

GATEKEEPER

Second Quarter Report

GATEKEEPER SYSTEMS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the Three and Six Months Ended February 28, 2018

These financial statements have not been reviewed by the Company's auditor

**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, James Stafford, Inc., 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)

	February 28, 2018	August 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents (note 6)	\$ 5,778,741	\$ 6,312,093
Restricted cash (note 7)	111,382	109,499
Trade and other receivables (note 8)	657,921	1,145,255
Inventories (note 9)	801,537	1,013,799
Prepaid expenses and other current assets	129,533	85,725
	7,479,114	8,666,371
Non-Current Assets		
Property, plant and equipment (note 10)	242,150	204,768
Total Assets	\$ 7,721,264	\$ 8,871,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit (note 11)	\$ -	\$ 259,294
Trade and other payables and accrued liabilities (note 12)	373,925	564,854
Unearned revenue	1,374	1,843
Total Liabilities	375,299	825,991
Shareholders' Equity		
Common shares (note 13)	15,881,627	15,881,627
Other capital reserves (notes 14 and 15)	1,894,254	1,753,598
Deficit	(10,429,916)	(9,590,077)
	7,345,965	8,045,148
Total Liabilities and Shareholders' Equity	\$ 7,721,264	\$ 8,871,139

COMMITMENTS AND CONTINGENCIES (note 22)

**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 AND SIX MONTHS ENDED FEBRUARY 28, 2018 AND FEBRUARY 28, 2017

(expressed in Canadian dollars)

	Three months ended		Six months ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Revenues (note 20)	\$ 1,237,320	\$ 1,314,495	\$ 2,667,219	\$ 2,679,036
Cost of Sales	601,627	639,750	1,263,607	1,431,344
Gross Profit	635,693	674,745	1,403,612	1,247,692
Operating Expenses				
General and administrative (note 16)	371,229	373,520	875,405	730,057
Selling and marketing	471,683	364,024	949,520	728,700
Research and development	277,125	182,876	501,042	355,433
	1,120,036	920,420	2,325,967	1,814,190
Operating Loss	(484,344)	(245,675)	(919,655)	(566,498)
Other Income (Expenses)				
Interest	18,230	725	19,174	1,209
Foreign exchange	(7,897)	(26,758)	79,032	30,104
Finance costs	(25,113)	(36,435)	(18,390)	(50,158)
Net Loss and Comprehensive Loss for the period	\$ (499,124)	\$ (308,143)	\$ (839,839)	\$ (585,343)
Basic (note 17)				
Loss Per Share	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted Average Number of Shares Outstanding	85,597,144	64,199,105	85,597,144	63,784,019
Diluted (note 17)				
Loss Per Share	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted Average Number of Shares Outstanding	85,791,003	64,199,105	85,791,003	63,784,019

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 AND SIX MONTHS ENDED FEBRUARY 28, 2018 AND FEBRUARY 28, 2017

(expressed in Canadian dollars)

	Three months ended		Six months ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Cash Flows from (used in) Operating Activities				
Net Loss	\$ (499,124)	\$ (308,143)	\$ (839,839)	\$ (585,343)
Items not affecting cash from operations –				
Accrued interest	-	(111)	-	(223)
Depreciation and impairment (note 10)	16,994	11,929	32,006	22,468
Write-down of inventory (note 9)	711	-	2,105	68
Bad debt recovery (note 16)	-	-	737	(345)
Share-based payments (note 15)	-	33,045	140,656	79,850
Unrealized foreign exchange (gain) loss	11,209	26,831	(41,970)	(8,462)
	(470,210)	(236,449)	(706,305)	(491,987)
Changes in non-cash working capital balances related to operations –				
Decrease (Increase) in trade and other receivables	25,595	(175,377)	486,596	1,829,798
Decrease in inventories	54,537	64,401	210,157	194,895
Decrease (Increase) in prepaid expenses and other current assets	(53)	25,050	(43,808)	(1,752)
Increase (Decrease) in trade and other payables	28,497	(57,768)	(190,930)	(339,466)
Decrease in unearned revenue	(467)	-	(467)	-
	(362,101)	(380,143)	(244,757)	1,191,488
Cash Flows used in Investing Activities				
Purchase of property, plant and equipment (note 10)	(39,620)	(27,789)	(69,388)	(89,147)
Decrease (Increase) in restricted cash (note 7)	546	834	(1,883)	(923)
	(39,074)	(26,955)	(71,271)	(90,070)
Cash Flows from Financing Activities				
Repayment of line of credit (note 11)	-	(10,004)	(259,294)	(114,816)
Exercise of warrants	-	244,273	-	244,273
	-	234,269	(259,294)	129,457
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents held in USD	(11,209)	(26,831)	41,970	8,462
Increase (Decrease) in Cash and Cash Equivalents	(401,174)	(172,829)	(575,322)	1,230,875
Cash and Cash Equivalents – Beginning of Period	6,191,125	2,337,328	6,312,093	898,331
Cash and Cash Equivalents – End of Period	\$ 5,778,741	\$ 2,137,668	\$ 5,778,741	\$ 2,137,668

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 SIX MONTHS ENDED FEBRUARY 28, 2018 AND 2017

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

	Common Shares		Reserves (\$)	Deficit (\$)	Total (\$)
	Shares	Amount (\$)			
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 period	-	-	-	(839,839)	(839,839)
Share-based payments (note 15)	-	-	140,656	-	140,656
Balance – February 28, 2018	87,597,144	15,881,627	1,894,254	(10,429,916)	7,345,965
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 period	-	-	-	(585,343)	(585,343)
Exercise of Warrants (note 14)	977,090	244,273	-	-	244,273
Share-based payments (note 15)	-	-	79,850	-	79,850
Balance – February 28, 2017	64,350,585	11,930,542	1,166,231	(9,843,661)	3,253,112

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 total video security solutions for mobile and extreme environments.

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’s consolidated financial statements as at February 28, 2018 and 2017 and for the three and six 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 \$499,124 and \$839,839 for the three and six months ended February 28, 2018 (2017 – net loss of \$308,143 and \$585,343) and has a working capital of \$7,103,814 at February 28, 2018 (August 31, 2017 – \$7,840,380).

The Company had cash and cash equivalents of \$5,778,741 at February 28, 2018 (August 31, 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 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, 2017, 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 April 30, 2018.

The Company’s consolidated financial statements have been prepared on a going concern basis under the historical cost method, except for certain financial instruments which are measured at fair value (note 18), 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) 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: Deep Development Corp., GSI Systems Inc., and Road Safety Solutions Inc.

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

(b) 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.

(c) 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.

3. Summary of Significant Accounting Policies (continued)

(d) 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

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.

(e) 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.

(f) 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 risk-free 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.

3. Summary of Significant Accounting Policies (continued)

(g) 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.

(h) 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.

(i) 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.

3. Summary of Significant Accounting Policies (continued)

(j) 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.

(k) Warrants

When the Company issues units that are comprised of a combination of shares and warrants, the value is assigned to shares and warrants 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.

(l) 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.

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 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.

3. Summary of Significant Accounting Policies (continued)

(m) 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.

(n) 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.

(o) 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.

3. Summary of Significant Accounting Policies (continued)

(o) Financial Assets (continued)

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.

(p) 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.

3. Summary of Significant Accounting Policies (continued)

(q) 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.

(r) 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.

(s) 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.

3. Summary of Significant Accounting Policies (continued)

(s) Impairment of Non-Current Non-Financial Assets (continued)

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 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.

5. Accounting Standards and Amendments Issued but Not Yet Adopted

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 February 28, 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.
- (iii) IFRS 9 'Financial Instruments: Classification and Measurement' was issued in November 2009 and contained requirements for financial assets. These 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 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.
- (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.
- (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.

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.

6. Cash and Cash Equivalents

	February 28, 2018	August 31, 2017
Denominated in Canadian dollars	\$ 3,851,600	\$ 4,194,211
Denominated in US dollars	1,927,141	2,117,882
	\$ 5,778,741	\$ 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 \$5,778,741 (note 11, 23).

7. Restricted Cash

	February 28, 2018	August 31, 2017
Denominated in Canadian dollars	\$ 23,000	\$ 23,000
Denominated in US dollars	88,382	86,499
	\$ 111,382	\$ 109,499

As at February 28, 2018, total cash of \$111,382 (August 31, 2017 – \$109,499) 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

	February 28, 2018	August 31, 2017
Trade receivables	\$ 607,803	\$ 1,079,700
Goods and Services Tax/Harmonized Sales Tax receivable	7,226	-
Deposits and other receivable	42,892	65,555
	\$ 657,921	\$ 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 \$657,921 (notes 11, 23).

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9. Inventories

	February 28, 2018	August 31, 2017
Raw materials	\$ 82,839	\$ 79,247
Finished goods	718,698	934,552
	\$ 801,537	\$ 1,013,799

For the three and six months ended February 28, 2018, the cost of inventories recognized as an expense and included in cost of sales was \$501,891 and \$1,042,472 (February 28, 2017 – \$536,288 and \$1,233,614).

For the three six months ended February 28, 2018, a write-down of inventories of \$711 and \$2,105 (February 28, 2017 – \$Nil and \$68) was recorded, which was included in cost of sales in the 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 \$801,537 (notes 11, 23).

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10. Property, Plant and Equipment

The changes in the Company's property, plant and equipment for the six months ended February 28, 2018 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	-	45,650	11,220	-	11,643	-	875	69,388
February 28, 2018	\$ 1	\$ 186,994	\$ 37,627	\$ 1,830	\$ 153,019	\$ 55,088	\$ 108,234	\$ 542,793

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	-	15,574	1,229	183	11,812	-	3,208	32,006
February 28, 2018	\$ 1	\$ 58,448	\$ 22,441	\$ 610	\$ 61,567	\$ 55,088	\$ 102,488	\$ 300,643

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
February 28, 2018	\$ -	\$ 128,546	\$ 15,186	\$ 1,220	\$ 91,451	\$ -	\$ 5,746	\$ 242,150

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 \$242,150 (notes 11, 23).

11. Line of Credit

On May 5, 2016, the Company entered into a non-dilutive revolving secured line of credit of up to \$1,500,000 US (the "Line of Credit") and the terms of the Line of Credit were amended on October 5, 2017. Funds are to be available to the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory. The Line of Credit has an initial three-year term that expires April 30, 2019 and is renewed year-to-year thereafter unless terminated in writing by the Company with at least 60 days' notice. The lender can terminate this agreement at any time in writing with at least 90 days' notice.

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

- (a) On average borrowings during the preceding month not exceeding the availability formula based on eligible receivables, the interest rate is prime rate plus 3.25%;
- (b) On average borrowings during the preceding month exceeding the availability formula based on eligible receivables, the interest rate is prime rate plus 3.50%;
- (c) On any borrowings on any day exceeding the availability formula based on both eligible receivables and inventory, the interest rate is prime rate plus 6.50%; and
- (d) Prime rate must not be less than 3.50%.

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 tangible net worth of not less than negative \$1,500,000 and working capital of not less than negative \$1,500,000 at the end of each fiscal quarter (note 19).

The Line of Credit is also subject to amended annual facility fees of \$7,500 US (previously \$15,000 US) and amended monthly administration fees of \$250 US (previously \$1,000 US).

The Company has agreed to pay a related party an annual fee of \$18,750 US 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 21 and 22).

During the six months ended February 28, 2018, the Company incurred finance costs of \$18,390 and made a repayment of \$259,294 in connection with the Line of Credit.

As of February 28, 2018, the amount payable was \$Nil and the lender held a positive net collected cash balance of \$12,051, accruing interest at a rate equal to one percent per annum.

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 (note 23).

12. Trade and Other Payables and Accrued Liabilities

	February 28, 2018	August 31, 2017
Trade payables	\$ 51,145	\$ 135,919
Provincial Sales Tax payable and State Sales tax Payable	6,956	7,625
Accrued liabilities	255,824	361,310
Accrued warranty liabilities	60,000	60,000
	\$ 373,925	\$ 564,854

12. Trade and Other Payables and Accrued Liabilities (continued)

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 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. During the three and six months ended February 28, 2018, warranty as an expense and included in cost of sales were \$8,586 and \$18,475 (2016 – \$3,888 and \$10,394). Actual warranty claims during the six months ended February 28, 2018 were \$18,475 (2017 – \$10,394).

13. 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 February 28, 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). During the year ended August 31, 2017, Nil common shares were released from escrow, which have been included in the weighted average number of common shares outstanding (notes 17 and 21).

(b) Issued Share Capital

No Shares were issued during the six months ended February 28, 2018.

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.

14. 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 and February 28, 2018	\$0.30	10,640,000

14. Warrants (continued)

During the year ended August 31, 2017, the fair value of the warrants was estimated using the BlackScholes 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

15. 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 six months ended February 28, 2018 were as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2017	\$0.210	5,663,250
Stock options granted	\$0.120	2,050,000
Options cancelled	\$0.200	(250,000)
Options cancelled	\$0.160	(100,000)
Options cancelled	\$0.195	(150,000)
Balance – February 28, 2018	\$0.180	7,213,250

During the three and six months ended February 28, 2018, the Company granted Nil and 2,050,000 (February 28, 2017 – Nil and Nil) incentive stock options to employees, consultants and directors. The options may be exercised within 10 years from the date of grant at a price of \$0.12 per share. In addition, 500,000 stock option expired, or were cancelled, for a net increase of 1,550,000 stock options issued during the six months ended February 28, 2018.

The weighted average fair value of the options granted during the six months ended February 28, 2018 was estimated at \$0.11 per option as at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

	November 30, 2017	August 31, 2017
Risk free interest rate	2.13%	-
Expected life	10 years	-
Expected volatility	75.04%	-
Expected dividend per share	-	-

15. Share-Based Payments (continued)

Incentive share options outstanding and exercisable at February 28, 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	2,250,000	9.69	\$0.12	2,000,000	9.65	\$0.12
\$0.13	900,000	8.43	\$0.13	700,000	8.43	\$0.13
\$0.16	275,000	7.50	\$0.16	275,000	7.50	\$0.16
\$0.18	250,000	6.64	\$0.18	250,000	6.64	\$0.18
\$0.20	1,171,250	7.41	\$0.20	1,171,250	7.41	\$0.20
\$0.25	1,885,000	5.33	\$0.25	1,885,000	5.33	\$0.25
\$0.30	482,000	5.79	\$0.30	482,000	5.79	\$0.30
	7,213,250	7.57	\$0.18	6,763,250	7.46	\$0.19

During the three and six months ended February 28, 2018, the Company recorded total share-based payments of \$Nil and \$140,656 (February 28, 2017 – \$33,045 and \$79,850), which has been charged to general and administrative expense for the period.

16. General and Administrative Expenses by Nature

The Company recorded general and administrative expenses for the six months ended February 28, 2018 and 2017 as follows:

	Three Months Ended		Six Months Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
General and administrative expenses				
Accounting and legal	\$ 20,164	\$ 33,257	\$ 42,408	\$ 63,030
Bad debt (recovery)	-	-	738	(345)
Consulting fees	6,620	9,930	16,550	19,860
Depreciation and impairment (note 11)	16,994	11,929	32,006	22,468
Interest charges on loans	1,970	10,389	6,394	18,761
Investor relations	20,802	22,153	36,818	54,358
Office	101,244	81,666	212,758	151,680
Regulatory	3,433	9,417	3,433	9,417
Rent	32,069	27,095	64,138	54,192
Salaries and benefits	167,933	134,639	319,506	256,786
Share-based payments (note 15)	-	33,045	140,656	79,850
	\$ 371,229	\$ 373,520	\$ 875,405	\$ 730,057

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17. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the three and six months ended February 28, 2018 and 2017:

	Three months ended		Six months ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Numerator				
Net Loss for the period	\$ (499,124)	\$ (308,143)	\$ (839,839)	\$ (585,343)
Denominator				
For basic – weighted average number of shares outstanding	85,597,144	64,199,105	85,597,144	63,784,019
Effect of dilutive securities –				
Incentive share options	193,859	-	193,859	-
Share purchase warrants	-	-	-	-
For diluted – adjusted weighted average number of shares outstanding	85,791,003	64,199,105	85,791,003	63,784,019
Loss Per Share				
Basic	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)
Diluted	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)

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 (February 28, 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 stock options, each with an exercise price at and above \$0.13 per share. Therefore, the effect of conversion of 4,463,250 stock options, each with an exercise price at and above \$0.13 per share, and all of the share purchase warrants, are anti-dilutive.

18. Financial Instruments

Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at February 28, 2018 and August 31, 2017 is summarized as follows:

	February 28, 2018	August 31, 2017
Financial Assets		
Fair value through profit and loss, at fair value		
Cash and cash equivalents (note 6)	\$ 5,778,741	\$ 6,312,093
Restricted cash (note 7)	111,382	109,499
Loans and receivable, at amortized cost		
Trade receivables (note 8)	657,921	1,079,700
Total Financial Assets	\$ 6,448,044	\$ 7,501,292
Financial Liabilities		
Other liabilities, at amortized cost		
Line of credit (note 11)	\$ -	\$ 259,294
Trade payables (note 12)	51,145	135,919
Salaries and benefits payable	131,239	105,813
Total Financial Liabilities	\$ 182,384	\$ 501,026

18. 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 February 28, 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 February 28, 2018, the Company does not have any Level 3 financial instruments.

	February 28, 2018	August 31, 2017
Level 1		
Financial assets at fair value		
Cash and cash equivalents (note 6)	\$ 5,778,741	\$ 6,312,093
Restricted cash (note 7)	111,382	109,499
Total Financial Assets at Fair Value	\$ 5,890,123	\$ 6,421,592

There were no transfers between level 1 and 2 and 3 during the periods ended February 28, 2018 and August 31, 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 under taken to support the Company's ability to continue as a going concern. 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 19).

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 February 28, 2018, 6% 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 February 28, 2018 was \$657,921 (August 31, 2017 – \$1,145,255).

18. 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 19). The Company's financial liabilities are comprised of its trade payables and accrued liabilities, the contractual maturities of which at February 28, 2018 and August 31, 2017 are summarized as follows:

	February 28, 2018	August 31, 2017
Trade payables and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 51,145	\$ 129,619
In later than 90 days, not later than one year		6,300
	\$ 51,145	\$ 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 February 28, 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 February 28, 2018 and August 31, 2017:

18. Financial Instruments (continued)

Financial Instrument Risk Exposure (continued)

Currency Risk (continued)

	February 28, 2018	August 31, 2017
Cash and cash equivalents (note 6)	\$ 1,927,141	\$ 2,117,882
Restricted cash (note 7)	88,382	86,499
Trade receivables	575,124	891,767
Trade payables	13,960	97,483
	\$ 2,604,607	\$ 3,193,661

Based on the above net exposure at February 28, 2018, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$260,461 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 periods ended February 28, 2018 and August 31, 2017.

19. Management of Capital

The capital managed by the Company includes a Line of Credit (note 11) and the components of shareholders' equity as described in the consolidated statements of shareholders' equity. The Company is subject to financial covenants related to the Line of Credit. The covenants require a tangible net worth of not less than negative \$1,500,000 and working capital of not less than negative \$1,500,000 at the end of each fiscal quarter (note 11). During the six months ended February 28, 2018, the Company is in compliance with the 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 February 28, 2018 remains fundamentally unchanged from the year ended August 31, 2017.

20. 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		Six months ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Revenue				
Canada	\$ 145,282	\$ 191,280	\$ 400,107	\$ 498,020
United States	1,092,038	1,123,215	2,267,112	2,181,016
	\$ 1,237,320	\$ 1,314,495	\$ 2,667,219	\$ 2,679,036

All non-current assets are held in Canada.

21. 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		Six months ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Salaries and short-term benefits	\$ 130,057	\$ 100,842	\$ 215,492	\$ 185,080
Share-based payment	Nil	2,462	140,656	19,262
	\$ 130,057	\$ 103,304	\$ 356,148	\$ 204,342

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 February 28, 2018 and August 31, 2017 are as follows:

	February 28, 2018	August 31, 2017
Chief Executive Officer	\$ Nil	\$ Nil
Directors	Nil	Nil
	\$ Nil	\$ Nil

Amounts due from and to related parties have been included in trade and other receivables and trade and other payables, respectively (note 12).

(c) Other Related Party Transactions

The Company has agreed to pay the Chief Executive Officer an annual fee of \$18,750 US 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 11).

22. Commitments and Contingencies

As of February 28, 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 February 28, 2018 are as follows:

2018	\$ 72,268
2019	138,519
2020	138,519
2021	135,008
Thereafter	134,689
	\$ 619,003

22. Commitments and Contingencies (continued)

- b) The Company has agreed to pay a related party an annual fee of \$18,750 US 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 11 and 21).
- c) 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, interest and penalties payable.

23. Subsequent Events

Gatekeeper Systems USA Inc.

On March 1, 2018, the Company incorporated a wholly owned subsidiary by subscribing for the purchase of one hundred shares of the common stock at US\$0.01 par value per share of Gatekeeper Systems USA Inc., a Delaware corporation. The purchase amount was \$1.00 per share, for a total of \$100. There are no other shareholders of the subsidiary corporation.

Lending Agreement

The Company has signed a term sheet to replace the existing line of credit (note 11). The term sheet is for a non-dilutive, revolving, secured line of credit of up to \$1,000,000. 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 will be secured by a General Security Agreement over the assets of the Company. It is anticipated that this lending agreement will be finalized and in place coincidental with the termination of the Company's current lending agreement on May 1, 2018.