



GATEKEEPER

GATEKEEPER SYSTEMS INC.

Management's Discussion and Analysis Second Quarter of Fiscal 2019

For the six months ended February 28, 2019



**GATEKEEPER SYSTEMS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2019**

General

This Management's Discussion and Analysis ("MD&A") has been prepared as of April 29, 2019 should be read in conjunction with the Company's February 28, 2019 unaudited condensed interim consolidated financial statements with accompanying notes ("F2019-Q1 Interim F/S") which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and the Company's audited consolidated financial statements with accompanying notes and related MD&A for the fiscal year ended August 31, 2018 ("F2018") which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The February 28, 2019 unaudited condensed interim financial statements follow the same accounting policies and methods of computation as compared with the most recent fiscal financial statements.

This MD&A contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding developments in the Company's operations in future periods, adequacy of financial resources, and future plans and objectives of the Company. Actual results could differ materially from those discussed in these forward-looking statements due to a number of factors. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on this forward-looking information.

These documents and additional information on the Company are available on the SEDAR website at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

This report includes forward-looking statements about our activities, events and developments that we expect to, or anticipate may occur in the future including, for example, statements about our business outlook, assessment of market conditions, strategies, future plans and future sales. Forward-looking statements normally contain words like believe, expect, anticipate, plan, intend, continue, estimate, may, will, should and similar expressions. Such statements are not guarantees of future performance. They are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances.

We have based these statements on estimates and assumptions that we believed were reasonable when the statements were prepared. Our actual results could be substantially different because of the risks and uncertainties associated with our business. Important risks that could cause such differences include, but are not limited to, the length of sales cycles, rapid technological advancement, competition, the availability of critical inputs, foreign exchange rate occurrences and doing business in foreign countries. Additionally, differences could arise because of events that are announced or completed after the date of this report, including mergers, acquisitions, other business combinations and divestitures. Such risks, uncertainties and other factors include, among other things, those risks identified in the Company's Qualifying Transaction filed on SEDAR at www.sedar.com.

Although we have attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements or information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Also, many of the factors are beyond the control of the Company. Accordingly, readers should not place undue reliance on forward-looking statements or information. The Company undertakes no obligation to reissue or update any forward-looking statements or information as a result of new information or events after the date hereof except as may be required by law. All forward-looking statements and information herein are qualified by this cautionary statement.

Description of Business

Gatekeeper Systems Inc. (the “Company” or “Gatekeeper” or “we” or “our”) 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. As a CPC, the Company’s only business had been to identify and evaluate businesses or assets with a view of completing a Qualifying Transaction.

On February 19, 2013, the Company completed the acquisition of all of the issued and outstanding shares of the private company, GSI Systems Inc. (“GSI”) through a reverse takeover arrangement (the “RTO”), constituting its Qualifying Transaction under the applicable policies of the TSX Venture Exchange (“TSX-V”). Upon completion of the RTO, the shareholders of GSI obtained control of the consolidated entity. Under the purchase method of accounting, GSI has been identified as the acquirer, and accordingly the entity is considered to be a continuation of GSI with the net assets of the Company at the date of the RTO deemed to have been acquired by GSI. As a result, these consolidated financial statements are a continuation of the financial statements of GSI and references to the “Company” or “Gatekeeper” will mean the combined entity subsequent to the date of the Qualifying Transaction and to GSI prior to that date. On May 28, 2013, Indigo changed its name to Gatekeeper Systems Inc. and its trading symbol on the TSX-V to “GSI”.

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 had no financial impact on its 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.; which has no current or historical business activity.

Gatekeeper provides innovative, end-to-end high-definition surveillance solutions for mobile applications including transit vehicles, school buses, first responder vehicles, transport vehicles, wearable devices, military and coast guard aircraft.

Under Part 1 of National Instrument 51-102F1, following a reverse takeover, the RTO acquiree (Gatekeeper) is the reporting issuer and the financial statements are those of the RTO acquirer (GSI). The consolidated financial statements must be prepared and filed as if the RTO acquirer (GSI) has always been the reporting issuer. As a result, this MD&A and the related audited consolidated financial statements are a continuation of the MD&A and financial statements of Gatekeeper with the comparative information being that of GSI.

The word “Company” in this MD&A will be in reference to the combined company for the period after the Arrangement and to Gatekeeper for the period prior to the Qualifying Transaction.

Selected Financial Information

The following sets out selected financial information from the Company's two most recently completed financial years and are derived from the Company's consolidated financial statements. Users of this information should read the following in conjunction with those statements thereto.

	For the three months ended		For the six months ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Revenue	\$ 2,698,819	\$ 1,237,320	\$ 4,538,297	\$ 2,667,219
Cost of Sales	1,556,690	601,627	2,484,882	1,263,607
Gross Profit	1,142,129	635,693	2,053,415	1,403,612
Gross Margin	42%	51%	45%	52%
Expenses	(1,565,750)	(1,120,036)	(3,230,010)	(2,325,967)
Operating Loss	(423,621)	(484,344)	(1,176,595)	(919,655)
Net Loss for the period	\$ (455,525)	\$ (499,124)	\$ (1,142,904)	\$ (839,839)
Loss per share –				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
	February 28, 2019	February 28, 2018		
Total Assets	\$ 6,949,394	\$ 7,894,272		
Total Liabilities	\$ 996,829	\$ 873,817		
Total Shareholders' Equity	\$ 5,952,565	\$ 7,020,455		

Overview

Gatekeeper engineers, manufactures and distributes industry leading high-definition mobile video surveillance and safety solutions for a range of markets including school districts, law enforcement, public transit authorities, as well as the US military and Coast Guard. Each Gatekeeper mobile video solution integrates high-definition digital video (HDDV) with the Global Positioning System (GPS) for real-time vehicle location, time, date and telematics data, and provides a comprehensive 360-degree view inside and outside vehicles. All data is recorded to a military standard digital recording system located inside the vehicle. High definition (HD) cameras work in day or night conditions and are vital for collecting evidence such as license plates of school bus stop arm violators. Gatekeeper wireless devices also provide real-time connectivity, streaming video, and vehicle tracking. Gatekeeper's video management software is used as a desktop application for managing basic incidents or its enterprise software can be used to stream live video from any vehicle, anywhere, anytime.

Gatekeeper's Canadian head office is the primary production facility and is located in Abbotsford, British Columbia. Product research and development, design, and engineering take place at the Abbotsford head office. The Company also operates a wholly owned subsidiary in Wilmington, Delaware that is its service center for its transit customer South East Pennsylvania Transit Authority. The Delaware facility employs a team of service technicians and operates a mobile fleet of service vehicles, to provide on-site installation, service and support. Products are sold to end-user customers through Gatekeeper's direct sales staff, and also through a network of distributors and system integrators who have relationships with customers in multiple mobile markets. Gatekeeper is primarily focused on the North American market but is also pursuing global distribution relationships outside of North America.

On April 28, 2017, the Company closed a non-brokered private placement offering that raised total gross proceeds of \$4,256,000. The proceeds provided working capital intended to accelerate revenue growth and to achieve business profitability.

In March 2018, the Company expanded its business reach by creating a wholly owned US-based subsidiary, Gatekeeper Systems USA Inc. ("Gatekeeper USA"), in the state of Delaware. In April 2018, Gatekeeper USA executed an Agreement for Purchase and Sale of Business Assets to acquire substantially all of the business assets of an existing mobile video surveillance service provider to the transit industry. The asset purchase was the execution of a strategy to accelerate the Company's expansion into mobile video maintenance and support services within the transit industry. The assets purchased included assignment of existing contracts to provide mobile video surveillance products, support, and maintenance to the Southeastern Pennsylvania Transportation Authority ("SEPTA"). In addition to supporting SEPTA, Gatekeeper USA is expanding its service solutions to include mobile video system manufacturing in an effort to provide regional service for customers, comply with "Buy America" requirements and mitigate the impacts of recently introduced US trade tariffs.

This "Pivot" strategy gave the Company the opportunity to showcase its video technology to SEPTA as part of a competitive process. The result was the Company was chosen as the video vendor for new bus orders from New Flyer. This was a paradigm shift for the Company giving it access to a major transit authority and allowing the Company an opportunity to further showcase its ability to provide outstanding support services. The Company was awarded further contracts and is now leveraging this account and its service strategy to attract larger customers in other verticals.

During the second quarter the Company launched a number of new products and feature enhancements to existing products. The Company also completed phase one of its Artificial Intelligence (AI) platform as part of its G4 Vision Web Based software application for transit and other mobile markets. It's expected to be available Q3 fiscal 2019. The Company believes that AI for mobile markets is an important component to support overall data management. Data and AI-driven applications and services are key pillars to executing on a vision of managing data from the Company's bus video systems which the Company sees as mobile data collectors. Connected vehicles sending data in real-time information vetted by AI on the edge has the potential to change the way data is managed.

An example of the importance of managing video from platforms, trains and buses is the recent report by SEPTA that indicates past liability claims costing over \$40 million each year. With the implementation of an effective evidence management system, SEPTA has realized annual savings of over \$20M per year. The Company believes its AI platform for mobile applications may enhance its video systems and could be applicable on a global scale.

Interest as far away as United Arab Emirates for the Company's stop arm camera solution occurred in Q1 with the Company receiving its first order from that region. In Q2 Gatekeeper was streaming live video of stop arm violations from a school bus in DUBAI using its enterprise software and Traffic Incident Management system (TIMS) to log the incidents. The test results showed on average of 8 to 12 stop arm violations each day from a single bus indicating that stop arm violations are not just a North American problem and children's safety is a global concern.

In 2017 Road Transportation Authority (RTA) in Dubai, opened EC3 which is arguably the biggest and most sophisticated control room of its kind. Roads and Transport Authority's Enterprise Command and Control Centre is a unified platform that controls different modes of transport with the goal to connect smart city applications to one center. Smart school buses could be part of that system and Gatekeeper has provided its technology as part of a proof of concept for RTA. The Company is continuing with its business development activity in the region through a local dealer.

As of February 28, 2019, the Company's contracted sales backlog and sales funnel have grown to exceed prior years. Increased activity in the transit market has supported the growth with school bus continuing to contribute at historical levels. Service-based recurring revenue now forms a key component of the Company's business model. The order size and growth potential with this evolved customer mix is better aligned with the Company's mandate to achieve accelerated revenue growth and to achieve near-term profitability.

Future Development and Deployment:

Gatekeeper remains committed to engineering and manufacturing industry leading HDDV systems that incorporate the latest software, features and functionality. Management believes that accelerating future growth is dependent upon being able to provide comprehensive, integrated management solutions for the data and information our equipment and other devices collect, combined with intelligent applications able to analyze and interpret video as it is being recorded.

Additionally, offering the capability to provide professional, hosted data management services to monitor, review and package video evidence, on behalf of customers, is another potential area of growth that could represent significant

scalable recurring revenue. Product development efforts have been focused on emerging technologies that incorporate intelligent self-diagnostics, video analytics, artificial intelligence (“AI”), deep learning, and overall data management.

Research and development efforts are being directed towards development of capabilities for integrating Gatekeeper products with third-party software and hardware in order to deliver more robust, faster to market, and cost-effective solutions. Our core strategy is to evolve our software applications to manage discrete data input, from multiple devices, and to transition parts of our business to a software as a service revenue model. This model will position the Company's software as being the gateway or portal to multiple devices and applications all managed through a single Gatekeeper software application.

Expanding into other niche markets: Gatekeeper's HDDV platform has expanded to include transit, transport and first responder markets. Forward facing cameras provide the high-definition imagery evidence necessary to determine what happened in an incident. This information can be used to protect drivers, or settle legal disputes, using indisputable evidence. Video, integrated with GPS, time and date, and other vehicle sensors has become a common source of evidence, as well as representing valuable operational performance information.

With these technologies, our clients possess the tools to detect, analyze, and respond to safety and security threats, and to reduce losses arising through false liability claims. The Company's products can be sold independently or as a complete end-to-end solution that includes the following components and/or features:

- High definition day/night cameras designed for extreme rugged environments;
- SP25 10 Mega Pixel license plate reading sensor system for school buses;
- Extensive range of mobile digital recording devices ranging from 4 to 24 cameras;
- Live or recorded GPS tracking;
- Voice recording on each camera;
- Wireless Downloading – WiFi and Live Streaming;
- G4 Viewer Plus Incident Management Software synchronizes GPS, video, vehicle sensors, voice and other metadata allowing end users to quickly share incidents with management or law enforcement;
- Hosted video management services with TIMS (Traffic Infraction Management System) cloud base software application for managing citations from school bus stop arm violations and photo enforcement systems; and
- Artificial Intelligence (AI) for mobile applications (planned to launch in Q3 as part of hosted solution and recurring revenue model).

The Company's products are applicable to school bus, transit, law enforcement, maritime, homeland security and defense markets. Under the brand Viperfish, digital recorders are built to meet various military specifications and are used to record video and metadata from forward looking infrared cameras, radar and high definition cameras. Post-mission analysis software is used to analyze tactical operations recorded to the Viperfish recorders. The Company's Viperfish high-definition airborne digital video recorders are being used by the United States Air Force (“USAF”) to record long range sensors used on the AC-130 Gunships, Sea King helicopters in Canada, and French Navy marine vessels.

Overall Performance

Company revenue for the three and six months ended February 28, 2019 were \$2,698,819 and \$4,538,297, respectively as compared to \$1,237,320 and \$2,667,219 for the same prior year comparable periods representing an increase of 118% and 70%, respectively.

Net loss for the three and six months ended February 28, 2019 were \$455,525 and \$1,142,904, respectively compared to a net loss of \$499,124 and \$839,839 for the same prior year comparable periods representing a 10% reduction of net loss and a 35% increase in net loss, respectively.

Cost of sales for the three and six months ended February 28, 2019 were \$1,556,690 and \$2,484,882, respectively, compared to \$601,627 and \$1,263,607 for the same prior year comparable periods representing a 159% increase and 97% increase in direct costs. Tariffs imposed by the US government, effective September 2018, on products manufactured in China was the primary factor increasing product cost and reducing the gross profit margin.

Overall operating expenses for the three and six months ended February 28, 2019 were \$1,565,750 and \$3,230,010, respectively, compared to \$1,120,036 and \$2,325,967 for the same prior year comparable periods representing a 39% and 39% overall increase in operating expenses. All areas of operating expenses experienced year-over-year increases, partially due to creating a sales and service company in the US, during Q3 of fiscal 2018, and from adding to the Company's engineering, sales, production, and administrative teams to increase operational capacity.

The Company has necessarily increased spending in a number of areas to accelerate product development, penetration into the transit market, and to create a scalable infrastructure upon which to grow. The increased spending related to expansion of operations to the United States in the first two quarters is projected to reduce during the second half of fiscal year.

The decision to pivot and acquire the assets of a transit video service company Spector Logistics in Delaware proved successful. New infrastructure was added to support revenue contracts transferred by South East Pennsylvania Transit Authority (SEPTA) as part of the asset acquisition. The company sees Philadelphia and surrounding counties that that SEPTA services as a major beachhead and conduit to the North American transit market. Revenue for service, installation and video equipment is increasing and the company is optimistic about expansion opportunities in the transit market. SEPTA is the sixth largest public transportation system in the U.S. with an average weekday ridership of approximately 1.1 million. SEPTA operates multi-modal transportation services, including two subway/subway elevated lines, 118 bus routes, eight trolley routes, three trackless trolley routes, one inter-urban High Speed Line, 13 Regional Rail (commuter rail) lines and ADA Paratransit service. SEPTA has rapidly embraced video evidence as protection against fraudulent claims and has installed over 27,000 video cameras on vehicles and in stations, providing fraudulent-claim cost savings estimated to be US\$22.2 million per year (*SEPTA Fiscal Year 2020-2024 Financial Projections*).

Specific Company products have met the EN 50155 international standard for electronic equipment used in railway applications, enabling Gatekeeper to supply and install crash hardened memory modules for Sub-EL cards, trolleys and Silverliner regional rail. Additional product certifications, strategic partnering, and bundling is being explored to capture additional opportunities within the commuter rail market.

The Company is expanding its Gatekeeper USA operations to include manufacturing all video products delivered to customers in the United States for transit, education and first responder markets. Gatekeeper USA has also recently increased its service fleet vehicles by 50% to support growing business at SEPTA. The US operation is a model that can be expanded upon to differentiate the Company and gain greater market share.

Selected Quarterly Information

Key comparative financial information for the last eight quarters is summarized as follows:

	F2017-Q3	F2017-Q4	F2018-Q1	F2018-Q2	F2018-Q3	F2018-Q4	F2019-Q1	F2019-Q2
	31-May	31-Aug	30-Nov	28-Feb	31-May	31-Aug	30-Nov	28-Feb
	2017	2017	2017	2018	2018	2018	2018	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	2,274,528	2,651,543	1,429,899	1,237,320	2,527,308	2,656,406	1,839,478	2,698,819
Gross Profit	1,183,068	1,420,902	772,014	635,693	1,360,930	1,421,827	911,286	1,142,129
Gross Profit	52%	54%	54%	51%	54%	54%	50%	42%
Expenses	1,050,846	1,084,440	1,205,931	1,120,036	1,487,139	1,739,283	1,664,260	1,565,750
Net Income (Loss)	139,508	114,076	(340,715)	(499,124)	(126,209)	(357,229)	(646,379)	(423,621)
EPS (Basic)	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
EPS (Diluted)	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
Assets	8,655,985	8,871,139	8,185,892	7,721,264	8,047,103	7,894,272	7,235,850	6,949,394
Liabilities	735,150	825,991	340,803	375,299	719,114	873,817	839,594	996,829
Shareholders' Equity	7,920,835	8,045,148	7,845,089	7,345,965	7,327,989	7,020,455	6,396,256	5,952,565

Discussion of Second Quarter Operations

Revenue

Company revenue for the three and six months ended February 28, 2019 were \$2,698,819 and \$4,538,297, respectively as compared to \$1,237,320 and \$2,667,219 for the same prior year comparable periods representing an increase of 118% and 70%, respectively. The Company's US subsidiary, Gatekeeper Systems USA Inc., commenced operations in April 2018 and added to the incremental revenue to during the six months ended February 28, 2019.

The direct sales and sales support team has been expanded, as compared to the comparable period in fiscal 2018, to provide greater coverage of North American markets. The Company also initiated a rebranding effort to upgrade and replace its existing sales and marketing collateral during Q1 of the current year, with those costs contributing to the increased spending.

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Gross Margins

Gross margin for the three and six months ended February 28, 2019 were 42% and 45%, respectively as compared to 51% and 53% for the same prior year comparable periods. The cost of sales comprises primarily materials and components, manufacturing labour, inventory write-off, warranty expenses, freight and shipping, and other selling costs. During the current quarter, Gatekeeper Systems USA Inc. provided installation, maintenance, and repair services. Gross profit in the Company's core product sales business was negatively impacted by the implementation of US tariffs on products manufactured in China and imported into the USA. New operational strategies are being implemented to mitigate the impacts of the new tariffs.

Operating Expenses

General and administrative expenses for the three and six months ended February 28, 2019 were \$660,168 and \$1,314,443, respectively, compared to \$371,229 and \$875,405 for the same prior year comparable periods representing a 78% and 50% overall increase. Accounting and legal fees relating to the US expansion, along with increases in depreciation, investor relations, and salaries cost all contributed to the increase. Fluctuations in the percentage G&A expenses to revenue is largely due to variability in revenue over the comparative periods.

Selling and marketing expenses for the three and six months ended February 28, 2019 were \$583,562 and \$1,247,903, respectively, compared to \$471,683 and \$949,520 for the same prior year comparable periods representing a 24% and 31% overall increase. Selling and marketing ("S&M") expenses are comprised of sales salaries, commissions, and direct selling expenses. The direct sales and sales support team has been expanded, as compared to the comparable period in fiscal 2018, to provide greater coverage of North American markets. The Company also initiated a rebranding effort to upgrade and replace its existing sales and marketing collateral during Q1 of the current year, with those costs contributing to the increased spending.

Research and development expenses for the three and six months ended February 28, 2019 were \$317,020 and \$662,664, respectively, compared to \$277,125 and \$501,042 for the same prior year comparable periods representing a 14% and 32% overall increase. The increased spending reflects additions to headcount required to accelerate product development of feature enhancements for differentiation of the Company's products. The development efforts are intended to access new market opportunities and enable integration of Gatekeeper's G4Vision software with complementary third-party hardware and software applications.

Outlook

According to the market research report **"Mobile Video Surveillance Market by Offering (Hardware (Cameras, Storage Solutions), Software (Video Analytics, VMS), Service), Application (Trains & Trams, Buses, Transport Vehicles, Police Cars, Drones), Vertical, and Geography - Global Forecast to 2023"**, the mobile video surveillance market was valued at USD\$1.40 billion in 2017 and is expected to reach USD\$2.32 billion by 2023, at a Compounded Annual Growth Rate (CAGR) of 8.77% between 2017 and 2023.

The increasing demand for remote video surveillance technologies, and systems that offer real-time monitoring and security for first responders, transit vehicles, school buses, and for fleet operators in general is driving the market. The market for the transportation vertical is expected to grow at the highest rate between 2017 and 2023. The demand for security systems in public transport, mass transit systems, ports, and so on is increasing to reduce theft and other criminal activities.

Rising demand for intelligent and scalable mobile video surveillance and cloud-based surveillance and safety solutions, along with growing adoption of IP cameras, are additional factors driving the mobile video surveillance market growth. The demand for scalable, intelligent mobile video surveillance and safety solutions with the ability to connect to multiple applications may be a significant trend that could represent a key differentiator for the Company.

A rapidly growing number of commercial businesses and government organizations are deploying mobile video surveillance systems integrated with GPS to increase fleet safety and security accentuating the growth of the market. World over, the mounting security concern attributed to rising criminal and unsafe activities could be a factor increasing the demand for intelligent mobile video systems in first responder vehicles, transit vehicles, school buses, and commercial fleets.

Continued advances in video management software and analytics, and mobile networks are anticipated to create new applications. Rapid advances in networking infrastructure and technology are expected to provide a robust impetus to the demand for mobile video surveillance systems.

Gatekeeper's Growth Strategy

The Company's goal is to be a market leader in the mobile video segment, by providing its customers with superior products, through world class innovation. A component of the growth strategy is understanding niche market requirements and designing specific features and functionality that address them, as well as supporting local sales and service programs.

Mobile video equipment continues to evolve with the addition of new and different sensors, higher resolution images, larger storage, faster processing and increased durability. The natural evolution is for hardware to become faster, more feature-rich, and less expensive. Differentiation in other areas is important and intelligence on the edge, combined with data analytics, could be a key component to adding unique value to video hardware bundles.

Developing smart devices and providing video management software that possess the ability to integrate with other discrete systems represents an opportunity to both gain an increased share of existing markets and enter new markets. Gatekeeper's development efforts are focused on providing a robust open architecture video management software platform that can integrate and interface with other manufacturer's devices, to form a comprehensive control system that brings all components together in a single application.

Providing customers with access to live data and intelligent analytics could rapidly advance the adoption of smart city strategies, and drive increased sales. Automated video analytics and self-diagnostics can help reduce occurrences of lost video due to equipment failure, and greatly enhances the customers' ability to quickly identify actionable events, and initiate a response. Currently, customers rely on video analysts to review their video and cannot realistically monitor everything recorded in their system. The use of video analytics could shift the bulk of the review task to machines, which would identify pre-defined events and incidents. This frees video analysts to perform more valuable knowledge work by dealing with alerts, exceptions and flagged problems. Gatekeeper is developing advanced video analytics into its self-diagnostic Health Check system to automate flagging system sabotage, malfunctions and the performance quality of the overall video surveillance systems.

Gatekeeper is exploring opportunities to partner with customers who have expressed strong interest in adopting specific video analytics applications that can provide facial recognition, people counting, detection of pot holes, automated ticketing of parking violations, and driver behavior monitoring.

International

North America continues to be the dominant market for the Company but the need to protect children in and around school buses, as well as increase safety on highways, is a global concern. Gatekeeper's "Student Protector" program and cloud-based software application, trade named TIMS (Traffic Infraction Management System), have garnered world attention from governments outside of North America. Selective expansion beyond the boundaries of North America are being explored through strategic partnerships.

Marketing and Brand Awareness

The Company's recently updated strategic plan placed a high priority on refreshing the Gatekeeper brand and increasing marketing efforts. A new corporate website was launched in February 2019 along with redesigned sales collateral that reflects Gatekeeper's brand, core competencies, its capabilities, and more effectively communicates to customers and investors about our vision, who we are, and what we do.

Standards are being established for all customer-facing and investor-facing communications to ensure that materials are professional, appropriately targeted, and consistent. Newly branded templates for PowerPoint presentations, product sheets, business cards and letterhead have been developed and deployed. Gatekeeper's new public face will convey energy, excitement, quality, professionalism and opportunity. Above all else, it will present a reinvigorated Gatekeeper that is focused on exceeding the expectations of customers and investors.

Liquidity and Capital Resources

At February 28, 2019, the Company had cash and cash equivalents of \$2,236,279 and working capital of \$5,179,418 which compared to \$4,166,622 and \$6,428,651, respectively at August 31, 2018.

Cash used through operating activities was \$864,899 and \$1,571,989 for the three and six months ended February 28, 2019, respectively, compared to cash used \$362,101 and \$244,757 in the same prior year comparable periods. The cash consumption is attributable to an increased comparative loss and changes in working capital relating to an increase in inventory and prepaid production costs, combined with a decrease in payables.

Cash used for investing activities was \$242,978 and \$372,613 during the three and six months ended February 28, 2019, respectively compared to cash used of \$39,074 and \$71,271 for the same prior year comparable periods. The use of funds was primarily related to purchase of property, plant and equipment and an increase in restricted cash. Restricted cash increased in connection with additional security being required to support the company's USD credit card limits.

There were no changes in cash flows arising from financing activities during the three and six months ended February 28, 2019. This compares with \$259,294 of cash used in financing activities during the six months ended February 28, 2018 to retire the balance owing on the Company's operating line of credit at that time.

Effective June 12, 2018, the Company entered into a non-dilutive, revolving, secured line of credit of up to \$1,000,000 (the "Line of Credit") with its bank. 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 of February 28, 2019, the amount payable was \$Nil and compared to a \$Nil balance owing at August 31, 2018.

The Company has agreed to pay a related party an annual fee of \$18,750 USD 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.

The Company had cash and cash equivalents of \$2,236,279 at February 28, 2019 (August 31, 2018 – \$4,166,622), but management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. Management intends to continue to support the operations with financing initiatives primarily through, but not limited to, the issuance of equity. Alternative financing options may include obtaining bank credit facilities and short-term loans from third parties. If the Company is unable to raise additional capital in the future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures.

Contractual Obligations

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. Most of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

The following table summarizes the current contractual obligations of the Company and associated payment requirements as of February 28, 2019:

Contractual Obligations	2019	2020	2021	2022	Thereafter	Total
Operating leases	\$ 110,953	\$ 138,519	\$ 135,008	\$ 67,344	\$ -	\$ 451,824
Trade and other payables	230,976	-	-	-	-	230,976
Accrued liabilities	607,242	-	-	-	-	607,242
	\$ 949,171	\$ 138,519	\$ 135,008	\$ 67,344	\$ -	\$ 1,290,042

- 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, 2019 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 \$18,750 USD 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.
- 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, related non-income tax amounts, interest and penalties payable.

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.

Capital Structure

As at February 28, 2019, the Company had 87,597,144 common shares issued and outstanding, nil Class A preferred shares outstanding.

	Common Shares	Class A Preferred Shares
Balance – August 31, 2016	63,373,495	-
Private placement	21,280,000	-
Finder's fee	828,600	-
Shares issued for exercise of warrants	2,115,049	-
Balance – August 31, 2017/2018 and February 28, 2019	87,597,144	-

During the six months ended February 28, 2019, the Company did not issue any new common shares.

On April 28, 2017, the Company closed its non-brokered private placement announced on April 3, 6, and 10, through the issuance of 21,280,000 units for gross proceeds of \$4.256 million. Each unit consisted 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 month from the date of issue. Proceeds of the Offering are being used for expansion of sales, new product development, expansion of USA operations, marketing and operations staff, and general working capital.

On February 10, 2016, the Company issued 200,000 common shares related to the exercise of 200,000 stock options at an exercise price of \$0.15 per share.

On February 23, 2016, the Company issued 200,000 common shares related to the exercise of 200,000 stock options at an exercise price of \$0.15 per share.

During the year ended August 31, 2015, the Company issued common shares as follows:

- (i) On August 13, 2015, the Company has issued 250,000 common shares to Davis Research Corp. at a deemed price of \$0.15 per unit, based on the achievement of a certain milestone as specified within the agreement. [NTD Kelsey – when can these transactions be removed?]
- (ii) On July 16 and 28, 2015, the Company closed non-brokered private placement offerings, by issuing 13,139,501 units, at a price of \$0.15 per unit, for total gross proceeds of \$1,970,925. Share issuance costs include cash commission of \$132,137 and issuance of 880,913 agents' warrants. Each unit consists of one common share and one-half share purchase warrant. Each full warrant and agents' warrants is exercisable at \$0.25 for a period of 24 months from the date of closing.
- (iii) On March 5, 2015, the Company closed its third and final tranche of its non-brokered private placement offerings, by issuing 953,334 units, at a price of \$0.15 per unit, for total gross proceeds of \$143,000. Share issuance costs include issuance of 57,200 agents' warrants. Each unit consists of one common share and one-half share purchase warrant. Each full warrant and agents' warrants is exercisable at \$0.25 for a period of 24 months from the date of closing.
- (iv) On February 5 and 26, 2015, the Company closed its first and second of its non-brokered private placement offerings, by issuing 1,250,000 and 500,000 units, respectively, totaling 1,750,000 units, at a price of \$0.15 per unit, for total gross proceeds of \$262,500. Share issuance costs include agents' commission of \$23,850, legal and regulatory cost of \$8,187, and issuance of 97,800 agents' warrants. Each unit consists of one common share and one half share purchase warrant. Each full warrant and agents' warrants is exercisable at \$0.25 for a period of 24 months from the date of closing.
- (v) On September 2, 2014, pursuant to the Qualifying Transaction completed on February 19, 2013, 1,801,802 Class A preferred shares were converted into common shares of the Company.

Stock Options

On February 19, 2013, pursuant to the Qualifying Transaction all issued and outstanding stock options of Gatekeeper were cancelled and stock options of Indigo were reissued. Under the current stock option plan a maximum of 10% of the total issued and outstanding common shares of the Company are reserved for issuance.

The changes in stock options during the six months ended February 28, 2019 were as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2018	\$0.18	7,618,250
Stock Options Granted	\$0.11	675,000
Options Cancelled	\$0.30	(50,000)
Balance – February 28, 2019	\$0.17	8,243,250

During the six months ended February 28, 2019, the Company granted 675,000 (2018 – 2,050,000) incentive stock options to employees, consultants and directors. 100,000 of the options may be exercised within 5 years from the date of grant at a price of \$0.11 per share. 575,000 of those options, they may be exercised within 10 years from the date of grant at a price of \$0.105 per share.

The weighted average fair value of the options granted during the period ended February 28, 2019 was estimated at \$0.08 per option as at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

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

Incentive share options outstanding and exercisable at February 28, 2019 are summarized as follows:

Options Outstanding				Options Exercisable		
Exercise Price	Number of shares issuable on exercise	Weighted average remaining life (Years)	Weighted average exercise price	Number of shares issuable on exercise	Weighted average remaining life (Years)	Weighted average exercise price
\$0.11	675,000	8.97	\$0.11	575,000	9.71	\$0.11
\$0.12	2,750,000	8.45	\$0.12	2,325,000	8.33	\$0.12
\$0.13	900,000	7.18	\$0.13	900,000	6.20	\$0.13
\$0.16	175,000	6.20	\$0.16	175,000	6.20	\$0.16
\$0.18	250,000	5.39	\$0.18	250,000	5.39	\$0.18
\$0.20	1,176,250	6.16	\$0.20	1,007,188	5.95	\$0.20
\$0.25	1,885,000	4.08	\$0.25	1,885,000	4.08	\$0.25
\$0.30	432,000	4.54	\$0.30	432,000	4.54	\$0.30
	8,243,250	6.68	\$0.17	7,549,188	6.55	\$0.18

During the six months ended February 28, 2019, the Company recorded total share-based payments of \$75,014 (2018 – \$140,656), which has been charged to general and administrative expense for the period.

Share Purchase Warrants

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2017	\$0.30	10,640,000
Balance – August 31, 2018 and February 28, 2019	\$0.30	10,640,000

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

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

Use of Financial Instruments

The Company classifies all financial instruments as either financial assets or liabilities at fair value through profit or loss ("FVTPL"), loans and receivables or other financial liabilities. Loans and receivables and other financial instruments are measured at amortized cost.

The Company has designated its cash and cash equivalents and restricted cash as FVTPL, which is measured at fair value. Trade receivables and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade and other payables, salaries and benefits payable and line of credit are classified as other financial liabilities which are measured at amortized cost.

Financial Risk Management

The financial risks arising from the Company's operations are credit risk, liquidity risk, interest rate risk, and currency risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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 using a major financial institution of high credit quality as determined by rating agencies. Accounts receivable mainly consists of receivables from customers. 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, 2019, 13% of the Company's trade accounts receivable balance is over 90 days past due (August 31, 2018 – 7%). The carrying amount of trade and other receivables as at February 28, 2019 was \$1,844,268 (August 31, 2018 - \$1,678,876). The Company insures its non-government accounts receivable through Export Development Canada.

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. The Company's financial liabilities are comprised of its trade payables and accrued liabilities, the contractual maturities of which at February 28, 2019 and August 31, 2018 are summarized as follows:

	February 28, 2019	August 31, 2018
Trade payables and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 214,958	\$ 200,027
In later than 90 days, not later than one year	8,652	3,476
	\$ 223,610	\$ 203,503

Interest Rate Risk

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

The Company has no significant exposure at February 28, 2019 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 realized approximately 89% of its sales and makes a significant amount of its purchases in US dollars. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by holding its cash and cash equivalents in USD and Canadian dollars. 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 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, 2019 and August 31, 2018:

	February 28, 2019	August 31, 2018
Cash and cash equivalents (note 6)	\$ 827,166	\$ 2,227,447
Restricted cash (note 7)	-	90,078
Trade receivables	1,844,268	1,437,275
Trade payables	340,249	77,808
	\$ 3,011,683	\$ 3,832,608

Based on the above net exposure at February 28, 2019, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$301,168 decrease or increase respectively in both net and comprehensive loss (August 31, 2018 – \$383,261). The Company has not employed any currency hedging programs during the periods ended February 28, 2019 and August 31, 2018.

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Related Party Transactions

The Company's related parties include its subsidiaries, key management personnel and companies related by way of directors and 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

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

	Three months ended		Six months ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Salaries and short-term benefits	\$ 82,291	\$ 130,057	\$ 157,887	\$ 215,492
Share-based payment	Nil	Nil	49,524	140,656
	\$ 82,291	\$ 130,057	\$ 207,211	\$ 356,148

(b) Trade Related Party Transactions

The amounts due to related parties as at February 28, 2019 and August 31, 2018 are as follows:

	February 28, 2019	August 31, 2018
Chief Executive Officer	\$ -	\$ 50,977
Chief Financial Officer	-	30
Directors	-	-
	\$ -	\$ 51,007

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

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.

Critical Accounting 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.

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.

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, changes in product offerings, technology changes and competition.

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.

Accounting Standards and Amendments Issued but Not Yet Adopted

At the date of authorization of these condensed interim consolidated financial statements, the IASB and IFRIC has issued the following new and revised standards, amendments and interpretations which were not yet effective during the period ended February 28, 2019:

- (i) 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.
- (ii) 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.
- (iii) 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.

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.

Risk Factors

The following are major risk factors management has identified which relate to the Company's business activities. Such risk factors could materially affect the Company's future financial results and could cause events to differ materially from those described in forward-looking statements relating to the Company. Though the following are major risk factors identified by management, they do not comprise a definitive list of all risk factors related to the Company's business and operations. Other specific risk factors are discussed elsewhere in this MD&A.

Capitalization and Commercial Viability

The Company will require additional funds to continue operations. The Company has limited financial resources, and there is no assurance that additional funding will be available to the Company to carry out the completion of all proposed activities. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the curtailment of operations, liquidation of assets, seeking additional capital on less favourable terms and/or other remedial measures.

History of Operating Losses

The Company has an accumulated deficit since its incorporation through February 28, 2019 of \$12,056,258. The deficit may increase in the near term, as the Company continues its product development and establishes sales channels for its new products.

General Economic Conditions

The Company currently operates in Canada and the United States and, like all global businesses, it has been subject to the impact of the global credit and financial crisis on consumers in its areas of operations and the discretionary spending available to them. General economic conditions can result in reduced consumer and government spending and impact on the Company's financial results.

Key Employees

The success of the Company is largely dependent on the performance of its key employees and directors. The failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact upon the Company's growth and profitability. Competition for highly skilled management, technical and other employees is intense. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the departure of any of the members of the Company's executive team or key directors could have a material adverse effect on the Company's business, results of operations and financial condition.

Supply Chain

The Company relies on major components to be manufactured on an Original Equipment Manufacturer (OEM) basis. Reliance on OEMs, as well as industry supply conditions generally involves several risks, including the possibility of defective products (which can adversely affect the Company's reputation for reliability), a shortage of components and delays in delivery schedules (which can adversely affect the Company's distribution schedules), and increases in component costs (which can adversely affect the Company's profitability). The Company has single-sourced manufacturer relationships, either because alternative sources are not readily or economically available or because the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. If these sources are unable or unwilling to manufacture our products in a timely and reliable manner, the Company could experience temporary distribution interruptions, delays, or inefficiencies, adversely affecting our results of operations. Even where alternative OEMs are available, qualification of the alternative manufacturers and establishment of reliable suppliers could result in delays affecting operating results adversely.

New Products and Technology Change Risk

The Company operates in a competitive marketplace; there are no guarantees that the Company can maintain or expand its advantages. The Company invests significantly in the development of products and continually seeks to improve its current product offerings. The success of the Company continues to depend upon market acceptance of its new products, its existing products and its ability to refine and enhance current product lines. In some situations, new legislation is driving requirements for various subsets of the Company's products, particularly in the area of recording

license plates of vehicles illegally passing a school bus. Should legislation or public opinion change, relating to various issues surrounding right of privacy, there would be no guarantee that the Company would maintain sales of these products.

New Market Risk

The ability of the Company to successfully enter new markets is subject to uncertainties. We have been successful in the past, and we continue to develop important alliances in new markets to ensure future success. However, there are no guarantees that we can establish new distribution channels or continue to develop new strategic partnerships.

Competition

The Company's markets are competitive and rapidly changing. Many competitors have substantially greater financial, technical, sales, marketing and other resources, as well as greater name recognition and a larger installed customer base. As this market develops, a number of companies with greater resources could attempt to increase their presence in this market by acquiring or forming strategic alliances with our competitors or business partners.

Many competitors are also divisions or subsidiaries of larger enterprises, many of which also focus on the manufacture and sale of components or mass-market products. Many competitors also offer a broader line of security solutions that may include CCTV and video surveillance products. Even though our products may offer a competitive advantage, some competitors have the ability to provide an integrated security solution to an end-user at a price that may render our products uncompetitive.

The Company's success is significantly dependent upon management's ability to adapt to these competing forces, to develop more advanced products more rapidly and less expensively than our competitors, and to educate potential customers as to the benefits of using the Company's services. The Company's future and existing competitors could introduce products with superior features, scalability and functionality at lower prices than our products and could bundle existing or new products with other more established products in order to compete with the Company. The Company expects additional competition from other established and emerging companies. Increased competition may result in price reductions, reduced gross margin and loss of market share, any of which could materially and adversely affect the Company's business. The Company may not be able to compete successfully against current and future competitors, and failure to do so would harm the business.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that the Company's business and growth strategy will enable the Company to be profitable in the future. The Company's future operating results will depend on a number of factors, including (i) the efficiency and effectiveness of the Company's marketing and advertising programs, (ii) the Company's ability to continuously improve its service to achieve new and enhanced customer benefits, better quality service and reduced costs, (iii) the Company's ability to successfully identify and respond to emerging trends in the security industry, (iv) the level of competition in the security industry and (v) the ability to manage attrition level and subscriber replacement costs. There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

Intellectual Property Risks

The Company has taken steps to protect its proprietary technology. The Company relies on a combination of trademark, trade secrets, laws and other intellectual property protection methods to protect its proprietary technology. These steps may not completely protect the Company's proprietary technology, nor give it a competitive edge. Others may independently develop substantially equivalent technology or gain access to our trade secrets. If the Company is unable to protect its intellectual property, the business over time could be materially affected. The Company will pursue all avenues available to it, if necessary, to enforce its patents, and to protect its trademarks and other intellectual property rights owned by the Company.

Because much of the Company's potential success and value lies in its ownership and use of intellectual property, its failure to protect its intellectual property may negatively affect its business and value. The Company typically enters into confidentiality or license agreements with its employees, consultants, customers, strategic partners and vendors in an effort to control access to and distribution of its products, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's proprietary technology without authorization.

Technological Change, New Products and Standards

The technology industry is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render the Company's existing products and systems obsolete. The Company's products employ complex technology and may not always be compatible with current and evolving technical standards and products developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition.

Reliance on Information Systems and Technology

The Company's business relies upon information technology systems to effectively service its customers at the point of sale. Its information technology systems may be vulnerable to unauthorized access, computer viruses, system failures, other malicious acts or acts of nature. Should a significant disruption to its information technology occur, the Company's earnings could be adversely affected through loss of revenue and the costs to rectify the disruption. The Company is in an industry with many competitors that lay claim to intellectual property. The Company may receive notice from a third party asserting the Company has infringed on their intellectual property rights. As a result of such claims the Company's earnings could be adversely affected by costly litigation, product injunctions or consumption of management attention. The Company may also be required to expend significant capital and resources to protect against the threat of security, encryption and authentication technology breaches or to alleviate problems caused by such breaches.

Reliance on Third Party Licenses

The Company relies on certain software that it licenses from third parties, including a software program that is integrated with internally developed software and used in the Company's products to perform key functions. There can be no assurance that these third-party licenses will continue to be available to the Company on commercially reasonable terms. The loss of, or inability to maintain, any of these licenses, could result in delays or reductions in product and service deployment until equivalent software can be developed, identified, licensed and integrated, which could materially adversely affect the Company's business, results of operations and financial condition.

Effectiveness and Efficiency of Sales and Marketing Expenditures

The Company's future growth and profitability will be dependent in part on the effectiveness and efficiency of the Company's sales and marketing expenditures, including the ability of the Company to (i) create greater awareness of the Company's products and services, (ii) determine the appropriate messaging and media mix for future sales and marketing expenditures, and (iii) effectively manage sales and marketing costs in order to maintain acceptable operating margins. There can be no assurance that the Company will experience benefits from sales and marketing expenditures in the future. In addition, no assurance can be given that the Company's planned sales and marketing expenditures will result in increased sales, will generate sufficient levels of product and service awareness or that the Company will be able to manage such sales and marketing expenditures on a cost-effective basis.

Product Liability

The Company faces the inherent risk of exposure to product liability claims in the use of our products. While we will continue to attempt to take appropriate precautions, including the purchase of product liability insurance, there can be no assurance that we will avoid significant product liability exposure. There can be no assurance that adequate insurance coverage for future coverage for future commercial activities will be available at all, or at acceptable cost, or that a product liability claim would not materially adversely affect our business or financial condition.

Risk Associated with International Operations

Management of the Company believes that its future growth and profitability opportunities will require expansion of its sales further in the United States and into other foreign markets. This expansion will require significant management attention and financial resources and could adversely affect the Company's operating margins. In order to increase international sales in subsequent periods, the Company may establish additional foreign operations, incur substantial infrastructure costs, hire additional personnel and recruit international resellers. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products and services. The risk associated

with currency fluctuations comprise mainly of the Company's United States denominated sales, component purchases and other expenses. In the future, it is expected that a portion of revenues may be realized in other foreign currencies as a result of international sales. Fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the United States dollar, may have a material adverse effect on the Company's results of operations, financial condition and any business prospects. The Company may use hedges to mitigate the risk of foreign currency exposure.

Risk Associated with NAFTA, Tariffs and proposed Destination-Based Cash Flow Tax (DBCFT)

Management of the Company believes that renegotiation of the North American Free Trade Agreement, the pending ratification of the agreement between the United States of America, the United Mexican States, and Canada (USMCA), and implementation of United States Tariffs on imports or implementation of the proposed DBCFT by the United States could significantly impact the Company's ability to operate profitably. More specifically, the emergence of tariffs on products manufactured in Canada, the USA, and China have material impacts on the cost of Gatekeeper products being imported and exported. The USA's prohibition of some surveillance products manufactured by specific Chinese companies does not currently affect the Company but could if prohibitions are expanded in the future. To mitigate the impacts of any of these changes, the Company may implement plans to move part of its operations to the United States by way of acquisition or expansion. Such an expansion could increase operating expenses, cost of goods sold and affect overall profitability.

Goodwill

Goodwill is the excess of the cost of an acquired enterprise over the net amount assigned to individual assets acquired and liabilities assumed in a business combination. Goodwill is not amortized and is tested for impairment annually by comparing the fair value of the operating cash flows to the carrying value of the reporting unit.

Expansion

The success of the Company's continued expansion will depend upon many factors, including the ability of the Company to maintain acceptable attrition rates and control of operating costs and generate positive cash flow over an extended period. There can be no assurance that the Company will be able to grow or achieve its continued expansion. Such risks, if they materialize, could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

Available Workforce

Continued success will depend on the performance and continued service of the Company's employees. We rely on the ability to attract new engineers, research and development staff, production personnel and key sales and marketing employees. During the coming year, we will continue to develop our employees and search for key new hires, however there is no assurance that the Company will be able to retain existing personnel or attract, hire and retain additional qualified personnel.

Possible Adverse Effect of Future Government Regulations

The Company's operations are subject to a variety of laws, regulations and licensing requirements of federal, state, provincial, county, and municipal authorities. The loss of such licenses, or the imposition of conditions to the granting or retention of such licenses, could have a material adverse effect on the Company. The Company believes that it is in material compliance with applicable laws and regulatory requirements.

Government Contract Risk

The Company's business involves direct contracts with government entities. Contracts issued by governments may contain cancel for convenience clauses which could affect revenue.

Disclosure Controls and Procedures

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance that material information about the Company and its subsidiaries would have been known to them and regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

The CEO and CFO have evaluated and concluded that the Company's disclosure controls and procedures are adequate and effective for providing reasonable assurance that material information relating to the Company, including its consolidated subsidiary, would have been known to them as of the period ended February 28, 2019.

As well, as of the end of the period ended February 28, 2019, the CEO and CFO have evaluated and concluded that the Company's internal controls over financial reporting have been adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. However, control systems, no matter how well designed and operated, have inherent limitations, therefore, those systems, although determined to be adequately designed, can provide only reasonable assurance that the objectives of the system are met.

During the period ended February 28, 2019, there was no change in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

Subsequent Events

Subsequent to the period ended February 28, 2019, an aggregate of 10,640,000 warrants expired unexercised on April 28, 2019.