



GATEKEEPER

GATEKEEPER SYSTEMS INC.

Consolidated Financial Statements

For the Years Ended August 31, 2018 and 2017



JAMES STAFFORD

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gatekeeper Systems Inc.

We have audited the accompanying consolidated financial statements of Gatekeeper Systems Inc., which comprise the consolidated statements of financial position as at 31 August 2018 and 2017 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gatekeeper Systems Inc. as at 31 August 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

Vancouver, Canada
20 December 2018

**GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT**

(expressed in Canadian dollars)

	August 31, 2018	August 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents (note 6)	\$ 4,166,622	\$ 6,312,093
Restricted cash (note 7)	313,078	109,499
Trade and other receivables (note 8)	1,678,876	1,145,255
Inventories (note 9)	898,068	1,013,799
Prepaid expenses and other current assets	245,824	85,725
	7,302,468	8,666,371
Non-Current Assets		
Property, plant and equipment (note 11)	444,362	204,768
Goodwill (note 10)	147,442	-
Total Assets	\$ 7,894,272	\$ 8,871,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit (note 12)	\$ -	\$ 259,294
Trade and other payables and accrued liabilities (note 13)	872,441	564,854
Unearned revenue	1,376	1,843
Total Liabilities	873,817	825,991
Shareholders' Equity		
Common shares (note 14)	15,881,627	15,881,627
Other capital reserves (notes 15 and 16)	2,052,182	1,753,598
Deficit	(10,913,354)	(9,590,077)
	7,020,455	8,045,148
Total Liabilities and Shareholders' Equity	\$ 7,894,272	\$ 8,871,139

COMMITMENTS AND CONTINGENCIES (note 25)

SUBSEQUENT EVENTS (note 26)

**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 consolidated financial statements.

**GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED**

(expressed in Canadian dollars)

	August 31, 2018	August 31, 2017
Revenues	\$ 7,850,933	\$ 7,605,107
Cost of Sales	3,661,863	3,753,445
Gross Profit	4,189,070	3,851,662
Operating Expenses		
General and administrative (note 17a)	2,135,723	1,534,272
Selling and marketing (note 17b)	2,334,341	1,627,833
Research and development (note 17c)	1,114,202	787,371
	5,584,266	3,949,476
Operating Loss	(1,395,196)	(97,814)
Other Income (Expenses)		
Interest	31,693	12,981
Foreign exchange gain (loss)	132,456	(162,216)
Finance costs	(31,429)	(84,860)
Write-down of inventory	(29,343)	-
Gain on disposal of property, plant and equipment	-	150
Impairment of property, plant and equipment (note 11)	(1,037)	-
Net Loss before Income Taxes for the Year	\$ (1,292,856)	\$ (331,759)
Income Tax Expense (note 18)	30,421	-
Net Loss and Comprehensive Loss for the Year	\$ (1,323,277)	\$ (331,759)
Basic Loss Per Share (note 19)	\$ (0.02)	\$ (0.00)
Diluted Loss Per Share (note 19)	\$ (0.02)	\$ (0.00)
Basic Weighted Average Number of Shares Outstanding (note 19)	87,597,144	72,141,555
Diluted Weighted Average Number of Shares Outstanding (note 19)	87,597,144	72,141,555

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

**GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED**

(expressed in Canadian dollars)

	August 31, 2018	August 31, 2017
Cash Flows from (used in) Operating Activities		
Net loss	\$ (1,323,277)	\$ (331,759)
Items not affecting cash from operations –		
Accrued interest	(8,395)	(10,102)
Depreciation (note 11)	125,697	50,469
Gain on disposal of property, plant and equipment	-	(150)
Write-down of inventory (note 9)	29,343	44,990
Impairment of property, plant and equipment (note 11)	1,037	-
Bad debt recovery (expense) (note 17)	2,467	(345)
Share-based payments (note 16)	298,584	119,395
Unrealized foreign exchange (gain) Loss	(93,173)	112,790
	(967,717)	(14,712)
Changes in non-cash working capital balances related to operations –		
Decrease (Increase) in trade and other receivables	(527,693)	1,304,212
Decrease (Increase) in inventories	86,388	(167,599)
Decrease (Increase) in prepaid expenses and other current assets	(160,099)	38,889
Decrease (Increase) in trade and other payables	139,146	(131,681)
Increase in current income taxes payable	30,421	-
Increase (Decrease) in unearned revenue	(467)	635
	(1,400,021)	1,029,744
Cash Flows used in Investing Activities		
Purchase of property, plant and equipment (note 11)	(126,531)	(144,473)
Proceeds from disposal of property, plant and equipment	-	150
Proceeds spent on business acquisition (note 10)	(249,219)	-
Decrease (Increase) in restricted cash (note 7)	(203,579)	(24,088)
	(579,329)	(168,411)
Cash Flows from Financing Activities		
Proceeds from issuance of common shares (note 14)	-	4,256,000
Share issuance costs (note 14)	-	(41,582)
Proceeds for warrants exercised (note 14)	-	528,762
Repayment of line of credit (note 12)	(259,294)	(77,961)
	(259,294)	4,665,219
Increase (Decrease) in Cash and Cash Equivalents	(2,238,644)	5,526,552
Foreign Exchange (Gain) Loss on Cash and Equivalents held in USD	93,173	(112,790)
Cash and Cash Equivalents – Beginning of Year	6,312,093	898,331
Cash and Cash Equivalents – End of Year	\$ 4,166,622	\$ 6,312,093

SUPPLEMENTAL CASH FLOW INFORMATION (note 24)

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

**GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017**

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

	Common Shares		Reserves (\$)	Deficit (\$)	Total (\$)
	Shares	Amount (\$)			
Balance – August 31, 2016	63,373,495	11,686,269	1,086,381	(9,258,318)	3,514,332
Net loss and comprehensive loss for the year	-	-	-	(331,759)	(331,759)
Private placement (note 14(b))	21,280,000	4,256,000	-	-	4,256,000
Finder's Fees	828,600	219,579	-	-	219,579
Exercise of warrants (notes 14 and 15)	2,115,049	581,162	(52,400)	-	528,762
Value of units assigned to warrants	-	(600,222)	600,222	-	-
Share issuance costs (note 14(b))	-	(261,161)	-	-	(261,161)
Share-based payments (note 16)	-	-	119,395	-	119,395
Balance – August 31, 2017	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
Balance – August 31, 2018	87,597,144	15,881,627	2,052,182	(10,913,354)	7,020,455

The accompanying notes are an integral part of these 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 Company has a net loss of \$1,323,277 for the year ended August 31, 2018 (2017 – net loss of \$331,759) and has a working capital of \$6,428,651 at August 31, 2018 (2017 – \$7,840,380). The Company had cash and cash equivalents of \$4,166,622 at August 31, 2018 (2017 – \$6,312,093), 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the Company’s reporting for the year ended August 31, 2018. These consolidated financial statements were approved by the Board of Directors on December 20, 2018.

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 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 summarized below.

(a) Amalgamation

Effective August 31, 2018, Gatekeeper Systems Inc. and its wholly owned subsidiary, GSI Systems Inc., combined by amalgamating into a single company, to carry on business under the name Gatekeeper Systems Inc. The amalgamation has no financial impact on these consolidated financial statements as the two entities have historically been consolidated for reporting purposes. From August 31, 2018 onward, Gatekeeper Systems Inc. is the operating entity and is being consolidated with its remaining wholly owned subsidiaries: Gatekeeper Systems USA Inc. and Deep Development Corp.

(b) Basis of Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities (including special purpose entities) controlled by the Company, where control is achieved by the Company having the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Gatekeeper, and are deconsolidated from the date that control ceases.

The following subsidiaries have been consolidated for all dates presented within these financial statements, and are wholly owned: Gatekeeper Systems USA Inc. and Deep Development Corp.

All significant intercompany transactions, balances, income and expenses are eliminated on consolidation.

(c) Business Combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred for the combination of a business comprises the fair value of the assets transferred, the liabilities assumed and goodwill. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs are expensed as incurred, except for costs to issue debt or equity securities which are accounted under the relevant IFRS.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

(d) Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash comprise of cash at banks and short-term money market instruments with an original maturity of one year or less, which are readily convertible into a known amount of cash.

3. Summary of Significant Accounting Policies (continued)

(e) Goodwill

Goodwill is assessed for impairment on an annual basis and between annual tests whenever circumstances indicate that the carrying value of the goodwill and intangible assets might be impaired. Circumstances may include an adverse change in business climate or a more likely than not expectation that a cash-generating unit will be sold or disposed of. On at least a quarterly basis, an assessment is made as to whether such circumstances exist. An evaluation of recoverability of goodwill requires judgment, including the identification of cash-generating units, assigning assets and liabilities to cash-generating units, assigning goodwill to cash-generating units, and determining the estimated recoverable amount of each cash generating unit. Significant judgments that are required to estimate the recoverable amount of cash-generating units include estimating future cash flows, determining appropriate discount rates, consideration of appropriate control premium, market conditions, and other assumptions. Changes in these estimates and assumptions could materially affect the determination of recoverable amount for each cash-generating unit and may result in impairment charges in future periods.

(f) Inventories

Inventories are stated at lower of production cost and net realizable value. Cost for all inventory is determined using the weighted average method which, for work in process and finished goods, includes the cost of material, direct labour and applicable manufacturing overhead. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at lower of weighted average cost and net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Net realizable value is defined as the selling price of the finished product less any provisions for obsolescence and costs of completion.

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation of property, plant and equipment is calculated using the following methods:

Asset	Method	Basis	Useful Life
Automobile	Straight-line	3.3 years	3.3 years
Computer equipment	Straight-line	5 years	5 years
Computer software	Straight-line	1 year	1 year
Furniture and fixtures	Straight-line	5 years	5 years
Office equipment	Straight-line	5 years	5 years
Technical equipment	Straight-line	5 years	5 years
Research and development equipment	Straight-line	5 years	5 years
Leasehold improvements	Straight-line	5 years	5 years
Leasehold improvements (US subsidiary)	Straight-line	Lease Term	10 months

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognized within other gains or losses in earnings.

3. Summary of Significant Accounting Policies (continued)

(h) Leases

Leases are classified as finance leases if the Company bears substantially all risks and rewards of ownership of the leased asset. At the inception of the lease, the asset is recognized at the lower of fair value and the present value of the minimum lease payments, and a corresponding amount is recognized as a finance lease obligation. The cost of the asset acquired under finance leases are depreciated on a basis consistent with that for depreciable assets that are owned. The cost of the asset is depreciated on a straight-line basis over the estimated useful lives or the lease term, whichever is shorter, when it is not reasonably certain that the Company will obtain ownership by the end of the lease term. Obligations recorded under finance leases are reduced by lease payments, net of finance charges. Finance charges are charged to net earnings (loss) over the lease term. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(i) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current pre-tax rate that reflects where appropriate the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(j) Revenue Recognition

Sales revenues are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The Company recognizes revenue from customer orders upon shipment of the order.

Installation revenues are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the reporting period can be measured reliably, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

3. Summary of Significant Accounting Policies (continued)

(k) Research and Development Costs

The Company engages in research and development activities. Research costs are expensed as incurred. Product development costs are expensed in the year incurred unless the costs meet the criteria for deferral and amortization. These criteria are met when the Company has established:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to reliably measure the expenditures attributable to the intangible asset during its development.

The Company is eligible for tax credits from the Scientific Research & Experimental Development ("SR&ED") program. When management determines that it is more likely than not that the Company has complied with all the terms and conditions related to the SR&ED program, the relevant tax credit is recorded in the period as a reduction to the related expenses or capital costs.

(l) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(m) Share-Based Payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options, as determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions, is expensed in profit or loss. The corresponding amount is recorded to other capital reserves. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

(n) Warrants

When the Company issues units that are comprised of a combination of shares and warrants, the value is assigned to shares and warrants using the proportional method based on their relative fair values. The fair value of the shares is determined by the closing price on the date of the transaction and the fair value of the warrants is determined based on a Black-Scholes Option Pricing Model.

(o) Current and Deferred Income Taxes

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate to a business combination or to items recognized directly in equity or in other comprehensive income.

3. Summary of Significant Accounting Policies (continued)

(o) Current and Deferred Income (Taxes continued)

Current income taxes are the expected taxes payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

Deferred income taxes are recognized using the liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. However, deferred income taxes are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income taxes are determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are presented as non-current in the consolidated financial statements.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

The Company records provisions for uncertain tax provisions if it is probable that the Company will make a payment on tax positions as a result of examinations by the tax authorities. These provisions are measured at the Company's best estimate of the amount expected to be paid. Provisions are reversed to income in the period in which management assesses that they are no longer required or determined by statute.

(p) Foreign Currencies

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which they operate.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3. Summary of Significant Accounting Policies (continued)

(q) Earnings or Loss Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated using the treasury share method whereby all “in the money” options, warrants and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

(r) Financial Assets

Financial assets are classified as financial assets at fair value through profit or loss (“FVTPL”), held-to-maturity, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVTPL

Financial assets are classified as held for trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are also categorized as held for trading. These assets are carried at fair value with gains or losses recognized in profit or loss. Transaction costs associated with financial assets at FVTPL are expensed as incurred.

Held-to-maturity and loans and receivables

Held-to-maturity and loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the financial asset classified in this category are derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset. Trade and other receivables are classified as loans and receivables.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Transaction costs are included in the initial carrying amount of the asset.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

3. Summary of Significant Accounting Policies (continued)

(s) Financial Liabilities

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated by management on initial recognition. Transaction costs on financial liabilities at FVTPL are expensed as incurred. These liabilities are carried at fair value with gains or losses recognized in profit or loss.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade and other payables, bank indebtedness and loans payable are included in this category of financial liabilities.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

(t) Impairment of Financial Assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at each period end.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale financial asset is impaired, the cumulative loss previously recognized in equity is transferred to profit or loss. Any subsequent recovery in the fair value of the asset is recognized within profit or loss, except for investments in an equity instrument.

3. Summary of Significant Accounting Policies (continued)

(u) Derecognition of Financial Assets and Liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(v) Impairment of Non-Current Non-Financial Assets

The carrying amounts of non-current non-financial assets are reviewed and evaluated for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. Non-current non-financial assets include property, plant, and equipment. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized and the asset is written down to recoverable value.

The recoverable amount is the higher of an asset's "fair value less costs to sell" and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined, with a cash-generating unit being the smallest identifiable group of assets and liabilities that generate cash inflows independent from other assets. "Fair value less costs to sell" is determined as the amount that would be obtained from the sale of the asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties. In assessing "value-in-use", the future cash flows expected to arise from the continuing use of the asset or cash-generating unit in its present form are estimated using assumptions that an independent market participant would consider appropriate and are then discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or unit.

Where conditions that gave rise to a recognized impairment loss are subsequently reversed, the amount of such reversal is recognized into earnings immediately, though is limited such that the revised carrying amount of the asset or cash-generating unit does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in the prior period.

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.

4. Significant Accounting Judgments and Estimates (continued)

(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 regards to the amount of impairment; however the final outcome may be materially different than the amount recorded as a financial asset.

(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.

4. Significant Accounting Judgments and Estimates (continued)

(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 realized 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. Adoption of New and Revised Standards and Interpretations

The IASB issued a number of new and revised IAS, IFRS, amendments and related IFRIC, which are effective for the Company's financial year beginning on September 1, 2017. The Company has adopted all the following new standards relevant to the Company for the year ended August, 31 2018.

The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

- (i) IAS 7 'Statement of Cash Flows' is an amendment to clarify and improve information provided to users of financial statements about an entity's financing activities. The amendment is applicable for annual periods beginning on or after January 1, 2017.
- (ii) IAS 12 'Income Taxes' is an amendment to clarify criteria used to assess whether future taxable profits can be utilized against deductible temporary differences. The amendment is applicable to annual periods beginning on or after January 1, 2017.

At the date of authorization of these 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 August 31, 2018:

- (i) IFRS 2 'Share-based Payment' has amendments in relation to the classification and measurement of share-based payment transactions in the area of the effects of vesting conditions on the measurement of a cash-settled share-based payment, accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled and the classification of share-based payments transactions with net settlement features. These amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- (ii) IFRS 7 'Financial Instruments: Disclosure' clarifies the definition for continuing involvement in a transferred financial asset. The amendments are effective for annual periods beginning on or after January 1, 2018.

5. Adoption of New and Revised Standards and Interpretations (continued)

- (iii) IFRS 9 'Financial Instruments: Classification and Measurement' was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). The effective date of these amendments is for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- (iv) IFRS 10 'Consolidated Financial Statements' is an amendment related to the sale or contribution of assets between an investor and its associate or joint venture to be applied prospectively. The amendment is effective for annual periods beginning on or after a date to be determined by IASB. Earlier application is permitted.
- (v) 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.
- (vi) 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.
- (vii) IFRIC 22 'Foreign Currency Transactions and Advance Consideration' is interpretation that clarifies when an entity recognizes a non-monetary asset or non-monetary liability arising from payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The effective date for IFRIC 22 is for annual periods beginning on or after January 1, 2018.
- (viii) IFRIC 23 'Uncertainty over Income Tax Treatments' is interpretation that clarifies how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over tax treatments. The effective date for IFRIC 23 is for annual periods beginning on or after January 1, 2019. The Company is currently in the process of evaluating the potential impact the adoption of the standard will have on the consolidated financial statements.

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.

GATEKEEPER SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017
(expressed in Canadian dollars except where noted)

6. Cash and Cash Equivalents

	August 31, 2018	August 31, 2017
Denominated in Canadian dollars	\$ 1,939,175	\$ 4,194,211
Denominated in US dollars	2,227,447	2,117,882
	\$ 4,166,622	\$ 6,312,093

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 \$4,166,622 (notes 12 and 23).

7. Restricted Cash

	August 31, 2018	August 31, 2017
Denominated in Canadian dollars	\$ 223,000	\$ 23,000
Denominated in US dollars	90,078	86,499
	\$ 313,078	\$ 109,499

As at August 31, 2018, total cash of \$313,078 (August 31, 2017 – \$109,499) is secured against the Company's credit cards and held in Guaranteed Investment Certificates ("GIC") and is designated as restricted cash.

8. Trade and Other Receivables

	August 31, 2018	August 31, 2017
Trade receivables	\$ 1,590,975	\$ 1,079,700
Goods and Services Tax/Harmonized Sales Tax receivable	13,124	-
Other receivables	74,777	65,555
	\$ 1,678,876	\$ 1,145,255

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 \$1,678,876 (notes 12 and 23).

9. Inventories

	August 31, 2018	August 31, 2017
Raw materials	\$ 90,121	\$ 79,247
Finished goods	807,947	934,552
	\$ 898,068	\$ 1,013,799

For the year ended August 31, 2018, the cost of inventories recognized as an expense and included in cost of sales was \$2,397,846 (August 31, 2017 – \$3,182,292).

For the year ended August 31, 2018, a write-down of inventories of \$29,343 (August 31, 2017 – \$44,990) was recorded, which was included in other expenses in the consolidated statements of loss and comprehensive loss.

GATEKEEPER SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

(expressed in Canadian dollars except where noted)

9. Inventories (continued)

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 \$898,068 (notes 12 and 23).

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 August 31, 2018, included in accrued and other liabilities is \$138,020 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
	\$ 300,000	\$ 387,239

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

GATEKEEPER SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 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 for the years ended August 31, 2018 and 2017 are as follows:

Cost	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Total
August 31, 2016	\$ 1	\$ 81,965	\$ 23,784	\$ 16,330	\$ 64,795	\$ 55,088	\$ 107,359	\$ 349,322
Additions	-	64,659	2,623	610	76,581	-	-	144,473
Disposal	-	(5,280)	-	(15,110)	-	-	-	(20,390)
August 31, 2017	\$ 1	\$ 141,344	\$ 26,407	\$ 1,830	\$ 141,376	\$ 55,088	\$ 107,359	\$ 473,405
Additions ⁽¹⁾	88,116	164,265	30,253	-	18,279	-	65,415	366,328
Disposal and impairment	-	(16,866)	-	(1,830)	-	-	-	(18,696)
August 31, 2018	\$ 88,117	\$ 288,743	\$ 56,660	\$ -	\$ 159,655	\$ 55,088	\$ 172,774	\$ 821,037

Depreciation	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Total
August 31, 2016	\$ 1	\$ 25,823	\$ 20,140	\$ 15,232	\$ 34,952	\$ 55,088	\$ 87,322	\$ 238,558
Depreciation	-	22,331	1,072	305	14,803	-	11,958	50,469
Disposal	-	(5,280)	-	(15,110)	-	-	-	(20,390)
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

Net Book Value	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Total
August 31, 2017	\$ -	\$ 98,470	\$ 5,195	\$ 1,403	\$ 91,621	\$ -	\$ 8,079	\$ 204,768
August 31, 2018	\$ 73,347	\$ 219,697	\$ 31,080	\$ -	\$ 85,612	\$ -	\$ 34,626	\$ 444,362

⁽¹⁾ Included in additions are \$239,797 related to property, plant and equipment acquired from Spector Logistics, Inc. (note 10).

The Company's line of credit is secured by a first charge over the assets of the Company, including capital assets with a carrying value of \$444,362 (notes 12 and 23).

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.

As at August 31, 2018, there were no monies advanced or owing under the line of credit (2017 – \$259,294). During the year ended August 31, 2018, the Company incurred finance costs of \$31,429 (2017 - \$84,860) in connection to the Line of Credit.

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 August 31, 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

	August 31, 2018	August 31, 2017
Trade payables	\$ 203,503	\$ 135,919
Provincial Sales Tax payable and State Sales Tax Payable	6,350	7,625
Current income taxes payable (note 18)	30,421	-
Accrued and other liabilities	582,167	361,310
Accrued warranty liabilities	50,000	60,000
	\$ 872,441	\$ 564,854

Included in trade and other payables are amounts of \$51,007 (2017 - \$Nil) due to related parties (note 23).

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 year ended August 31, 2018, warranty as an expense and included in cost of sales were \$26,630 (2017 – \$25,953). Actual warranty claims during the year ended August 31, 2018 were \$36,630 (2017 – \$35,953).

Included in accrued and other liabilities is \$138,020 related to the Agreement as at August 31, 2018 (notes 10 and 25). Also included in accrued and other liabilities are amounts of \$Nil (2017 - \$36,000) recorded as provisions for legal claims associated with a former contractor of the Company.

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 August 31, 2018, the Company had 87,597,144 common shares outstanding (August 31, 2017 – 87,597,144), Nil Class A preferred shares outstanding (August 31, 2017 – Nil), Nil Class B preferred shares outstanding (August 31, 2017 – Nil), Nil Class C preferred shares outstanding (August 31, 2017 – Nil) and Nil common shares held in escrow (August 31, 2017 – 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 year ended August 31, 2018.

During the year ended August 31, 2017, the Company issued 2,115,049 common shares related to the exercise of 2,115,049 share purchase warrants at an exercise price of \$0.25 per share.

On April 28, 2017, the Company closed a non-brokered private placement offering, by issuing 21,280,000 units, at a price of \$0.20 per unit, for total gross proceeds of \$4,256,000. Share issuance costs include cash of \$28,800 and the issuance of 828,600 common shares, the fair value of the finder's share is \$219,579. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant is exercisable at \$0.30 for a period of 24 months from the date of issue. All warrants issued in connection with this financing are subject to an acceleration clause. If the closing price of the Company's shares is above \$0.40 per share for a period of ten (10) consecutive days during the exercise period, the Company may accelerate the expiry date of the warrant to not fewer than 30 days from the date written notice is given by the Company to the holder.

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, 2016	\$0.25	8,957,330
Issuance of warrants	\$0.30	10,640,000
Exercise of warrants	\$0.25	(2,115,049)
Expired	\$0.25	(6,842,281)
Balance – August 31, 2017	\$0.30	10,640,000
Balance – August 31, 2018	\$0.30	10,640,000

During the year ended August 31, 2017, the fair value of the warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk free rate of 0.69%, an expected life of 2 years, an expected volatility of 76.92%, and no expected dividends.

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 year ended August 31, 2018 were as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2016	\$0.210	5,688,250
Options cancelled	\$0.200	(25,000)
Balance – August 31, 2017	\$0.210	5,663,250
Options granted	\$0.120	2,450,000
Options cancelled	\$0.190	(495,000)
Balance – August 31, 2018	\$0.180	7,618,250

During the year ended August 31, 2018, the Company granted 2,450,000 (August 31, 2017 – Nil) incentive stock options to employees, consultants and directors.

16. Share-Based Payments (Continued)

The weighted average fair value of the options granted during the year ended August 31, 2018 was estimated at \$0.10 per option as at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

	2018	2017
Risk free interest rate	2.10%	-
Expected life	9 years	-
Expected volatility	76.72%	-
Expected dividend per share	-	-
Expected forfeiture	-	-

Incentive share options outstanding and exercisable at August 31, 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
\$0.12	2,750,000	8.22	\$0.12	2,200,000	8.57	\$0.12
\$0.13	900,000	7.68	\$0.13	800,000	7.68	\$0.13
\$0.16	175,000	6.70	\$0.16	175,000	6.70	\$0.16
\$0.18	250,000	5.88	\$0.18	250,000	5.88	\$0.18
\$0.20	1,176,250	6.66	\$0.20	1,032,188	6.49	\$0.20
\$0.25	1,885,000	4.58	\$0.25	1,885,000	4.58	\$0.25
\$0.30	482,000	5.04	\$0.30	482,000	5.04	\$0.30
	7,618,250	6.70	\$0.18	6,824,188	6.65	\$0.18

During the year ended August 31, 2018, the Company recorded total share-based payments \$298,584 (August 31, 2017 – \$119,395), 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 years ended August 31, 2018 and 2017 as follows:

	2018	2017
General and administrative expenses		
Accounting and legal	\$ 152,078	\$ 112,586
Bad debt (recovery)	2,467	(345)
Consulting fees	65,050	39,720
Depreciation (note 11)	125,697	50,469
Interest charges on loans	7,184	41,966
Investor relations	85,408	111,677
Office	497,663	325,423
Regulatory	9,433	38,991
Rent	145,799	121,434
Salaries and benefits	746,360	572,956
Share-based payments (note 16)	298,584	119,395
	\$ 2,135,723	\$ 1,534,272

(b) Selling and Marketing Expenses by Nature

The Company recorded selling and marketing expenses for the years ended August 31, 2018 and 2017 as follows:

	2018	2017
Selling and marketing expenses		
Advertising and promotion	\$ 456,559	\$ 263,198
Salaries and benefits	1,442,375	1,100,612
Travel	435,407	264,023
	\$ 2,334,341	\$ 1,627,833

(c) Research and Development Expenses by Nature

The Company recorded research and development expenses for the years ended August 31, 2018 and 2017 as follows:

	2018	2017
Research and development expenses		
Engineers' salaries and benefits	\$ 314,393	\$ 239,924
Research and development materials	315,750	195,223
Research and development salaries and benefits	484,059	352,224
	\$ 1,114,202	\$ 787,371

18. Income Tax Expense

a) The provision for income taxes for the years ended August 31, 2018 and 2017 consist of:

	2018	2017
Accounting income (loss) before income tax	\$ (1,292,856)	\$ (331,759)
Canadian federal and provincial income tax rate	26.67%	26%
	(344,762)	(86,257)
Change in unrecognized deferred tax benefits	332,497	27,149
Non-deductible items	54,666	43,753
Change in foreign tax, foreign exchange rates and other ⁽¹⁾	38,120	-
Change in estimate	5,200	22,843
Change in statutory tax rate	(55,300)	-
Share issuance costs	-	(7,488)
Provision for (recovery of) income taxes	\$ 30,421	\$ -

(1) The Company is subject to statutory tax rates of 21% in the United States of America

The applicable federal and provincial statutory income tax rate used for the 2018 and 2017 reconciliations above is the corporate tax rate payable by corporate entities in the Province of British Columbia on taxable profits under tax law in that jurisdiction.

The change in tax rate is due to British Columbia increasing its general corporate income tax rate from 11% to 12%, effective January 1, 2018.

b) As at August 31, 2018 and 2017, the Company has the following deductible temporary differences and unused non-capital losses available to offset future taxable income for which no deferred tax asset has been recognized.

	August 31, 2018	August 31, 2017
Tax loss carry-forwards	6,842,283	5,718,548
Property, plant and equipment	302,751	335,008
Share issuance costs	54,099	130,376
SR&ED expenditures	2,071,080	2,071,080
Warranty liability	50,000	60,000
Total	\$ 9,320,213	\$ 8,315,012

18. Income Tax Expense (continued)

c) 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
Total non-capital losses	6,842,283
Total SR&ED expenditures deduction, no expiry	2,071,080

- d) The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authorities. The provision for income taxes and related non income tax amounts and/or deferred income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events of the Company. The Company may be required to change its provision for income taxes and/or related non income tax amounts and/or deferred income tax balances if and when the ultimate deductibility and or the treatment of certain transactions is successfully challenged by taxing authorities or if the estimates used in determining the amount of deferred tax asset to recognize change significantly or when the receipt of new information indicates the need for adjustment in the amount of income taxes and/or related non income tax amounts and/or deferred income taxes to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income taxes and related non income tax amounts, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the consolidated financial statements in the period these changes occur.

The Company regularly assesses its income tax and related non income tax amounts and obligation 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.

19. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the years ended August 31, 2018 and 2017:

	2018	2017
Numerator		
Net loss for the year	\$ (1,323,277)	\$ (331,759)
Denominator		
For basic – weighted average number of shares outstanding	87,597,144	72,141,555
Effect of dilutive securities – Incentive share options	-	-
For diluted – adjusted weighted average number of shares outstanding	87,597,144	72,141,555
Loss Per Share		
Basic and diluted	\$(0.02)	\$(0.00)

The basic income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. There are presently no common shares in escrow (August 31, 2017 – 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 and the effect of conversion of all 7,618,250 stock options, each with an exercise price at and above \$0.12 per share, and all of the share purchase warrants, are anti-dilutive.

20. Financial Instruments

Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at August 31, 2018 and 2017 is summarized as follows:

	August 31, 2018	August 31, 2017
Financial Assets		
Fair value through profit and loss, at fair value		
Cash and cash equivalents (note 6)	\$ 4,166,622	\$ 6,312,093
Restricted cash (note 7)	313,078	109,499
Loans and receivable, at amortized cost		
Trade receivables (note 8)	1,590,975	1,079,700
Total Financial Assets	\$ 6,070,675	\$ 7,501,292
Financial Liabilities		
Other liabilities, at amortized cost		
Line of credit (note 12)	\$ -	\$ 259,294
Trade payables (note 13)	203,503	135,919
Spector Logistics, Inc. purchase payable (notes 10 and 13)	138,020	-
Salaries and benefits payable	159,096	105,813
Total Financial Liabilities	\$ 500,619	\$ 501,026

20. Financial Instruments (continued)

Financial Assets and Liabilities (continued)

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 August 31, 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 August 31, 2018, the Company does not have any Level 3 financial instruments.

	August 31, 2018	August 31, 2017
Level 1		
Financial assets at fair value		
Cash and cash equivalents (note 6)	\$ 4,166,622	\$ 6,312,093
Restricted cash (note 7)	313,078	109,499
Total Financial Assets at Fair Value	\$ 4,479,700	\$ 6,421,592

There were no transfers between level 1 and 2 and 3 during the years ended August 31, 2018 and 2017.

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 August 31, 2018, 7% of the Company's accounts receivable balance is over 90 days past due (August 31, 2017 – 0%). The carrying amount of trade and other receivables as at August 31, 2018 was \$1,665,752 (August 31, 2017 – \$1,145,255).

20. Financial Instruments (continued)

Financial Instrument Risk Exposure (continued)

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.

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 August 31, 2018 and 2017 are summarized as follows:

	August 31, 2018	August 31, 2017
Trade payables and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 200,027	\$ 129,619
In later than 90 days, not later than one year	3,476	6,300
	\$ 203,503	\$ 135,919

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 August 31, 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 August 31, 2018 and 2017:

	August 31, 2018	August 31, 2017
Cash and cash equivalents (note 6)	\$ 2,227,447	\$ 2,117,882
Restricted cash (note 7)	90,078	86,499
Trade receivables	1,437,275	891,767
Trade payables	77,808	97,483
	\$ 3,832,608	\$ 3,193,631

20. Financial Instruments (continued)

Financial Instrument Risk Exposure (continued)

Currency Risk (continued)

Based on the above net exposure at August 31, 2018, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$383,261 decrease or increase respectively in both net and comprehensive loss (August 31, 2017 – \$319,366). The Company has not employed any currency hedging programs during the years ended August 31, 2018 and 2017.

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 year, 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 August 31, 2018 remains fundamentally unchanged from the year ended August 31, 2017.

22. Segmented Information

The Company operates in one segment in which it develops, manufactures, markets, sells and services 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:

	Year ended August 31, 2018	Year ended August 31, 2017
Revenue		
Canada	\$ 1,057,849	\$ 1,304,174
United States	6,793,084	6,300,933
	\$ 7,850,933	\$ 7,605,107

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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>	Year Ended August 31, 2018			Year Ended August 31, 2017		
	Canada	USA	Combined	Canada	USA	Combined
Revenues	\$ 7,089,960	\$ 760,973	\$ 7,850,933	\$ 7,605,107	\$ -	\$ 7,605,107
Cost of Sales	3,316,163	345,700	3,661,863	3,753,445	-	3,753,445
Gross Profit	3,773,797	415,273	4,189,070	3,851,662	-	3,851,662
Operating Expenses						
General & administrative (note 17a)	1,923,312	212,411	2,135,723	1,534,272	-	1,534,272
Selling and marketing (note 17b)	2,324,054	10,287	2,334,341	1,627,833	-	1,627,833
Research and development (note 17c)	1,114,202	-	1,114,202	787,371	-	787,371
	5,361,568	222,698	5,584,266	3,949,476	-	3,949,476
Operating Income (Loss)	\$(1,587,771)	\$ 192,575	\$(1,395,196)	\$ (97,814)	\$ -	\$ (97,814)
Other Income (Expense)						
Interest	31,693	-	31,693	12,981	-	12,981
Foreign Exchange gain (loss)	123,906	8,550	132,456	(162,216)	-	(162,216)
Finance Costs	(31,358)	(71)	(31,429)	(84,860)	-	(84,860)
Write-down of inventory	(29,343)	-	(29,343)	-	-	-
Gain on disposal of property, plant and equipment	-	-	-	150	-	150
Impairment of property, plant and equipment	(1,037)	-	(1,037)	-	-	-
Net Income (Loss) before Income Taxes	\$(1,493,910)	\$201,054	\$(1,292,856)	\$(331,759)	-	\$(331,759)
Income Tax Expense (note 18)	-	30,421	30,421	-	-	-
Net Income (Loss) and Comprehensive Income (Loss) for the Year	\$(1,493,910)	\$170,633	\$(1,323,277)	\$(331,759)	-	\$(331,759)
Current Assets	6,712,115	590,353	7,302,468	8,666,371	-	8,666,371
Property, plant and equipment (note 11)	280,284	164,078	444,362	204,768	-	204,768
Goodwill (note 10)	-	147,442	147,442	-	-	-

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

	Year ended August 31, 2018	Year ended August 31, 2017
Salaries and short-term benefits	\$ 479,896	\$ 420,071
Share-based payment	255,338	27,110
	\$ 735,234	\$ 447,181

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 August 31, 2018 and August 31, 2017 are as follows:

	August 31, 2018	August 31, 2017
Chief Executive Officer	\$ 50,977	\$ Nil
Chief Financial Officer	30	Nil
Directors	Nil	Nil
	\$ 51,007	\$ Nil

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:

	August 31, 2018	August 31, 2017
Interest paid	\$ 7,184	\$ 38,988
Taxes paid	-	-
	\$ 7,184	\$ 38,988

The Company had the following non-cash investing and financing activities during the years ended August 31, 2018 and 2017:

	August 31, 2018	August 31, 2017
Shares issued as finder's fees for private placement (note 14)	\$ -	\$ 219,579
	\$ -	\$ 219,579

25. Commitments and Contingencies

As of August 31, 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 August 31, 2018 are as follows:

2019	\$ 155,877
2020	138,519
2021	135,008
2022	67,344
Thereafter	-
	\$ 496,748

- 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).

26. Subsequent Events

- a) On November 14, 2018, the Company granted 575,000 incentive stock options to directors and officers of the Company.
- b) On November 14, 2018, the Company entered into a commitment to compensate each independent director of the Company \$1,000 per month, each Chair of certain committees an additional \$500 per month and the Chair of the Audit Committee an additional \$1,000 per month effective September 1, 2018.