



GATEKEEPER

GATEKEEPER SYSTEMS INC. Consolidated Financial Statements

For the Years Ended August 31, 2019 and 2018



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gatekeeper Systems Inc.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gatekeeper Systems Inc. (the "Company" or "Group"), which comprise the consolidated statement of financial position as at August 31, 2019 and the consolidated statements of loss and comprehensive loss, consolidated statement of cash flows and consolidated statement of shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about Gatekeeper Systems Inc.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements of Gatekeeper Systems Inc. as at, and for the year ended August 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on December 20, 2018.

Information other than the Consolidated Financial Statements and the Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's discussion and analysis report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's discussion and analysis report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statement information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Geoff Dodds.



Vancouver, British Columbia
December 27, 2019

Buckley Dodds LLP
Chartered Professional Accountants

GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT

(expressed in Canadian dollars)

	August 31, 2019	August 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents (note 6)	\$ 2,118,812	\$ 4,166,622
Restricted cash (note 7)	299,415	313,078
Trade and other receivables (note 8)	4,175,086	1,678,876
Inventories (note 9)	1,682,175	898,068
Prepaid expenses and other current assets	104,903	245,824
	8,380,391	7,302,468
Non-Current Assets		
Property, plant and equipment (note 11)	716,069	444,362
Goodwill (note 10)	152,633	147,442
Total Assets	\$ 9,249,093	\$ 7,894,272
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit (note 12)	\$ 41,372	\$ -
Trade and other payables and accrued liabilities (note 13)	1,724,065	872,441
Short-term loan (note 12)	416,667	-
Finance lease obligation – current (note 14)	26,932	-
Unearned revenue	20,551	1,376
	2,229,587	873,817
Non-Current Liabilities		
Long-term lease finance lease obligation (note 14)	101,608	-
Total Liabilities	2,331,195	873,817
Shareholders' Equity		
Common shares (note 15)	15,881,627	15,881,627
Other capital reserves (notes 16 and 17)	2,235,452	2,052,182
Accumulated other comprehensive income	9,135	-
Deficit	(11,208,316)	(10,913,354)
	6,917,898	7,020,455
Total Liabilities and Shareholders' Equity	\$ 9,249,093	\$ 7,894,272

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS (note 1)
COMMITMENTS AND CONTINGENCIES (note 24)

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

“Robert Galbraith”
(signed)

Director

“Douglas Dymant”
(signed)

Director

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

GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

(expressed in Canadian dollars)

	August 31, 2019	August 31, 2018
Revenues	\$ 13,726,313	\$ 7,850,933
Cost of Sales	7,622,185	3,661,863
Gross Profit	6,104,128	4,189,070
Operating Expenses		
General and administrative (note 18a)	2,641,517	2,135,723
Selling and marketing (note 18b)	2,492,623	2,334,341
Research and development (note 18c)	1,348,856	1,114,202
	6,482,996	5,584,266
	(378,868)	(1,395,196)
Other Income (Expenses)		
Interest	42,370	31,693
Foreign exchange	67,340	132,456
Finance costs	(46,125)	(31,429)
Write-down of inventory	(10,575)	(29,343)
Impairment of property, plant and equipment	-	(1,037)
Net Loss before Income Taxes	(325,858)	(1,292,856)
Income tax recovery (expense) (note 19)	30,896	(30,421)
Net Loss	(294,962)	(1,323,277)
Other Comprehensive Income		
Foreign currency translation differences	9,135	-
Total Comprehensive Loss	\$ (285,827)	\$ (1,323,277)
Basic and Diluted		
Loss Per Share	\$ (0.00)	\$ (0.02)
Weighted Average Number of Shares Outstanding	87,597,144	87,597,144

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

GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

(expressed in Canadian dollars)

	August 31, 2019	August 31, 2018
Cash Flows from Operating Activities		
Net Profit (Loss)	\$ (294,962)	\$ (1,323,277)
Items not affecting cash from operations:		
Accrued interest	-	(8,395)
Interest on finance lease	4,833	-
Depreciation	205,077	125,697
Write-down of inventory	10,575	29,343
Impairment of property, plant and equipment	-	1,037
Bad debt	5,578	2,467
Share-based payments	183,270	298,584
Unrealized foreign exchange gain	(43,259)	(93,173)
Changes in non-cash working capital balances related to operations:		
Trade and other receivables	(2,869,507)	(527,693)
Inventories	(788,827)	86,388
Prepaid expenses and other current assets	142,235	(160,099)
Trade and other payables	1,305,430	139,146
Current income taxes payable	(30,896)	30,421
Unearned revenue	19,027	(467)
Net cash used in operating activities	(2,151,426)	(1,400,021)
Cash Flows used in Investing Activities		
Purchase of property, plant and equipment	(326,974)	(126,531)
Proceeds spent on business acquisition	-	(249,219)
Decrease (Increase) in restricted cash	13,663	(203,579)
Net cash used in investing activities	(313,311)	(579,329)
Cash Flows from Financing Activities		
Draws (repayment) on line of credit	41,372	(259,294)
Proceeds from short-term loan	416,667	-
Lease payments	(19,848)	-
Net cash provided by (used in) financing activities	438,191	(259,294)
Decrease in Cash and Cash Equivalents	(2,026,546)	(2,238,644)
Foreign Exchange Gain on Cash and Cash Equivalents held in USD	(21,264)	93,173
Cash and Cash Equivalents – Beginning of Year	4,166,622	6,312,093
Cash and Cash Equivalents – End of Year	\$ 2,118,812	\$ 4,166,622
Cash paid during the year for:		
Interest	\$ 28,101	\$ 7,184
Taxes	\$ -	\$ -

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

**GATEKEEPER SYSTEMS INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018**

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

	Common Shares		Reserves	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount				
Balance – August 31, 2017	87,597,144	\$ 15,881,627	\$ 1,753,598	\$ -	\$ (9,590,077)	\$ 8,045,148
Share-based payments (note 17)	-	-	298,584	-	-	298,584
Net loss and comprehensive loss	-	-	-	-	(1,323,277)	(1,323,277)
Balance – August 31, 2018	87,597,144	\$ 15,881,627	\$ 2,052,182	\$ -	\$ (10,913,354)	\$ 7,020,455
Share-based payments (note 17)	-	-	183,270	-	-	183,270
Foreign currency translation	-	-	-	9,135	-	9,135
Net loss and comprehensive loss	-	-	-	-	(294,962)	(294,962)
Balance – August 31, 2019	87,597,144	\$ 15,881,627	\$ 2,235,452	\$ 9,135	\$ (11,208,316)	\$ 6,917,898

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

1. Description of Business and Nature of Operations

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

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

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

The subsidiary company, Gatekeeper Systems USA Inc., was formed as a corporation pursuant to the General Corporation Law of the State of Delaware on March 1, 2018 with a principal address located at 221 Valley Road, Wilmington, Delaware 19804. The Subsidiary’s registered and records office in the State of Delaware is 9E Lookerman Street, Suite 311, Dover, Delaware 19901, County of Kent.

The Company’s consolidated financial statements as at August 31, 2019 and 2018 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 \$294,962 for the year ended August 31, 2019 (August 31, 2018 – net loss of \$1,323,277) and has a working capital of \$6,150,804 at August 31, 2019 (August 31, 2018 – \$6,428,651).

The Company had cash and cash equivalents of \$2,118,812 at August 31, 2019 (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. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms. This uncertainty may cast significant doubt about the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the carrying value or presentation of assets or liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. Basis of Preparation and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the Company’s reporting for the year ended August 31, 2019. These consolidated financial statements were approved by the Board of Directors on December 27, 2019.

The Company’s consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments which are measured at fair value 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 subsidiary. Intercompany balances, transactions, income and expenses are eliminated on consolidation.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

(a) Amalgamation

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

(b) Basis of Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiary. 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, and are deconsolidated from the date that control ceases.

The following subsidiary has been consolidated for all dates presented within these financial statements, and is wholly owned: Gatekeeper Systems USA Inc.

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

(c) Business Combinations

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

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

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

(d) Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash comprise of cash at banks and short-term money market instruments which are readily convertible into a known amount of cash.

3. Summary of Significant Accounting Policies (continued)

(e) Goodwill

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

(f) Inventories

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

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

(g) Property, Plant and Equipment

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

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

Asset	Method	Basis	Useful Life
Automotive	Straight-line	3.3 years	3.3 years
Computer equipment	Straight-line	5 years	5 years
Computer software	Straight-line	1 year	1 year
Furniture and fixtures	Straight-line	5 years	5 years
Office equipment	Straight-line	5 years	5 years
Technical equipment	Straight-line	5 years	5 years
Research and development equipment	Straight-line	5 years	5 years
Leasehold improvements	Straight-line	5 years	5 years
Leasehold improvements (US subsidiary)	Straight-line	Lease Term	10 months
Finance leased automobiles (US subsidiary)	Straight-line	Lease Term	48 months

3. Summary of Significant Accounting Policies (continued)

(g) Property, Plant and Equipment (continued)

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.

(h) Leases

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

(i) Provisions

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

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

(j) Revenue Recognition

The Company adopted all the requirements of IFRS 15 Revenue from Contracts and Customers ("IFRS 15") as of September 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow to recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

The following is the Company's new accounting policy for revenue from contracts with customers under IFRS 15:

The Company recognizes revenue when it has persuasive evidence of a contract with commercial substance, performance obligations have been identified and satisfied, payment items have been identified, and it is probable that the Company will collect the consideration it is entitled to. The Company's contracts often include products or services, which are generally capable of being distinct and accounted for as separate performance obligations.

Revenue Recognition on Product

The transaction prices of products are determined based upon selling prices established and periodically reviewed by the Company. The date the product is shipped is the date when the performance obligations in the contract are fulfilled and the revenue is recognized at that point in time.

3. Summary of Significant Accounting Policies (continued)

(j) Revenue Recognition (continued)

Revenue Recognition on Installation and Service

Installation and service revenue is recognized at the point in time when installation and services are completed and the performance obligations in the contract are fulfilled.

Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of unearned revenue.

(k) Research and Development Costs

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

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

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

(l) Related Party Transactions

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

(m) Share-Based Payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes Option-Pricing Model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

3. Summary of Significant Accounting Policies (continued)

(m) Share-Based Payments (continued)

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

(n) Warrants

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

(o) Current and Deferred Income Taxes

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

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

(p) Foreign Currencies

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent Company's functional currency. The functional currency of the Company's wholly-owned subsidiary Gatekeeper Systems USA Inc., is the United States dollar.

Transactions and balances

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 (loss) in the statement of comprehensive income (loss) 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.

The financial position and results of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at the report date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recorded in accumulated other comprehensive income in the statement of loss and comprehensive loss. These differences are recognized in profit or loss in the period in which the operation is disposed.

(q) Earnings or Loss Per Share

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

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

(r) Financial Instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

3. Summary of Significant Accounting Policies (continued)

(r) Financial Instruments (continued)

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of September 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for any assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. Summary of Significant Accounting Policies (continued)

(r) Financial Instruments (continued)

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Category
Cash and cash equivalents, and restricted cash	FVTPL
Trade and other receivables	Amortized cost
Line of credit	Amortized cost
Trade and other payables	Amortized cost
Short-term loan	Amortized cost
Finance lease obligation	Amortized cost

4. Significant Accounting Judgments and Estimates

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

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

4. Significant Accounting Judgments and Estimates (continued)

Significant Estimates

(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) Impairment of Financial Assets

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

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

(d) Warranty Provision

The Company estimates a provision for future warranty claims based on historical claims as well as recent trends at each reporting date. A provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year.

(e) Useful Lives of Property, Plant and Equipment and Finite-Life Intangible Assets

The Company reviews estimates of the useful lives of property, plant and equipment and finite-life intangible assets on an annual basis and adjusts depreciation or amortization on a prospective basis, if needed. Changes in technology or the intended use of assets, as well as changes in business prospects or economic and industry factors, may cause the estimated useful lives of these assets to change. The estimated useful lives of property, plant and equipment and finite-life intangible assets are determined by internal asset life analysis, which takes into account actual and expected future usage, physical wear and tear, replacement history and assumptions about technology evolution. When factors indicate that assets' useful lives are different from the prior assessment, the Company depreciates or amortizes the remaining carrying value prospectively over the adjusted estimated useful lives.

4. Significant Accounting Judgments and Estimates (continued)

Significant Estimates (continued)

(f) Share-Based Payments

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

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

(g) Current and Deferred Income Taxes

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

Significant Judgements

(a) Current and Deferred Income Taxes

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

(b) 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.

(c) Going Concern

Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

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 year ended August 31, 2019:

- (i) 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 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

	August 31, 2019	August 31, 2018
Cash	\$ 1,819,397	\$ 3,853,544
Guaranteed Investment Certificate	299,415	313,078
	\$ 2,118,812	\$ 4,166,622

The Company's line of credit and short-term loan is secured by a first charge over the assets of the Company, including cash and cash equivalents with a carrying value of \$2,118,812 (note 12).

7. Restricted Cash

As at August 31, 2019, total cash of \$299,415 (August 31, 2018 – \$313,078) is secured against the Company's credit cards and line of credit and is held in a Guaranteed Investment Certificate ("GIC") and is designated as restricted cash.

8. Trade and Other Receivables

	August 31, 2019	August 31, 2018
Trade receivables	\$ 4,158,932	\$ 1,590,975
Goods and Services Tax/Harmonized Sales Tax receivable	235	13,124
Income tax receivable	11,843	-
Other receivable	4,076	74,777
	\$ 4,175,086	\$ 1,678,876

The Company's line of credit and short-term loan is secured by a first charge over the assets of the Company, including trade and other receivables with a carrying value of \$4,163,008 (note 12).

9. Inventories

	August 31, 2019	August 31, 2018
Raw materials	\$ 204,445	\$ 90,121
Finished goods	1,477,730	807,947
	\$ 1,682,175	\$ 898,068

For the year ended August 31, 2019, the cost of inventories recognized as an expense and included in cost of sales was \$4,626,052 (August 31, 2018 - \$2,397,846).

For the year ended August 31, 2019, a write-down of inventories of \$10,575 (August 31, 2019 - \$29,343) 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 \$1,682,175 (note 12).

10. Business Combination

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

The business assets of Spector Logistics, Inc. were acquired for a purchase price of US\$300,000 with payment terms of US\$100,000 due upon closing, US\$50,000 due April 1, 2019, and US\$150,000 payable in 12 monthly installments of US\$12,500 commencing May 1, 2018. As at August 31, 2019, included in accrued and other liabilities is \$89,406 (US\$67,248) (August 31, 2018 - \$138,020) related to the Agreement (notes 13 and 24).

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

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

The goodwill of \$152,633 (US\$114,225) is attributable to the marketing, sale and servicing of mobile video safety and security solutions in the United States. Goodwill, which is deductible for income tax purposes, 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.

GATEKEEPER SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

(expressed in Canadian dollars except where noted)

11. Property, Plant and Equipment

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

Cost	Automotive	Computer Equipment and Software	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Financed Leased Automobile	Total
August 31, 2017	\$ 1	\$ 141,344	\$ 26,407	\$ 1,830	\$ 141,376	\$ 55,088	\$ 107,359	\$ -	\$ 473,405
Additions ¹	88,116	164,265	30,253	-	18,279	-	65,415	-	366,328
Disposal & impairment	-	(16,866)	-	(1,830)	-	-	-	-	(18,696)
August 31, 2018	\$ 88,117	\$ 288,743	\$ 56,660	\$ -	\$ 159,655	\$ 55,088	\$ 172,774	\$ -	\$ 821,037
Additions	2,807	157,577	5,015	-	24,340	-	122,448	161,922	474,109
Disposal	(3,742)	-	-	-	-	-	-	-	(3,742)
Foreign currency difference	3,103	1,792	502	-	-	-	2,273	-	7,670
August 31, 2019	\$ 90,285	\$ 448,112	\$ 62,177	\$ -	\$ 183,995	\$ 55,088	\$ 297,495	\$ 161,922	\$ 1,299,074

Depreciation	Automotive	Computer Equipment and Software	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Financed Leased Automobile	Total
August 31, 2017	\$ 1	\$ 42,874	\$ 21,212	\$ 427	\$ 49,755	\$ 55,088	\$ 99,280	\$ -	\$ 268,637
Depreciation	14,769	43,037	4,368	367	24,288	-	38,868	-	125,697
Disposal	-	(16,865)	-	(794)	-	-	-	-	(17,659)
August 31, 2018	\$ 14,770	\$ 69,046	\$ 25,580	\$ -	\$ 74,043	\$ 55,088	\$ 138,148	\$ -	\$ 376,675
Depreciation	30,016	73,241	7,964	-	28,075	-	46,227	19,554	205,077
Disposal	(1,247)	-	-	-	-	-	-	-	(1,247)
Foreign currency difference	667	345	65	-	17	-	1,253	153	2,413
August 31, 2019	\$ 44,206	\$ 142,632	\$ 33,609	\$ -	\$ 102,135	\$ 55,088	\$ 185,628	\$ 19,707	\$ 583,005

Net Book Value	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Financed Leased Automobile	Total
August 31, 2018	\$ 73,347	\$ 219,697	\$ 31,080	\$ -	\$ 85,612	\$ -	\$ 34,626	\$ -	\$ 444,362
August 31, 2019	\$ 46,079	\$ 305,480	\$ 28,568	\$ -	\$ 81,860	\$ -	\$ 111,867	\$ 142,215	\$ 716,069

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

The Company's line of credit is secured by a first charge over the assets of the Company, including capital assets with a carrying value of \$716,069 (note 12).

12. Line of Credit and Short-Term Loan

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

The Company has agreed to pay a related party an annual fee of US\$18,750 as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 23 and 24).

Effective July 12, 2019, the Company entered into an amended non-dilutive, revolving and non-revolving, secured line of credit of up to \$1,000,000 (the "Line of Credit") with the same lender. Funds are to be available to the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory and is secured by a General Security Agreement over the assets of the Company.

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

- (a) For Canadian overdraft loans, the Bank's Prime Rate, which is the variable annual rate of interest the Bank will charge on commercial loans in Canada denominated in Canadian dollars, plus 1.00% per annum on the basis of a year of 365 days, calculated monthly in arrears on the daily balance on the last day of each month, payable on the first business day of the following month;
- (b) For United States dollar overdraft loans, the Bank's U.S. Base Rate, which is the variable annual rate of interest the Bank will charge on commercial loans denominated in United States dollars, plus 1.00% per annum on the basis of a year of 360 days, calculated monthly in arrears on the daily balance on the last day of each month, payable on the first business day of the following month;
- (c) Monthly administration fee of \$150 payable on the first business day of each month, and an annual review fee of \$2,000.

The Company entered into a \$500,000 demand non-revolving short-term loan facility effective July 12, 2019 which shall be repaid in full on or before the sixth month anniversary of the initial advance. The short-term loan bears interest on the principal balance of the loan facility as follows:

For Canadian Prime Rate Loan, the Bank's Prime Rate, which is the variable annual rate of interest the Bank will charge on commercial loans in Canada denominated in Canadian dollars, plus 1% per annum on the basis of a year of 365 days, accruing daily, and calculated monthly in arrears on the daily balance.

The Line of Credit and short-term loan are repayable on demand, are secured by a first charge on the assets of the Company and its subsidiary and require a maintenance of a Debt to Tangible Net Worth ratio not to exceed 2.75 to 1.0; current ratio of not less than 1.25 to 1.0; and Debt Service Ratio of not less than 1.25 to 1.0.

As at August 31, 2019, there was \$41,372 advanced or owing under the line of credit, \$416,667 owing as a short-term loan, and the Company was in compliance with all of its covenant ratios.

13. Trade and Other Payables and Accrued Liabilities

	August 31, 2019	August 31, 2018
Trade payables	\$ 800,927	\$ 203,503
Salaries and benefits payable	415,362	159,096
Provincial Sales Tax payable and State Sales Tax Payable	7,300	6,350
Current income taxes payable (note 19)	-	30,421
Accrued and other liabilities	440,476	423,071
Accrued warranty liabilities	60,000	50,000
	\$ 1,724,065	\$ 872,441

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

Included in trade and other payables are amounts of \$158,363 (2018 - \$51,007) due to related parties (note 23).

The Company provides a one year, three year, five year, ten year, or lifetime warranty, depending on the product, to repair or replace defective components with respect to its product sales. The warranty provision in the consolidated statements of loss and comprehensive loss includes management's best estimate of the total costs of all raw materials, labour and travel expenses required to repair issues related to all products that were sold and shipped prior to period end. During the year ended August 31, 2019, warranty expense included in cost of sales was \$43,434 (August 31, 2018 – \$26,630).

Included in accrued and other liabilities is \$89,406 (US\$67,240) (August 31, 2018 - \$138,020) related to an Asset Purchase Agreement as at August 31, 2019 (note 10).

14. Finance Lease

During the year ended August 31, 2019, the Company entered into a finance lease for automobiles.

The fair value of the lease liabilities was estimated on the date of the lease using the following assumptions.

	August 31, 2019
Lease Term	48 months
Implicit Interest Rate (annual)	6.325%
Monthly Lease Payments	\$ 2,858
Guaranteed Residual Value	\$ 29,398

Finance Lease Obligation

	August 31, 2019	August 31, 2018
Finance Lease - Automobile		
Gross finance lease obligation – minimum lease payments		
No later than 1 year	\$ 33,951	\$ -
Later than 1 year and no later than 5 years	112,266	-
Total minimum lease payments	146,217	-
Future finance charges on finance lease	(17,677)	-
Present value of finance lease obligation	\$ 128,540	\$ -
The present value of finance lease obligation as follows:		
No later than 1 year	\$ 26,932	-
Later than 1 year and no later than 5 years	101,608	-
	\$ 128,540	\$ -

Interest expense on lease obligation during the year ended August 31, 2019 was \$5,066.

15. Share Capital

(a) Authorized Share Capital

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

At August 31, 2019, the Company had 87,597,144 common shares outstanding (August 31, 2018 – 87,597,144), Nil Class A preferred shares outstanding (August 31, 2018 – Nil), Nil Class B preferred shares outstanding (August 31, 2018 – Nil), Nil Class C preferred shares outstanding (August 31, 2018 – Nil) and Nil common shares held in escrow (August 31, 2018 – Nil).

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

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

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

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

(b) Issued Share Capital

No shares were issued during the years ended August 31, 2019 and 2018.

16. 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	\$0.30	10,640,000
Expired	\$0.30	(10,640,000)
Balance – August 31, 2019	-	-

17. 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 maximum term of these options will be ten years and they typically vest over no more than four years.

The changes in stock options during the six months ended August 31, 2019 were as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2017	\$0.21	5,663,250
Options granted	\$0.12	2,450,000
Options cancelled	\$0.19	(495,000)
Balance – August 31, 2018	\$0.18	7,618,250
Options granted	\$0.11	2,005,000
Options cancelled	\$0.17	(1,850,000)
Balance – August 31, 2019	\$0.17	7,773,250

During the year ended August 31, 2019, the Company granted 2,005,000 (2018 - 2,450,000) incentive stock options to employees, consultants and directors. 1,430,000 of the options may be exercised within 5 years from the date of grant at a price of \$0.117 per share. 575,000 of those options 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 August 31, 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:

	August 31, 2019	August 31, 2018
Risk free interest rate	1.95%	2.10%
Expected life	6 years	9 years
Expected volatility	83.72%	76.72%
Expected dividend per share	-	-

17. Share-Based Payments (continued)

Incentive share options outstanding and exercisable at August 31, 2019 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
\$0.105	400,000	9.21	\$0.105	400,000	9.21	\$0.11
\$0.11	400,000	4.68	\$0.11	-	-	-
\$0.12	2,930,000	6.42	\$0.12	2,607,500	6.60	\$0.12
\$0.13	500,000	6.68	\$0.13	500,000	6.68	\$0.13
\$0.16	175,000	5.70	\$0.16	175,000	5.70	\$0.16
\$0.18	250,000	4.88	\$0.18	250,000	4.88	\$0.18
\$0.20	250,000	1.04	\$0.20	250,000	1.04	\$0.20
\$0.195	831,250	6.91	\$0.20	831,250	6.91	\$0.20
\$0.25	1,605,000	3.59	\$0.25	1,605,000	3.59	\$0.25
\$0.30	432,000	4.04	\$0.30	432,000	4.04	\$0.30
	7,773,250	5.64	\$0.17	7,050,750	5.67	\$0.17

During the year ended August 31, 2019, the Company recorded total share-based payments of \$183,270 (August 31, 2018 –\$298,584), which has been charged to general and administrative expense for the period.

18. Operating Expenses

(a) General and Administrative Expenses by Nature

The Company recorded general and administrative expenses for the years ended August 31, 2019 and 2018 as follows:

	August 31, 2019	August 31, 2018
General & administrative expenses		
Accounting and legal	\$ 158,462	\$ 152,078
Bad debt	5,578	2,467
Consulting fees	23,108	65,050
Depreciation (note 11)	205,077	125,697
Interest charges on loans	37,168	7,184
Investor relations	51,064	85,408
Office	818,072	497,663
Regulatory	20,645	9,433
Rent	193,076	145,799
Salaries and benefits (note 23)	945,997	746,360
Share-based payments (notes 17 and 23)	183,270	298,584
	\$ 2,641,517	\$ 2,135,723

18. Operating Expenses (continued)

(b) Selling and Marketing Expenses by Nature

	August 31, 2019	August 31, 2018
Selling and marketing expenses		
Advertising and promotion	\$ 618,701	\$ 891,966
Salaries and benefits (note 23)	1,873,922	1,442,375
	\$ 2,492,623	\$ 2,334,341

(c) Research and Development Expenses by Nature

	August 31, 2019	August 31, 2018
Research & development expenses		
Research and development materials	\$ 1,050,734	\$ 315,750
Research and development salaries and benefits (note 23)	298,122	798,452
	\$ 1,348,856	\$ 1,114,202

19. Income Tax

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2019	2018
Earnings (loss) for the year before income taxes	\$ (325,858)	\$ (1,292,856)
Expected income tax (recovery)	(151,000)	(344,762)
Change in statutory, foreign tax, foreign exchange rates and other	406,000	(11,980)
Permanent difference	102,000	54,666
Adjustment to prior years provision versus statutory tax returns	(30,896)	-
Change in unrecognized deductible temporary differences	(357,000)	332,497
Provision for (recovery of) income taxes	\$ (30,896)	\$ 30,421

19. Income Tax (continued)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	August 31, 2019	August 31, 2018
Share issuance costs	\$ 3,000	\$ 14,000
Property, plant and equipment	117,000	83,000
Intangible assets	(3,000)	(1,000)
SR&ED expenditures	-	538,000
Warranty liability	16,000	13,000
Non-capital losses	1,938,000	1,781,000
	<u>2,071,000</u>	<u>2,428,000</u>
Unrecognized deferred tax asset	(2,071,000)	(2,428,000)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The deferred tax assets have not been recognized in these consolidated financial statements as it is not probable that they will be realized.

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	August 31, 2019	Expiry Date Range	August 31, 2018
Property, plant and equipment	435,000	No expiry	303,000
Share issuance costs	12,000	2037 - 2042	54,000
Warranty liability	60,000	No expiry	50,000
Non-capital losses carry forward	7,459,000	2029 - 2039	6,842,000

Tax attributes are subject to review and potential adjustment by tax authorities.

20. Financial Instruments

Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at August 31, 2019 and August 31, 2018 is summarized as follows:

	August 31, 2019	August 31, 2018
Financial Assets		
Fair value through profit and loss, at fair value		
Cash and cash equivalents (note 6)	\$ 2,118,812	\$ 4,166,622
Restricted cash (note 7)	299,415	313,078
Loans and receivable, at amortized cost		
Trade receivables and other receivables (note 8)	4,163,008	1,665,752
Total Financial Assets	\$ 6,581,235	\$ 6,145,452
Financial Liabilities		
Line of credit (note 12)	\$ 41,372	\$ -
Other liabilities, at amortized cost		
Short-term loan (note 12)	416,667	-
Trade payables (note 13)	800,927	203,503
Finance lease obligation - current (note 14)	26,932	-
Long-term finance lease obligation (note 14)	101,608	-
Spector Logistics, Inc. purchase payable (notes 10 and 13)	89,406	138,020
Salaries and benefits payable (note 13)	415,362	159,096
Total Financial Liabilities	\$ 1,892,274	\$ 500,619

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 its financial assets and financial liabilities, with a short-term maturity and demand nature, and recognized at amortized cost in the financial statements approximates their fair value of these instruments.

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

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly. As at August 31, 2019, the Company used level 2 inputs to determine the fair value of the finance lease obligation.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at August 31, 2019, the Company does not have any Level 3 financial instruments.

The fair value of cash, cash equivalents and restricted cash is based on level 1 inputs.

20. Financial Instruments (continued)

Financial Instrument Risk Exposure

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

a) Credit Risk

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

At August 31, 2019, 19% 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 August 31, 2019 was \$4,175,086 (August 31, 2018 - \$1,678,876). The Company insures its non-government accounts receivable.

b) Liquidity Risk

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

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

The Company coordinates this planning and budgeting process with its financing activities through the capital management process (note 21). The Company's financial liabilities are comprised of its trade payables, short-term loan, finance lease obligation, Spector Logistics, Inc. purchase payable, and salaries and benefits payable, the contractual maturities of which at August 31, 2019 and August 31, 2018 are summarized as follows:

	August 31, 2019	August 31, 2018
Payables with contractual maturities:		
Within 90 days or less	\$ 1,221,664	\$ 200,027
In later than 90 days, not later than one year	527,630	3,476
	\$ 1,749,294	\$ 203,503

c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings in financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company has no significant exposure at August 31, 2019 to interest rate risk through its financial instruments.

20. **Financial Instruments (continued)**

Financial Instrument Risk Exposure (continued)

c) Market Risk (continued)

Commodity Price Risk

Commodity price risk is the risk due to which business financial performance is adversely affected by fluctuations in the prices of commodities. The Company has no significant exposure at August 31, 2019 to commodity price 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 United States dollars as of August 31, 2019 and August 31, 2018:

	August 31, 2019	August 31, 2018
Cash and cash equivalents	\$ 797,395	\$ 2,227,447
Restricted cash	200,438	90,078
Trade and other receivables	3,722,767	1,437,275
Trade and other payables and accrued liabilities	(77,953)	(77,808)
Finance lease obligation	(128,540)	-
	\$ 4,514,107	\$ 3,676,992

Based on the above net exposure at August 31, 2019, a 10% depreciation or appreciation of the United States dollar against the Canadian dollar would result in an approximately \$451,411 decrease or increase respectively in both net and comprehensive loss (August 31, 2018 – \$367,670). The Company has not employed any currency hedging programs during the periods ended August 31, 2019 and August 31, 2018.

21. **Management of Capital**

The capital managed by the Company includes a Line of Credit (note 12) and the components of shareholders' equity as described in the consolidated statements of shareholders' equity. During the year, the Company was subject to financial covenants related to its Lines of Credit. During the year ended August 31, 2019, the Company was in compliance with any required financial covenants.

The Company's objectives of capital management are to create long-term value and economic returns for its shareholders. It does this by seeking to maximize the availability of finance to fund the growth and development of its operations, and to support the working capital required to maintain its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Company considers all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part. The Company's overall strategy with respect to management of capital at August 31, 2019 remains fundamentally unchanged from the year ended August 31, 2018.

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(expressed in Canadian dollars except where noted)

22. Segmented Information

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

<i>(expressed in Canadian dollars)</i>	For the year ended August 31, 2019			For the year ended August 31, 2018		
	Canada	USA	Combined	Canada	USA	Combined
Revenues	\$ 9,471,307	\$ 4,255,006	\$ 13,726,313	\$ 7,089,960	\$ 760,973	\$ 7,850,933
Cost of Sales	5,433,959	2,188,226	7,622,185	3,316,163	345,700	3,661,863
Gross Profit	4,037,348	2,066,780	6,104,128	3,773,797	415,273	4,189,070
Operating Expenses						
Interest expense	28,101	9,067	37,168	7,184	-	7,184
Depreciation expense	98,421	106,656	205,077	71,920	53,777	125,697
Other General & administrative (note 18a)	2,093,680	305,592	2,399,272	1,844,208	158,634	2,002,842
Selling and marketing (note 18b)	2,447,913	44,710	2,492,623	2,324,054	10,287	2,334,341
Research and development (note 18c)	1,348,856	-	1,348,856	1,114,202	-	1,114,202
	6,016,971	466,025	6,482,996	5,361,568	222,698	5,584,266
	(1,979,623)	1,600,755	(378,868)	(1,587,771)	192,575	(1,395,196)
Other Income (Expense)						
Interest	42,370	-	42,370	31,693	-	31,693
Foreign Exchange gain (loss)	41,580	25,760	67,340	123,906	8,550	132,456
Finance Costs	(44,997)	(1,128)	(46,125)	(31,858)	(71)	(31,429)
Write-down of Inventory	(10,575)	-	(10,575)	(29,343)	-	(29,343)
Impairment of property, plant and equipment	-	-	-	(1,037)	-	(1,037)
Net Loss before Income Taxes	(1,951,245)	1,625,387	(325,858)	(1,493,910)	201,054	(1,292,856)
Income tax recovery (expense)	-	30,896	30,896	-	(30,421)	(30,421)
Net Loss	(1,951,245)	1,656,283	(294,962)	(1,493,910)	170,633	(1,323,277)
Other Comprehensive Income (Loss)						
Foreign currency translation differences	-	9,135	9,135	-	-	-
Net Comprehensive Loss	\$ (1,951,245)	\$ 1,665,419	\$ (285,827)	\$ (1,493,910)	\$ 201,054	\$ (1,323,277)
Current Assets	\$ 5,581,423	\$ 2,798,968	\$ 8,380,391	\$ 6,712,115	\$ 590,353	\$ 7,302,468
Property, plant and equipment (note 11)	\$ 384,899	\$ 331,170	\$ 716,069	\$ 280,284	\$ 164,078	\$ 444,632
Goodwill (note 10)	\$ -	\$ 152,633	\$ 152,633	\$ -	\$ 147,442	\$ 147,442

23. Related Party Transactions

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

a) Key Management Personnel Compensation

	August 31, 2019	August 31, 2018
Salaries and benefits (note 18)	\$ 802,991	\$ 479,896
Share-based payments (note 18)	103,677	255,338
	\$ 906,668	\$ 735,234

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

b) Trade Related Party Transactions

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

	August 31, 2019	August 31, 2018
Chief Executive Officer	\$ 177,575	\$ 50,977
Chief Financial Officer	-	30
Directors	2,000	-
	\$ 179,575	\$ 51,007

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

c) Other Related Party Transactions

The Company has agreed to pay the Chief Executive Officer an annual fee of US\$18,750 as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 12 and 24).

The Company has approved the issuance of a discretionary bonus to the Chief Executive Officer through the issuance of 1,000,000 common shares of the Company which shall be issued within the first six months of 2020. The approved bonus of common shares is included in salaries and benefits payable (note 13) in the amount of \$135,000. The bonus is subject to the policies and approval of the TSX Venture Exchange.

24. Commitments and Contingencies

As of August 31, 2019, the Company's contractual obligations and contingencies are as follows:

- a) The Company has entered into various operating lease contracts for office space and office equipment. The future minimum payments under these leases as at August 31, 2019 are as follows:

2020	189,817
2021	187,795
2022	125,084
2023	62,659
2024	42,267
	\$ 607,622

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

The Company regularly assesses its income tax and related non income tax amounts and obligations and the related filing obligations in the United States and Canada. It is management's position that adequate provisions have been made in the financial statements related to such obligations. However, there exists uncertainty due to the fact that the Company could be assessed differently by tax and/or other regulatory authorities in a manner that is not consistent with management's expectation. This situation would result in management being required to adjust its provision for income taxes and related non income tax amounts in the period that such a situation occurs and such adjustments could be material (note 19).