comparison to the three months ended November 30, 2017**

	<u>Common Shares</u>		<u>Reserves (\$)</u>	<u>Deficit (\$)</u>	<u>Total (\$)</u>
	<u>Shares</u>	<u>Amount (\$)</u>			
<b>Balance – August 31, 2017</b>	87,597,144	15,881,627	1,753,598	(9,590,077)	8,045,148
Net loss and comprehensive loss for the period	-	-	-	(340,715)	(340,715)
Share-based payments (note 16)	-	-	140,656	-	140,656
<b>Balance – November 30, 2017</b>	87,597,144	15,881,627	1,894,254	(9,930,792)	7,845,089

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

## **1. Description of Business and Nature of Operations**

Gatekeeper Systems Inc. (the “Company” or “Gatekeeper”) was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on August 26, 2010 and completed its initial public offering as a Capital Pool Company (“CPC”) on January 7, 2011. The Company specializes in design, manufacturing and marketing of video security solutions for mobile and extreme environments.

On March 1, 2018, the Company formed a wholly owned subsidiary called Gatekeeper Systems USA Inc.

The head office and principal address is located at Suite 301, 31127 Wheel Avenue, Abbotsford, British Columbia, V2T 6H1. The Company’s registered and records office is located at 10th floor, 595 Howe Street Vancouver, British Columbia, V6C 2T5.

The subsidiary company, Gatekeeper Systems USA Inc., was formed as a corporation pursuant to the General Corporation Law of the State of Delaware on March 1, 2018 with a principal address located at 211 Valley Road, Wilmington, Delaware 19804. The Company’s registered office in the State of Delaware is 9E Lookerman Street, Suite 311, Dover, Delaware 19901, County of Kent.

The Company’s consolidated financial statements as at November 30, 2018 and 2017 and for the three months then ended have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. The Company has a net loss of \$687,379 for the three months ended November 30, 2018 (2017 – net loss of \$340,715) and has a working capital of \$5,813,146 at November 30, 2018 (August 31, 2018 – \$6,428,651).

The Company had cash and cash equivalents of \$3,343,032 at November 30, 2018 (August 31, 2018 – \$4,166,622), but management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. Management intends to continue to support the operations with financing initiatives primarily through, but not limited to, the issuance of equity. Alternative financing options may include obtaining bank credit facilities and short-term loans from third parties. If the Company is unable to raise additional capital in the future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures.

## **2. Basis of Preparation and Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim financial statements follow the same accounting policies and methods of computation as compared with the most recent annual financial statements, being for the year ended August 31, 2018, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual financial statements. These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on January 24, 2019.

The Company’s consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments which are measured at fair value (note 20) and are presented in Canadian dollars except where otherwise indicated.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its controlled, wholly-owned subsidiaries. Intercompany balances, transactions, income and expenses are eliminated on consolidation.

### **3. Summary of Significant Accounting Policies**

The significant accounting policies used in the preparation of these consolidated financial statements are consistent with those described in the audited financial statements for the year ended August 31, 2018

### **4. Significant Accounting Judgments and Estimates**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment include those that relate to the fair value measurements for financial instruments and share-based payments, the recoverability and measurement of deferred tax assets and liabilities, inventory valuation and ability to continue as a going concern. Actual results may differ from those estimates and judgments.

#### **(a) Allowances for Doubtful Accounts**

The Company must make an assessment of whether trade receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration customer credit, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

#### **(b) Inventory Valuation**

The Company adjusts inventory values so that the carrying values do not exceed the net realizable value. The valuation of inventory at the lower of cost or net realizable value requires the use of estimates with regards to the amount of current inventory that will be sold, the prices at which it will be sold, and an estimate of expected orders from customers. Additionally, the estimates reflect changes in products or changes in demand because of various factors, including the market for products, obsolescence, change in product offerings, technology changes and competition.

#### **(c) Determination of Functional Currency**

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

#### **(d) Impairment of Financial Assets**

At each reporting date the Company assesses financial assets not carried at fair value through profit or loss to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that one or more events occurred during the period that negatively affected the estimated future cash flows of the financial asset.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer or debtor, default or the disappearance of an active market for a security. If the Company determines that a financial asset is impaired, judgment is required in assessing the available information in regard to the amount of impairment; however the final outcome may be materially different than the amount recorded as a financial asset.



#### **4. Significant Accounting Judgments and Estimates (continued)**

##### **(e) Share Based Payments**

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in note 3(m). The fair value of stock options is measured using the Black-Scholes Option Valuation Model. The fair value of stock options granted using valuation models is only an estimate of their potential value and requires the use of estimates and assumptions.

The Company has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placement units. Under the relative fair value method, the value of the private placement units are proportionally allocated between the shares and warrants issued based on their relative fair value. Judgement is required in determining the fair value of the shares, determined based on the closing price on the date of the transaction, and the fair value of the warrants, determined based on a Black-Scholes Option Pricing Model.

##### **(f) Current and Deferred Income Taxes**

Current and deferred income tax provisions and obligations are calculated for each of the jurisdictions in which the Company operates. Actual amounts of income tax expense and obligations are not final until tax returns are filed and assessed by the relevant taxation authorities. This occurs subsequent to the issuance of the financial statements, and the final determination of actual amounts may not be completed for a number of years. Therefore, financial results in subsequent periods will be affected by the amount that estimates differ from the final tax return.

Judgement is required in determining whether deferred tax assets are recognized on the statement of financial position and what tax rate is expected to be applied in the year when the related temporary differences revers, particularly in regard to the utilization of tax loss carry-forwards. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that the cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the statement of financial position date, if any, could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company and its subsidiary operate could limit the ability of the Company to obtain tax deductions in future periods.

#### **5. Accounting Standards and Amendments Issued but Not Yet Adopted**

At the date of authorization of these condensed interim consolidated financial statements, the IASB and IFRIC has issued the following new and revised standards, amendments and interpretations which were not yet effective during the period ended November 30, 2018:

- (i) IFRS 15 'Revenue from Contracts with Customers' establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently in the process of evaluating the potential impact the adoption of the standard will have on the consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.
- (ii) IFRS 16 'Leases' establishes principles for the recognition, measurement, presentation and disclosure of leases and replaces the current guidance in IAS 17. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 'Revenue from Contracts with Customers' is also applied. The Company is currently in the process of evaluating the potential impact the adoption of the standard will have on the consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

**5. Accounting Standards and Amendments Issued but Not Yet Adopted (continued)**

The Company has not early adopted nor assessed the financial statement impact of these standards, amendments and interpretations, and anticipates that the application of these standards, amendments and interpretations will not have a material impact on the financial position and financial performance of the Company, other than as separately disclosed.

**6. Cash and Cash Equivalents**

	November 30, 2018	August 31, 2018
Denominated in Canadian dollars	\$ 1,588,589	\$ 1,939,175
Denominated in US dollars	1,754,443	2,227,447
	<b>\$ 3,343,032</b>	<b>\$ 4,166,622</b>

The Company's line of credit is secured by a first charge over the assets of the Company, including cash and cash equivalents with a carrying value of \$3,343,032 (notes 12 and 25).

**7. Restricted Cash**

	November 30, 2018	August 31, 2018
Denominated in Canadian dollars	\$ 400,000	\$ 223,000
Denominated in US dollars	-	90,078
	<b>\$ 400,000</b>	<b>\$ 313,078</b>

As at November 30, 2018, total cash of \$400,000 (August 31, 2018 – \$313,078) is secured against the Company's credit cards and held in a Guaranteed Investment Certificate ("GIC") and is designated as restricted cash.

**8. Trade and Other Receivables**

	November 30, 2018	August 31, 2018
Trade receivables	\$ 1,294,133	\$ 1,590,975
Goods and Services Tax/Harmonized Sales Tax receivable	17,319	13,124
Other receivable	20,418	74,777
	<b>\$ 1,331,870</b>	<b>\$ 1,678,876</b>

The Company's line of credit is secured by a first charge over the assets of the Company, including trade and other receivables with a carrying value of \$1,331,870 (notes 12 and 25).

**9. Inventories**

	November 30, 2018	August 31, 2018
Raw materials	\$ 105,856	\$ 90,121
Finished goods	1,032,543	807,947
	<b>\$ 1,138,399</b>	<b>\$ 898,068</b>

For the three months ended November 30, 2018, the cost of inventories recognized as an expense and included in cost of sales was \$565,491 (2017 – \$541,081).

For the three months ended November 30, 2018, a write-down of inventories of \$129 (2017 – \$1,394) was recorded in the condensed interim consolidated statements of loss and comprehensive loss.

The Company's line of credit is secured by a first charge over the assets of the Company, including inventories with a carrying value of \$1,138,399 (notes 12 and 25).

**10. Business Combination**

Effective April 1, 2018 the company's wholly owned subsidiary, Gatekeeper Systems USA Inc., purchased certain operating assets and service contracts from Wilmington, Delaware-based Spector Logistics, Inc. In the Agreement for Purchase and Sale of Business Assets (the "Agreement"), Spector Logistics, Inc. indemnified Gatekeeper Systems Inc. from all pre-existing liabilities relating to the purchase transaction. The assets and contracts acquired under the Agreement represented substantially all of the business of Spector Logistics, Inc. and therefore the transaction is being accounted for as a business combination.

The business assets of Spector Logistics, Inc. were acquired for a purchase price of US\$300,000 with payment terms of US\$100,000 due upon closing, US\$50,000 due April 1, 2019, and US\$150,000 payable in 12 monthly installments of US\$12,500 commencing May 1, 2018. As at November 30, 2018, included in accrued and other liabilities is \$140,422 (US\$105,572) related to the Agreement (notes 13 and 25).

The purchase price allocation from the acquisition of Spector Logistics, Inc. assets was as follows:

	(USD) Fair Value	(CAD) Fair Value
Computer Equipment	\$ 39,450	\$ 50,922
Furniture and Fixtures	11,060	14,276
Goodwill	114,225	147,442
Inventory	3,000	3,872
Leasehold Improvements	50,000	64,540
Supplies	5,000	6,454
Tools	9,000	11,617
Vehicles	68,265	88,116
	<b>\$ 300,000</b>	<b>\$ 387,239</b>

The goodwill of \$147,442 (US\$114,225) is attributable to the marketing, sale and servicing of mobile video safety and security solutions in the United States. The goodwill is deductible for income tax purposes.

**GATEKEEPER SYSTEMS INC.**  
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2018 AND 2017

(expressed in Canadian dollars except where noted)

**11. Property, Plant and Equipment**

The changes in the Company's property, plant and equipment are as follows:

<b>Cost</b>	<b>Automotive</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Office Equipment</b>	<b>Technical Equipment</b>	<b>Research and Development Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
August 31, 2017	\$ 1	\$ 141,344	\$ 26,407	\$ 1,830	\$ 141,376	\$ 55,088	\$ 107,359	\$ 473,405
Additions <sup>1</sup>	88,116	164,265	30,253	-	18,279	-	65,415	366,328
Disposal & impairment	-	(16,866)	-	(1,830)	-	-	-	(18,696)
August 31, 2018	\$ 88,117	\$ 288,743	\$ 56,660	\$ -	\$ 159,655	\$ 55,088	\$ 172,774	\$ 821,037
Additions	-	41,119	983	-	611	-	-	42,713
<b>November 30, 2018</b>	<b>\$ 88,117</b>	<b>\$ 329,862</b>	<b>\$ 57,643</b>	<b>\$ -</b>	<b>\$ 160,266</b>	<b>\$ 55,088</b>	<b>\$ 172,774</b>	<b>\$ 863,750</b>

<b>Depreciation</b>	<b>Automotive</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Office Equipment</b>	<b>Technical Equipment</b>	<b>Research and Development Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
August 31, 2017	\$ 1	\$ 42,874	\$ 21,212	\$ 427	\$ 49,755	\$ 55,088	\$ 99,280	\$ 268,637
Depreciation	14,769	43,037	4,368	367	24,288	-	38,868	125,697
Disposal	-	(16,865)	-	(794)	-	-	-	(17,659)
August 31, 2018	\$ 14,770	\$ 69,046	\$ 25,580	\$ -	\$ 74,043	\$ 55,088	\$ 138,148	\$ 376,675
Depreciation	7,558	15,432	1,892	-	6,429	-	20,097	51,408
<b>November 30, 2018</b>	<b>\$ 22,328</b>	<b>\$ 84,478</b>	<b>\$ 27,472</b>	<b>\$ -</b>	<b>\$ 80,472</b>	<b>\$ 55,088</b>	<b>\$ 158,245</b>	<b>\$ 428,083</b>

<b>Net Book Value</b>	<b>Automotive</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Office Equipment</b>	<b>Technical Equipment</b>	<b>Research and Development Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
August 31, 2018	\$ 73,347	\$ 219,697	\$ 31,080	\$ -	\$ 85,612	\$ -	\$ 34,626	\$ 444,362
<b>November 30, 2018</b>	<b>\$ 65,789</b>	<b>\$ 245,384</b>	<b>\$ 30,171</b>	<b>\$ -</b>	<b>\$ 79,794</b>	<b>\$ -</b>	<b>\$ 14,529</b>	<b>\$ 435,667</b>

<sup>1</sup> Included in additions are \$387,239 related to property, plant and equipment acquired from Spector Logistics, Inc. (note 10).

**12. Line of Credit**

On May 5, 2016, the Company entered into a three-year, non-dilutive revolving secured line of credit of up to US\$1,500,000. On February 27, 2018, the Company provided the lender with written notice of its intention to terminate the lending agreement, effective April 30, 2018, one year prior to the expiry of the term.

Effective June 12, 2018, the Company entered into a new non-dilutive, revolving, secured line of credit of up to \$1,000,000 (the "Line of Credit") with a new lender. Funds are to be available to the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory and is secured by a General Security Agreement over the assets of the Company.

The Line of Credit bears interest on amounts borrowed as follows:

- (a) For CAD Overdraft Loans, the Bank's Prime Rate plus 1.00% per annum calculated monthly in arrears on the daily balance, payable on the last business day of each month;
- (b) For USD Overdraft Loans, the Bank's U.S. Base Rate plus 1.00% per annum on the basis of a year of 360 days, calculated monthly in arrears on the daily balance, payable on the last business day of each month;
- (c) A standby fee equal to 0.25% per annum of the daily unutilized portion of the maximum limit available under the operating loan facility calculated monthly in arrears;

The Line of Credit is repayable on demand, is secured by a first charge on the assets of the Company and its subsidiaries and requires a maintenance of a Debt to Tangible Net Worth ratio not to exceed 2.75 to 1.0; current ratio of not less than 1.25 to 1.0; and Debt Service Ratio of not less than 1.25 to 1.0.

As at November 30, 2018, there were no monies advanced or owing under the line of credit.

The Company has agreed to pay a related party an annual fee of US\$18,750 as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 23 and 25).

**13. Trade and Other Payables and Accrued Liabilities**

	November 30 2018	August 31, 2018
Trade payables	\$ 197,719	\$ 203,503
Provincial Sales Tax payable and State Sales Tax Payable	2,263	6,350
Current income taxes payable (note 18)	30,994	30,421
Accrued and other liabilities	557,242	582,167
Accrued warranty liabilities	50,000	50,000
	<b>\$ 838,218</b>	<b>\$ 872,441</b>

The Company provides a one year, three year, five year, ten year, or lifetime warranty, depending on the product, to repair or replace defective components with respect to its product sales. The warranty provision in the consolidated statements of loss and comprehensive loss includes management's best estimate of the total costs of all raw materials, labour and travel expenses required to repair issues related to all products that were sold and shipped prior to period end. During the three months ended November 30, 2018, warranty as an expense (recovery) and included in cost of sales were \$4,053 (2017 – \$9,889). Actual warranty claims during the three months ended November 30, 2018 were \$4,053 (2017 – \$9,889).

Included in accrued and other liabilities is \$140,422 (US\$105,572) related to an Asset Purchase Agreement as at November 30, 2018 (notes 10 and 25).

**14. Share Capital**

**(a) Authorized Share Capital**

The Company has authorized an unlimited number of common shares with no par value, unlimited Class A preferred shares with no par value, unlimited Class B preferred shares with par value of \$0.01 and unlimited Class C preferred shares with no par value.

At November 30, 2018, the Company had 87,597,144 common shares outstanding (August 31, 2018 – 87,597,144), Nil Class A preferred shares outstanding (August 31, 2018 – Nil), Nil Class B preferred shares outstanding (August 31, 2018 – Nil), Nil Class C preferred shares outstanding (August 31, 2018 – Nil) and Nil common shares held in escrow (August 31, 2018 – Nil).

The Class A preferred shares are convertible to common shares, at the option of the holder, at a fixed conversion rate of one to one.

The Class B preferred shares are redeemable at the option of the Company on 21 days' notice for an amount of \$1,000 per share.

The Class C preferred shares may include one or more series of shares. The board of directors may, by resolution, if none of the shares of any particular series are issued, alter the Articles of the Company and authorize the alteration of the Notice of Articles of the Company to do one or more of the following:

- Determine the maximum number of shares of that series that the Company is authorized to issue, determine that there is no such maximum number, or alter any such determination;
- Create an identifying name by which the shares of that series may be identified, or alter any such identifying name; and
- Attach special rights and restrictions to the shares of that series, or alter any such special rights or restrictions.

**(b) Issued Share Capital**

No Shares were issued during the three months ended November 30, 2018.

**15. Warrants**

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2017	\$0.30	10,640,000
Balance – August 31, 2018 and November 30, 2018	\$0.30	10,640,000

The expiry of agents' and share purchase warrants are as follows:

	Exercise price	Number of warrants	Expiry date
Share purchase warrants	\$0.30	10,640,000	April 28, 2019

**16. Share-Based Payments**

The Company adopted a stock option plan (the “Plan”) whereby it can grant stock options to directors, officers, employees, and consultants of the Company. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company at any time.

The changes in stock options during the three months ended November 30, 2018 were as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2018	\$0.18	7,618,250
Stock Options Granted	\$0.11	675,000
Options Cancelled	\$0.30	(50,000)
Balance – November 30, 2018	\$0.17	8,243,250

During the three months ended November 30, 2018, the Company granted 675,000 (2017 – 2,050,000) incentive stock options to employees, consultants and directors. 100,000 of the options may be exercised within 5 years from the date of grant at a price of \$0.11 per share. 575,000 of those options, they may be exercised within 10 years from the date of grant at a price of \$0.105 per share.

The weighted average fair value of the options granted during the three months ended November 30, 2018 was estimated at \$0.08 per option as at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

	November 14, 2018	November 6, 2018	August 31, 2018
Risk free interest rate	2.42%	2.45%	2.10%
Expected life	10 years	5 years	9 years
Expected volatility	80.47%	74.14%	76.72%
Expected dividend per share	-	-	-

Incentive share options outstanding and exercisable at November 30, 2018 are summarized as follows:

Exercise Price	Options Outstanding			Options Exercisable		
	Number of shares issuable on exercise	Weighted average remaining life (Years)	Weighted average exercise price	Number of shares issuable on exercise	Weighted average remaining life (Years)	Weighted average exercise price
\$0.11	675,000	9.22	\$0.11	575,000	9.96	\$0.11
\$0.12	2,750,000	8.70	\$0.12	2,325,000	8.58	\$0.12
\$0.13	900,000	7.43	\$0.13	900,000	6.45	\$0.13
\$0.16	175,000	6.45	\$0.16	175,000	6.45	\$0.16
\$0.18	250,000	5.64	\$0.18	250,000	5.64	\$0.18
\$0.20	1,176,250	6.41	\$0.20	1,007,188	6.20	\$0.20
\$0.25	1,885,000	4.33	\$0.25	1,885,000	4.33	\$0.25
\$0.30	432,000	4.79	\$0.30	432,000	4.79	\$0.30
	8,243,250	6.93	\$0.17	7,549,188	6.80	\$0.18

During the three months ended November 30, 2018, the Company recorded total share-based payments of \$63,180 (2017 – \$140,656), which has been charged to general and administrative expense for the period.

**17. Operating Expenses**

**(a) General and Administrative Expenses by Nature**

The Company recorded general and administrative expenses for the three months ended November 30, 2018 and 2017 as follows:

	2018	2017
<b>General and administrative expenses</b>		
Accounting and legal	\$ 101,974	\$ 22,244
Bad debt (recovery)	114	738
Consulting fees	(3,037)	9,930
Depreciation and impairment (note 11)	51,408	15,012
Interest charges on loans	92	4,424
Investor relations	33,878	16,016
Office	138,787	111,514
Rent	42,666	32,069
Salaries and benefits	225,213	151,573
Share-based payments (note 16)	63,180	140,656
	<b>\$ 654,275</b>	<b>\$ 504,176</b>

**(b) Selling and Marketing Expenses by Nature**

The Company recorded selling and marketing expenses for the three months ended November 30, 2018 and 2017 as follows:

	2018	2017
<b>Selling and marketing expenses</b>		
Advertising and promotion	\$ 241,674	\$ 179,499
Salaries and benefits	422,667	298,338
	<b>\$ 664,341</b>	<b>\$ 477,837</b>

**(c) Research and Development Expenses by Nature**

The Company recorded research and development expenses for the three months ended November 30, 2018 and 2017 as follows:

	2018	2017
<b>Research and development expenses</b>		
Research and development materials	\$ 263,584	\$ 152,530
Research and development salaries and benefits	82,060	71,388
	<b>\$ 345,644</b>	<b>\$ 223,918</b>



**18. Income Tax Expense**

a) Loss carry forwards

As at August 31, 2018, the Company has available non-capital losses for income tax purposes in Canada totaling approximately \$6,842,283 which are available to be carried forward to reduce taxable income in future years and for which no deferred income tax asset has been recognized, and which expire as follows:

	August 31, 2018
2029	59,359
2030	794,118
2031	162,357
2032	565,913
2033	1,914,428
2034	1,609,219
2035	335,812
2036	-
2037	257,341
2038	1,143,736
<b>Total non-capital losses</b>	<b>6,842,283</b>
<b>Total SR&amp;ED expenditures deduction, no expiry</b>	<b>2,071,080</b>

**19. Loss Per Share**

The following table sets forth the computation of basic and diluted loss per share for the three months ended November 30, 2018 and 2017:

	2018	2017
<b>Numerator</b>		
Net loss for the period	\$ (687,379)	\$ (340,715)
<b>Denominator</b>		
Basic weighted average number of shares outstanding	87,597,144	87,597,144
Effect of dilutive securities		
Stock options	Nil	Nil
Diluted weighted average number of shares outstanding	87,597,144	87,597,144
<b>Loss Per Share</b>		
Basic and diluted	\$ (0.01)	\$ (0.00)

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. There are presently no common shares in escrow (2018 – Nil) and thus do not impact on the weighted average number of common shares outstanding. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Fully diluted loss per share is not materially different from basic loss per share due to the average market price during the period being \$0.10 per share.

**20. Financial Instruments**

**Financial Assets and Liabilities**

Information regarding the Company's financial assets and liabilities as at November 30, 2018 and August 31, 2018 is summarized as follows:

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
<b>Financial Assets</b>		
<b>Fair value through profit and loss, at fair value</b>		
Cash and cash equivalents (note 6)	\$ 3,343,032	\$ 4,166,622
Restricted cash (note 7)	400,000	313,078
<b>Loans and receivable, at amortized cost</b>		
Trade receivables (note 8)	1,294,133	1,590,975
<b>Total Financial Assets</b>	<b>\$ 5,037,165</b>	<b>\$ 6,070,675</b>
<b>Financial Liabilities</b>		
<b>Other liabilities, at amortized cost</b>		
Line of credit (note 12)	\$ -	\$ -
Trade payables (note 13)	197,719	203,503
Spector Logistics, Inc. purchase payable (notes 10 and 13)	140,422	138,020
Salaries and benefits payable	186,899	159,096
<b>Total Financial Liabilities</b>	<b>\$ 525,040</b>	<b>\$ 500,619</b>

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value due to the demand nature or short term maturity of these instruments.

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly. As at November 30, 2018, the Company does not have any Level 2 financial instruments.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at November 30, 2018, the Company does not have any Level 3 financial instruments.

**20. Financial Instruments (continued)**

**Financial Assets and Liabilities (continued)**

	November 30, 2018	August 31, 2018
<b>Level 1</b>		
<b>Financial assets at fair value</b>		
Cash and cash equivalents (note 6)	\$ 3,343,032	\$ 4,166,622
Restricted cash (note 7)	400,000	313,078
<b>Total Financial Assets at Fair Value</b>	<b>\$ 3,743,032</b>	<b>\$ 4,479,700</b>

There were no transfers between level 1 and 2 and 3 during the periods ended November 30, 2018 and August 31, 2018.

**Financial Instrument Risk Exposure**

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. These risks arise from the normal course of operations and all transactions are undertaken to support the Company's ability to continue. Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates the financial risks in co-operation with the Company's operating units. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance, in the context of its general capital management objectives (note 21).

***Credit Risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash accounts and accounts receivable. This risk related to cash is managed through the use of a major financial institution which has high credit quality as determined by the rating agencies. Accounts receivable mainly consists of receivables from its customers. In order to reduce its credit risk, the Company has adopted credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. In some cases, the Company requires bank letters of credit or subscribes to credit insurance.

At November 30, 2018, 13% of the Company's trade accounts receivable balance is over 90 days past due (August 31, 2018 – 7%). The carrying amount of trade and other receivables as at November 30, 2018 was \$1,331,870 (August 31, 2018 - \$1,678,876). The Company insures its non-government accounts receivable.

***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its normal operating requirements.

The Company's ongoing liquidity is impacted by various external events and conditions. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows, as well as future equity and debt financing.

**20. Financial Instruments (continued)**

**Financial Instrument Risk Exposure (continued)**

***Liquidity Risk (continued)***

The Company coordinates this planning and budgeting process with its financing activities through the capital management process (note 21). The Company's financial liabilities are comprised of its trade payables and accrued liabilities, the contractual maturities of which at November 30, 2018 and August 31, 2018 are summarized as follows:

	November 30, 2018	August 31, 2018
Trade payables and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 197,719	\$ 200,027
In later than 90 days, not later than one year		3,476
	\$ 197,719	\$ 203,503

***Interest Rate Risk***

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate.

The Company has no significant exposure at November 30, 2018 to interest rate risk through its financial instruments.

***Currency Risk***

Currency risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows. The Company monitors and forecasts the values of net foreign currency cash flow and statement of financial position exposures and from time to time could authorize the use of derivative financial instruments such as forward foreign exchange contracts to economically hedge a portion of foreign currency fluctuations.

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in US dollars as of November 30, 2018 and August 31, 2018:

**20. Financial Instruments (continued)**

**Financial Instrument Risk Exposure (continued)**

**Currency Risk (continued)**

	November 30, 2018	August 31, 2018
Cash and cash equivalents (note 6)	\$ 1,754,443	\$ 2,227,447
Restricted cash (note 7)	-	90,078
Trade receivables	1,239,091	1,437,275
Trade payables	91,912	77,808
	<b>\$ 3,085,446</b>	<b>\$ 3,832,608</b>

Based on the above net exposure at November 30, 2018, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$308,545 decrease or increase respectively in both net and comprehensive loss (August 31, 2018 – \$383,261). The Company has not employed any currency hedging programs during the periods ended November 30, 2018 and August 31, 2018.

**21. Management of Capital**

The capital managed by the Company includes a Line of Credit (note 12) and the components of shareholders' equity as described in the consolidated statements of shareholders' equity. During the year, the Company was subject to financial covenants related to its Lines of Credit. During the three months ended November 30, 2018, the Company was in compliance with any required financial covenants.

The Company's objectives of capital management are to create long-term value and economic returns for its shareholders. It does this by seeking to maximize the availability of finance to fund the growth and development of its operations, and to support the working capital required to maintain its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Company considers all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part. The Company's overall strategy with respect to management of capital at November 30, 2018 remains fundamentally unchanged from the year ended August 31, 2018.

**22. Segmented Information**

The Company operates in one segment in which it develops, manufactures, markets and sells high resolution mobile surveillance camera systems, which information is evaluated regularly by the Company's President and Chief Executive Officer, being the chief operating decision maker. Revenue is earned in two main regions, being Canada and United States. The following is a breakdown of revenue by geographic areas based on the customers' location:

	Three months ended November 30, 2018	Three months ended November 30, 2017
<b>Revenue</b>		
Canada	\$ 168,851	\$ 254,825
United States	1,664,796	1,175,074
Other	5,831	-
	<b>\$ 1,839,478</b>	<b>\$ 1,429,899</b>

**GATEKEEPER SYSTEMS INC.**  
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2018 AND 2017  
*(expressed in Canadian dollars except where noted)*

**22. Segmented Information (continued)**

Effective March 1, 2018, the company commenced operating separately incorporated companies in the US and in Canada. The following selected financial information is presented by geographic region of business incorporation:

<i>(expressed in Canadian dollars)</i>	<b>Three Months Ended November 30, 2018</b>			<b>Three Months Ended November 30, 2017</b>		
	<b>Canada</b>	<b>USA</b>	<b>Combined</b>	<b>Canada</b>	<b>USA</b>	<b>Combined</b>
<b>Revenues</b>	\$ 1,362,755	\$ 476,723	\$ 1,839,478	\$ 1,429,899	\$ -	\$ 1,429,899
<b>Cost of Sales</b>	713,444	214,748	928,192	657,885	-	657,885
<b>Gross Profit</b>	649,311	261,975	911,286	772,014	-	772,014
<b>Operating Expenses</b>						
General & administrative (note 17a)	566,297	87,978	654,275	504,176	-	504,176
Selling and marketing (note 17b)	662,289	2,052	664,341	477,837	-	477,837
Research and development (note 17c)	345,644	-	345,644	223,918	-	223,918
	1,574,230	90,030	1,664,260	1,205,931	-	1,205,931
<b>Operating Income (Loss)</b>	\$ (924,919)	\$ 171,945	\$ (752,974)	\$ (433,917)	\$ -	\$ (433,917)
<b>Other Income (Expense)</b>						
Interest	12,586	-	12,586	944	-	944
Foreign Exchange gain (loss)	46,383	10,470	56,853	86,929	-	86,929
Finance Costs	(3,715)	-	(3,715)	6,723	-	6,723
Write-down of Inventory	(129)	-	(129)	(1,394)	-	(1,394)
<b>Net Income (Loss) and Comprehensive (Loss)</b>	\$ (869,794)	\$ 182,415	\$ (687,379)	\$ (340,715)	\$ -	\$ (340,715)

**23. Related Party Transactions**

The Company's related parties include its subsidiaries, key management personnel and companies related by way of directors or shareholders in common. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

(a) Key Management Personnel Compensation

	Three months ended November 30, 2018	Three months ended November 30, 2017
Salaries and short-term benefits	\$ 127,198	\$ 97,518
Share-based payment	49,524	140,656
	<b>\$ 176,722</b>	<b>\$ 238,174</b>

Key management includes the Company's Board of Directors and members of senior management.

(b) Trade Related Party Transactions

The amounts due to related parties as at November 30, 2018 and August 31, 2018 are as follows:

	November 30, 2018	August 31, 2018
Chief Executive Officer	\$ -	\$ 50,977
Chief Financial Officer	-	30
Directors	-	-
	<b>\$ -</b>	<b>\$ 51,007</b>

Amounts due from and to related parties have been included in trade and other receivables and trade and other payables, respectively (notes 8 and 13).

(c) Other Related Party Transactions

The Company has agreed to pay the Chief Executive Officer an annual fee of US\$18,750 as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 12 and 25).

**24. Supplemental Cash Flow Information**

The Company made the following cash payments for interest and income taxes:

	November 30, 2018	November 30, 2017
Interest paid	\$ 73	\$ 4,424
Taxes paid	-	-
	<b>\$ 73</b>	<b>\$ 4,424</b>

**25. Commitments and Contingencies**

As of November 30, 2018, the Company's contractual obligations and contingencies are as follows:

- a) The Company has entered into various operating lease contracts for office space and office equipment. The future minimum payments under these leases as at November 30, 2018 are as follows:

2019	110,953
2020	138,519
2021	135,008
2022	67,344
	\$ 451,824

- b) The Company has agreed to pay a related party an annual fee of US\$18,750 as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 12 and 23).
- c) The Company has commitments to make payments related to the acquisition of certain operating assets and service contracts of Spector Logistics, Inc. (notes 10 and 13).
- d) The Company derives its revenue from the sale of products in various tax jurisdictions, which are subject to various Canadian and foreign federal and provincial laws and regulations governing taxes. These laws and regulations are continually changing. The Company believes its operations are materially in compliance with all applicable laws and regulations. There is no guarantee that the Company's chosen tax position will not be challenged by tax authorities in these jurisdictions which could result in additional taxes, related non-income tax amounts, interest and penalties payable (note 18).

The Company regularly assesses its income tax and related non income tax amounts and obligations and the related filing obligations in the U.S. and Canada. It is management's position that adequate provisions have been made in the financial statements related to such obligations. However, there exists uncertainty due to the fact that the Company could be assessed differently by tax and/or other regulatory authorities in a manner that is not consistent with management's expectation. This situation would result in management being required to adjust its provision for income taxes and related non income tax amounts in the period that such a situation occurs and such adjustments could be material (note 18).