GATEKEEPER

# Fiscal 2020 Third Quarter Report

## GATEKEEPER SYSTEMS INC.

Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2020

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

**GATEKEEPER SYSTEMS INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
*(expressed in Canadian dollars)*

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (note 6) | $ 1,753,799 | $ 2,118,812 |
| Restricted cash (note 7) | - | 299,415 |
| Trade and other receivables (note 8) | 4,755,559 | 4,175,086 |
| Inventories (note 9) | 2,130,871 | 1,682,175 |
| Prepaid expenses and other current assets | 323,309 | 104,903 |
| | 8,963,538 | 8,380,391 |
| **Non-Current Assets** | | |
| Property, plant and equipment (note 11) | 704,025 | 716,069 |
| Goodwill (note 10) | 152,633 | 152,633 |
| **Total Assets** | **$ 9,820,196** | **$ 9,249,093** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Line of credit (note 12) | $ 158,213 | $ 41,372 |
| Trade and other payables and accrued liabilities (note 13) | 1,051,133 | 1,724,065 |
| Short-term loan (note 12) | - | 416,667 |
| Finance lease obligation – current (note 14) | 24,721 | 26,932 |
| Unearned revenue | - | 20,551 |
| | 1,234,067 | 2,229,587 |
| **Non-Current Liabilities** | | |
| Long-term lease finance lease obligation (note 14) | 58,910 | 101,608 |
| **Total Liabilities** | 1,292,977 | 2,331,195 |
| **Shareholders' Equity** | | |
| Common shares (note 15) | 16,041,657 | 15,881,627 |
| Other capital reserves (notes 16 and 17) | 2,269,095 | 2,235,452 |
| Accumulated other comprehensive income | 152,713 | 9,135 |
| Deficit | (9,936,246) | (11,208,316) |
| | 8,527,219 | 6,917,898 |
| **Total Liabilities and Shareholders' Equity** | **$ 9,820,196** | **$ 9,249,093** |

**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 Dyment"***
*(signed)*
**Director**

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

**GATEKEEPER SYSTEMS INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

| *(expressed in Canadian dollars)* | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **May 31, 2020** | **May 31, 2019** | **May 31, 2020** | **May 31, 2019** |
| **Revenues** | $ 5,653,462 | $ 4,308,506 | $ 12,584,503 | $ 8,846,803 |
| **Cost of Sales** | 3,246,302 | 2,334,623 | 7,094,861 | 4,819,505 |
| **Gross Profit** | 2,407,160 | 1,973,883 | 5,489,642 | 4,027,298 |
| **Operating Expenses** | | | | |
| General and administrative (note 18a) | 686,410 | 570,412 | 1,877,144 | 1,889,855 |
| Selling and marketing (note 18b) | 415,772 | 588,944 | 1,547,509 | 1,836,847 |
| Research and development (note 18c) | 370,670 | 265,429 | 1,097,381 | 928,093 |
| | 1,472,852 | 1,424,785 | 4,522,034 | 4,654,795 |
| **Operating Profit (Loss)** | 934,308 | 549,098 | 967,608 | (627,497) |
| **Other Income (Expenses)** | | | | |
| Canada emergency wage subsidy | 247,086 | - | 247,086 | - |
| Interest | 3,419 | 9,551 | 21,078 | 34,849 |
| Foreign exchange | 35,651 | (5,598) | 23,844 | (5,598) |
| Finance costs | (35) | 67,971 | 8,640 | 106,765 |
| Gain or loss on disposal of assets | (31) | - | (1,600) | (28,402) |
| Write-down of inventory | (44) | (4,450) | (11,056) | (6,449) |
| Recovery of bonus | - | - | 16,470 | - |
| **Net Income (Loss)** | 1,220,354 | 616,672 | 1,272,070 | (526,332) |
| **Other Comprehensive Income** | | | | |
| Foreign currency translation differences | 105,074 | - | 152,713 | - |
| **Total Comprehensive Income (Loss)** | $ 1,325,428 | $ 616,572 | $ 1,424,783 | $ (526,332) |
| Basic earnings (loss) per share | $ 0.01 | $ 0.01 | $ 0.01 | $ (0.00) |
| Weighted Average Number of Shares Outstanding | 88,209,903 | 85,597,144 | 88,118,297 | 85,597,144 |
| Diluted earnings (loss) per share | $ 0.01 | $ 0.01 | $ 0.01 | $ (0.00) |
| Weighted Average Number of Shares Outstanding | 94,955,653 | 85,791,003 | 94,864,047 | 85,791,003 |

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

**GATEKEEPER SYSTEMS INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED**

*(expressed in Canadian dollars)*

| | May 31, 2020 | May 31, 2019 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net Profit (Loss) | $ 1,272,070 | $ (526,332) |
| Items not affecting cash from operations: | | |
| Depreciation | 169,857 | 154,231 |
| Write-down of inventory | 11,056 | 6,449 |
| Gain on disposal of property, plant and equipment | 1,600 | 922 |
| Bad debt | - | 75,014 |
| Share-based payments | 152,173 | (7,630) |
| Unrealized foreign exchange loss (gain) | 114,596 | 154,231 |
| Changes in non-cash working capital balances related to operations: | | |
| Trade and other receivables | (380,473) | (1,687,070) |
| Inventories | (459,750) | (726,150) |
| Prepaid expenses and other current assets | (218,406) | (22,537) |
| Trade and other payables | (514,719) | 397,354 |
| Unearned revenue | (20,551) | - |
| Net cash provided by (used in) operating activities | 127,453 | (2,335,749) |
| **Cash Flows used in Investing Activities** | | |
| Purchase of property, plant and equipment | (189,202) | (390,862) |
| Proceeds from disposal of equipment | 35,955 | - |
| Decrease (Increase) in restricted cash | 299,415 | 11,194 |
| Net cash provided by (used in) investing activities | 146,168 | (379,668) |
| **Cash Flows from Financing Activities** | | |
| Draws (repayment) on line of credit | (41,372) | - |
| Exercise of stock options | 41,500 | - |
| Repayment of short-term loan | (616,667) | - |
| Lease payments | (46,509) | - |
| Net cash provided by (used in) financing activities | (663,048) | - |
| **Decrease in Cash and Cash Equivalents** | (389,427) | (2,715,417) |
| **Foreign Exchange Gain on Cash and Cash Equivalents held in USD** | 24,414 | 7,630 |
| **Cash and Cash Equivalents – Beginning of period** | 2,118,812 | 4,166,622 |
| **Cash and Cash Equivalents – End of period** | $ 1,753,799 | $ 1,458,835 |

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

**GATEKEEPER SYSTEMS INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**FOR THE NINE MONTHS ENDED MAY 31, 2020 AND MAY 31, 2019**

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

| | Common Shares | | | | | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Reserves** | **Accumulated Other Comprehensive Income** | **Deficit** | **Total** |
| **Balance – August 31, 2018** | 87,597,144 | $ 15,881,627 | $ 2,052,182 | $ - | $ (10,913,354) | $ 7,020,455 |
| Net loss and comprehensive loss | - | - | - | - | (966,048) | (966,048) |
| Share-based payments (note 17) | - | - | 248,891 | - | - | 248,891 |
| **Balance – May 31, 2019** | 87,597,144 | $ 15,881,627 | $ 2,002,488 | $ - | $ 10,556,125) | $ 7,327,991 |
| **Balance – August 31, 2019** | 87,597,144 | $ 15,881,627 | $ 2,235,452 | $ 9,135 | $ (11,208,316) | $ 6,917,898 |
| Exercise of options | 350,000 | 41,500 | - | - | - | 41,500 |
| Issuance of bonus shares (note 23) | 878,000 | 118,530 | | | | 118,530 |
| Share-based payments (note 17) | - | - | 33,643 | - | - | 33,643 |
| Foreign currency translation | - | - | - | 143,578 | - | 143,578 |
| Net loss and comprehensive loss | - | - | - | - | 1,272,070 | 1,272,070 |
| **Balance – May 31, 2020** | 88,825,144 | $ 16,041,657 | $ 2,269,095 | $ 152,713 | $ (9,936,246) | $ 8,527,219 |

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

## 1. Description of Business and Nature of Operations

Gatekeeper Systems Inc. (the “Company” or “Gatekeeper”) was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on August 26, 2010 and completed its initial public offering as a Capital Pool Company 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 Loockerman Street, Suite 311, Dover, Delaware 19901, County of Kent.

The Company’s condensed interim consolidated financial statements as at May 31, 2020 and May 31, 2019 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 income of $1,325,428 and $1,424,783 for the three and nine months ended May 31, 2020, respectively (May 31, 2019 – net income of $616,572 and net loss of $526,332) and has a working capital of $7,729,471 at May 31, 2020 (August 31, 2019 – $6,150,804).

The Company had cash and cash equivalents of $1,753,799 at May 31, 2020 (August 31, 2019 – $2,118,812), 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 condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim financial statements follow the same accounting policies and methods of computation as compared with the most recent annual financial statements, being for the year ended August 31, 2019, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual financial statements. These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on July 6, 2020.

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

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

## 3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are consistent with those described in the audited financial statements for the year ended August 31, 2019.

## 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.

### 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.

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

### Significant Estimates (continued)

#### (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.

#### (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.

*(expressed in Canadian dollars except where noted)*

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

### Significant Estimates (continued)

#### (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 and 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 have been adopted by the Company as of May 31, 2020:

(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 has evaluated the potential impact the adoption of the standard will have on the consolidated financial statements and has determined 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

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| Cash | $ 1,753,799 | $ 1,819,397 |
| Guaranteed Investment Certificate | - | 299,415 |
| | $ 1,753,799 | $ 2,118,812 |

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 $1,753,799 (note 12).

## 7. Restricted Cash

As at May 31, 2020, total cash of $Nil August 31, 2019 – $299,415) 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. During the period ended May 31, 2020, the restricted cash was released to the Company in full.

*(expressed in Canadian dollars except where noted)*

## 8. Trade and Other Receivables

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| Trade receivables | $ 4,535,090 | $ 4,158,932 |
| Goods and Services Tax/Harmonized Sales Tax receivable | - | 235 |
| Income tax receivable | 20,469 | 11,843 |
| Loan receivable (note 23) | 200,000 | - |
| Other receivable | - | 4,076 |
| | $ 4,755,559 | $ 4,175,086 |

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 $4,734,910 (note 12).

## 9. Inventories

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| Raw materials | $ 467,378 | $ 204,445 |
| Finished goods | 1,663,493 | 1,477,730 |
| | $ 2,130,871 | $ 1,682,175 |

For the three and nine month period ended May 31, 2020, the cost of inventories recognized as an expense and included in cost of sales was $3,246,302 and $7,094,861, respectively (May 31, 2019 - $2,334,623 and $4,819,505).

For the three and nine month period ended May 31, 2020 a write-down of inventories of $44 and $11,056, respectively (May 31, 2019 - $4,450 and $6,449) 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 $2,130,871 (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 May 31, 2020, included in accrued and other liabilities is $92,614 (US$67,248) (August 31, 2019 - $89,406) related to the Agreement (notes 13 and 24).

*(expressed in Canadian dollars except where noted)*

## 10. Business Combination (continued)

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.

*(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 | Leased Office Equipment | Technical Equipment | Research and Development Equipment | Leasehold Improvements | Financed Leased Automobile | Total |
|---|---|---|---|---|---|---|---|---|---|
| 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 |
| Additions | - | 149,653 | 875 | 3,964 | 10,799 | 5,437 | 18,473 | - | 189,202 |
| Disposal | - | - | - | - | (2,958) | - | - | (41,891) | (44,849) |
| Foreign currency difference | 2,762 | 2,606 | 453 | - | 629 | - | 3,677 | 4,957 | 15,084 |
| **May 31, 2020** | **$ 93,047** | **$ 600,371** | **$ 63,505** | **$ 3,964** | **$ 192,465** | **$ 60,525** | **$ 319,645** | **$ 124,988** | **$ 1,458,511** |

| Depreciation | Automotive | Computer Equipment and Software | Furniture and Fixtures | Leased Office Equipment | Technical Equipment | Research and Development Equipment | Leasehold Improvements | Financed Leased Automobile | Total |
|---|---|---|---|---|---|---|---|---|---|
| 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 |
| Depreciation | 22,734 | 75,581 | 6,448 | 2,745 | 22,982 | 408 | 20,440 | 18,519 | 169,857 |
| Disposal | - | - | - | - | - | - | - | (4,988) | (4,988) |
| Foreign currency difference | 1,881 | 1,065 | 188 | - | 136 | - | 2,423 | 919 | 6,612 |
| **May 31, 2020** | **$ 68,821** | **$ 219,278** | **$ 40,245** | **$ 2,745** | **$ 125,253** | **$ 55,496** | **$ 208,491** | **$ 34,157** | **$ 754,486** |

| Net Book Value | Automotive | Computer Equipment | Furniture and Fixtures | Leased Office Equipment | Technical Equipment | Research and Development Equipment | Leasehold Improvements | Financed Leased Automobile | Total |
|---|---|---|---|---|---|---|---|---|---|
| August 31, 2019 | $ 46,079 | $ 305,480 | $ 28,568 | $ - | $ 81,860 | $ - | $ 111,867 | $ 42,215 | **$ 716,069** |
| **May 31, 2020** | **$ 24,226** | **$ 381,093** | **$ 23,260** | **$ 1,219** | **$ 67,212** | $ 5,029 | **$ 111,154** | **$ 90,831** | **$ 704,025** |

## 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. During the period ended May 31, 2020, the Company terminated this agreement and made a final payment of $1,297 CDN to the related party (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 May 31, 2020 there was $Nil advanced or owing under the line of credit, $Nil owing as a short-term loan, which was paid in full during the quarter end May 31, 2020, and the Company was in compliance with all of its covenant ratios.

## 13. Trade and Other Payables and Accrued Liabilities

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| Trade payables | $ 423,576 | $ 800,927 |
| Salaries and benefits payable | 255,131 | 415,362 |
| Provincial Sales Tax payable and State Sales Tax Payable | 574 | 7,300 |
| Current income taxes payable (note 19) | - | - |
| Accrued and other liabilities | 311,852 | 440,476 |
| Accrued warranty liabilities | 60,000 | 60,000 |
| | $ 1,051,133 | $ 1,724,065 |

*(expressed in Canadian dollars except where noted)*

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

Included in trade and other payables are amounts of $6,000 (2019 - $158,863) 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 three months and nine months ended May 31, 2020, warranty expense included in cost of sales was $9,552 and $10,372, respectively (May 31, 2019 – $18,515 and $31,582).

Included in accrued and other liabilities is $92,614 (US$67,248) (August 31, 2019 - $89,406 (US$67,240)) related to an Asset Purchase Agreement as at May 31, 2020 (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.

| | May 31, 2020 |
|---|---|
| Lease Term | 48 months |
| Implicit Interest Rate (annual) | 6.325% |
| Monthly Lease Payments | $ 2,302 |
| Guaranteed Residual Value | $ 17,250 |

### Finance Lease Obligation

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| **Finance Lease - Automobile** | | |
| **Gross finance lease obligation – minimum lease payments** | | |
| No later than 1 year | $ 23,573 | $ 33,951 |
| Later than 1 year and no later than 5 years | 59,852 | 112,266 |
| **Total minimum lease payments** | 83,425 | 146,217 |
| Future finance charges on finance lease | (2,976) | (17,677) |
| **Present value of finance lease obligation** | $ 80,449 | $ 128,540 |
| The present value of finance lease obligation as follows: | | |
| No later than 1 year | $ 23,204 | $ 26,932 |
| Later than 1 year and no later than 5 years | 57,245 | 101,608 |
| | $ 80,449 | $ 128,540 |

Interest expense on lease obligation during the nine months ended May 31, 2020 was $3,289.

*(expressed in Canadian dollars except where noted)*

## 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 May 31, 2020, the Company had 88,825,144 common shares outstanding (August 31, 2019 – 87,597,144), Nil Class A preferred shares outstanding (August 31, 2019 – Nil), Nil Class B preferred shares outstanding (August 31, 2019 – Nil), Nil Class C preferred shares outstanding (August 31, 2019 – Nil) and Nil common shares held in escrow (August 31, 2019 – 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

During the period ended May 31, 2020, 350,000 options were exercised between $0.11 and $0.12 per share for gross proceeds of $41,500.

During the period ended May 31, 2020, 878,000 common shares were issued to the Chief Executive Officer of the Company at a fair market value of $118,530 which was included in general and administrative expenses for the year ended August 31, 2019.

## 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, 2018 | $0.30 | 10,640,000 |
| Expired | $0.30 | (10,640,000) |
| Balance – August 31, 2019 and May 31, 2020 | - | - |

*(expressed in Canadian dollars except where noted)*

## 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 period ended May 31, 2020 were as follows:

| | Weighted average exercise price | Number of shares issued or issuable on exercise |
|---|---|---|
| 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 |
| Options granted | $0.20 | 45,000 |
| Options exercised | $0.11 | (50,000) |
| Options exercised | $0.12 | (300,000) |
| Options granted | $0.135 | 725,000 |
| Balance – May 31, 2020 | $0.17 | 8,193,250 |

During the period ended May 31, 2020, the Company granted 770,000 (2019 – 675,000) incentive stock options to certain directors, employees and consultants, which may be exercisable at prices ranging from $0.135 to $0.20 for a period of 5 years from the date of grant.

During the period ended May 31, 2020, the Company recorded total share-based payments of $33,643 (2019 – $75,014), which has been charged to general and administrative expense for the period.

The weighted average fair value of the options granted during the period ended May 31, 2020 was estimated at $0.09 per option as at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

| | May 31, 2020 | February 29, 2020 | August 31, 2019 |
|---|---|---|---|
| Risk free interest rate | 0.64% | 1.45% | 1.95% |
| Expected life | 5 years | 5 years | 6 years |
| Expected volatility | 76.41% | 76.42% | 83.72% |
| Expected dividend per share | - | - | - |

*(expressed in Canadian dollars except where noted)*

## 17. Share-Based Payments (continued)

Incentive share options outstanding and exercisable at May 31, 2020 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** |
| $0.105 | 400,000 | 8.22 | $0.105 | 400,000 | 8.47 | $0.105 |
| $0.11 | 350,000 | 3.87 | $0.11 | - | - | - |
| $0.12 | 2,630,000 | 5.84 | $0.12 | 2,207,500 | 5.84 | $0.12 |
| $0.13 | 500,000 | 5.93 | $0.13 | 500,000 | 5.93 | $0.13 |
| $0.16 | 175,000 | 5.07 | $0.16 | 175,000 | 5.07 | $0.16 |
| $0.18 | 250,000 | 4.14 | $0.18 | 250,000 | 4.14 | $0.18 |
| $0.20 | 250,000 | 0.30 | $0.20 | 250,000 | 0.30 | $0.20 |
| $0.195 | 831,250 | 6.16 | $0.20 | 831,250 | 6.16 | $0.20 |
| $0.25 | 1,605,000 | 2.84 | $0.25 | 1,605,000 | 2.84 | $0.25 |
| $0.30 | 432,000 | 3.29 | $0.30 | 432,000 | 3.29 | $0.30 |
| $0.20 | 45,000 | 4.48 | $0.20 | 45,000 | 4.48 | $0.20 |
| $0.135 | 725,000 | 4.85 | $0.135 | 300,000 | 4.85 | $0.135 |
| | 8,183,250 | 5.00 | $0.17 | 6,995,750 | 5.05 | $0.18 |

## 18. Operating Expenses

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

The Company recorded general and administrative expenses for the following periods:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **May 31, 2020** | **May 31, 2019** | **May 31, 2020** | **May 31, 2019** |
| **General & administrative expenses** | | | | |
| Accounting and legal | $ 17,121 | $ 37,619 | $ 82,703 | $ 180,180 |
| Bad debt | - | - | - | 922 |
| Consulting fees | - | 8,453 | - | 10,873 |
| Depreciation (note 11) | 63,197 | 49,784 | 169,857 | 154,132 |
| Interest charges on loans | 22,420 | 9,865 | 64,010 | 11,356 |
| Investor relations | 36,345 | 9,961 | 74,346 | 64,712 |
| Office | 205,431 | 138,086 | 558,491 | 531,577 |
| Regulatory | 6,903 | 5,208 | 21,601 | 17,724 |
| Rent | 58,640 | 72,386 | 169,004 | 136,524 |
| Salaries and benefits (note 23) | 251,514 | 239,050 | 703,489 | 706,841 |
| Share-based payments (notes 17 and 23) | 24,839 | - | 33,643 | 75,014 |
| | $ 686,410 | $ 570,412 | $ 1,877,144 | $ 1,889,855 |

*(expressed in Canadian dollars except where noted)*

## 18. Operating Expenses (continued)

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **May 31, 2020** | **May 31, 2019** | **May 31, 2020** | **May 31, 2019** |
| **Selling and marketing expenses** | | | | |
| Advertising and promotion | $ 6,268 | $ 29,877 | $ 318,424 | $ 496,010 |
| Salaries and benefits (note 23) | 447,281 | 459,067 | 1,266,862 | 1,836,847 |
| | $ 453,549 | $ 588,944 | $ 1,585,286 | $ 2,332,857 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **May 31, 2020** | **May 31, 2019** | **May 31, 2020** | **May 31, 2019** |
| **Research & development expenses** | | | | |
| Research and development materials | $ 279,768 | $ 188,897 | $ 823,689 | $ 703,880 |
| Research and development salaries and benefits (note 23) | 90,903 | 76,532 | 273,692 | 224,213 |
| | $ 370,670 | $ 265,429 | $ 1,097,381 | $ 928,093 |

## 19. Income Tax

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.

*(expressed in Canadian dollars except where noted)*

## 20. Financial Instruments

### Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at May 31, 2020 and August 31, 2019 is summarized as follows:

| | | May 31, 2020 | | August 31, 2019 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Fair value through profit and loss, at fair value** | | | | |
| Cash and cash equivalents (note 6) | $ | 1,753,799 | $ | 2,118,812 |
| Restricted cash (note 7) | | - | | 299,415 |
| **Loans and receivable, at amortized cost** | | | | |
| Trade receivables and other receivables (note 8) | | 4,755,559 | | 4,163,008 |
| **Total Financial Assets** | $ | 6,509,358 | $ | 6,581,235 |
| **Financial Liabilities** | | | | |
| Line of credit (note 12) | $ | 158,213 | $ | 41,372 |
| **Other liabilities, at amortized cost** | | | | |
| Short-term loan (note 12) | | - | | 416,667 |
| Trade payables (note 13) | | 644,477 | | 800,927 |
| Finance lease obligation - current (note 14) | | 24,721 | | 26,932 |
| Long-term finance lease obligation (note 14) | | 58,910 | | 101,608 |
| Spector Logistics, Inc. purchase payable (notes 10 and 13) | | 92,614 | | 89,406 |
| Salaries and benefits payable (note 13) | | 255,132 | | 415,362 |
| **Total Financial Liabilities** | $ | 1,234,067 | $ | 1,892,274 |

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 May 31, 2020, 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 May 31, 2020, 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.

*(expressed in Canadian dollars except where noted)*

## 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 under taken 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 May 31, 2020, 14% of the Company's trade accounts receivable balance is over 90 days past due (August 31, 2019 – 19%). The carrying amount of trade and other receivables as at May 31, 2020 was $4,755,559 (August 31, 2019 - $4,175,086). 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 May 31, 2020 and August 31, 2019 are summarized as follows:

| | May 31, 2020 | August 31, 2019 |
|---|---|---|
| Payables with contractual maturities: | | |
| Within 90 days or less | $ 1,141,453 | $ 1,221,664 |
| In later than 90 days, not later than one year | 92,614 | 527,630 |
| | $ 1,234,067 | $ 1,749,294 |

**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.

## 20. Financial Instruments (continued)

**Financial Instrument Risk Exposure (continued)**

***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 May 31, 2020 to interest rate risk through its financial instruments.

***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 May 31, 2020 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 May 31, 2020 and August 31, 2019:

| | **May 31, 2020** | **August 31, 2019** |
|---|---|---|
| Cash and cash equivalents | $ 1,060,614 | $ 797,395 |
| Restricted cash | - | 200,438 |
| Trade and other receivables | 4,393,105 | 3,722,767 |
| Trade and other payables and accrued liabilities | (619,642) | (77,953) |
| Finance lease obligation | (82,343) | (128,540) |
| | $ 4,751,734 | $ 4,514,107 |

Based on the above net exposure at May 31, 2020, a 10% depreciation or appreciation of the United States dollar against the Canadian dollar would result in an approximately $475,173 decrease or increase respectively in both net and comprehensive loss (August 31, 2019 – $451,411). The Company has not employed any currency hedging programs during the periods ended May 31, 2020 and August 31, 2019.

## 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 period ended May 31, 2020 and 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 May 31, 2020 remains fundamentally unchanged from the year ended August 31, 2019.

## 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:

## 22. Segmented Information (continued)

| *(expressed in Canadian dollars)* | For the three months ended May 31, 2020 | | | For the three months ended May 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Canada** | **USA** | **Combined** | **Canada** | **USA** | **Combined** |
| **Revenues** | $ 522,354 | $ 5,131,108 | $ 5,653,462 | $ 2,684,114 | $ 1,624,392 | $ 4,308,506 |
| **Cost of Sales** | 306,008 | 2,940,294 | 3,246,302 | 1,533,546 | 801,077 | 2,334,623 |
| **Gross Profit** | 216,346 | 2,190,815 | 2,407,160 | 1,150,568 | 823,315 | 1,973,883 |
| **Operating Expenses** | | | | | | |
| Interest expense | 20,987 | 1,433 | 22,420 | 3,482 | 6,068 | 9,550 |
| Depreciation expense | 31,869 | 31,327 | 63,197 | 24,028 | 25,961 | 49,989 |
| General & administrative (note 18a) | 435,928 | 127,088 | 563,016 | 440,650 | 70,223 | 510,873 |
| Selling and marketing (note 18b) | 447,068 | 6,480 | 453,549 | 578,023 | 10,921 | 588,944 |
| Research and development (note 18c) | 370,670 | - | 370,670 | 265,429 | - | 265,429 |
| | 1,306,523 | 166,330 | 1,472,852 | 1,311,612 | 113,173 | 1,424,785 |
| | $ (1,090,177) | $ 2,024,485 | $ 934,308 | $ (161,044) | $ 710,141 | $ 549,098 |
| **Other Income (Expense)** | | | | | | |
| Interest | 3,419 | - | 3,419 | 9,551 | - | 9,551 |
| Canada emergency wage subsidy | 247,086 | - | 247,086 | - | - | - |
| Foreign Exchange gain (loss) | 36,419 | (768) | 35,651 | 53,445 | 17,951 | 67,971 |
| Finance Costs | - | (35) | (35) | (28,402) | - | (28,402) |
| Income tax | - | - | - | - | (5,598) | (5,598) |
| Write-down of Inventory | (44) | - | (44) | (4,450) | - | (4,450) |
| Disposal of assets | (31) | - | (31) | - | - | - |
| Bonus recovery | - | - | - | - | - | - |
| **Net Income (Loss) before Income Taxes** | (803,328) | 2,023,682 | 1,220,354 | $ (102,498) | $ 722,494 | $ 616,572 |
| Income tax recovery (expense) | - | - | - | - | - | - |
| **Net Income (Loss)** | (803,328) | 2,023,682 | 1,220,354 | $ (102,498) | $ 722,494 | $ 616,572 |
| **Other Comprehensive Income (Loss)** | | | | | | |
| Foreign currency translation differences | - | 105,074 | 105,074 | - | - | - |
| **Net Comprehensive Income (Loss)** | $ (803,328) | $ 2,128,756 | $ 1,325,428 | $ (102,498) | $ 722,494 | $ 616,572 |

## 22. Segmented Information (continued)

| *(expressed in Canadian dollars)* | For the nine months ended May 31, 2020 | | | For the nine months ended May 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Canada** | **USA** | **Combined** | **Canada** | **USA** | **Combined** |
| **Revenues** | $ 1,848,025 | $ 10,736,478 | $ 12,584,503 | $ 6,116,053 | $ 2,730,751 | $ 8,846,803 |
| **Cost of Sales** | 1,366,818 | 5,728,044 | 7,094,862 | 3,465,226 | 1,354,278 | 4,819,504 |
| **Gross Profit** | 481,207 | 5,008,435 | 5,489,641 | 2,650,826 | 1,376,473 | 4,027,299 |
| **Operating Expenses** | | | | | | |
| Interest expense | 57,423 | 6,588 | 64,010 | 13,626 | 21,223 | 34,849 |
| Depreciation expense | 93,144 | 76,713 | 169,857 | 67,227 | 87,004 | 154,231 |
| Other General & administrative (note 18a) | 1,277,105 | 328,394 | 1,605,499 | 1,463,133 | 237,643 | 1,700,776 |
| Selling and marketing (note 18b) | 1,564,216 | 21,070 | 1,585,286 | 1,816,236 | 20,611 | 1,836,847 |
| Research and development (note 18c) | 1,097,381 | - | 1,097,381 | 928,093 | - | 928,093 |
| | 4,089,270 | 432,764 | 4,522,033 | 4,288,316 | 366,480 | 4,654,795 |
| | $ (3,608,063) | $ 4,575,671 | $ 967,608 | $ (1,637,490) | $ 1,009,994 | $ (627,496) |
| **Other Income (Expense)** | | | | | | |
| Interest | 21,077 | - | 21,077 | 34,849 | - | 38,849 |
| Canada emergency wage subsidy | 247,086 | - | 247,086 | | | |
| Foreign Exchange gain (loss) | 23,845 | - | 23,844 | 84,217 | 22,548 | 106,765 |
| Finance Costs | 8,754 | (114) | 8,640 | (28,402) | - | (28,402) |
| Write-down of Inventory | (11,056) | - | (11,056) | (6,449) | - | (6,449) |
| Income tax | - | - | - | - | (5,598) | (5,598) |
| Disposal of assets | (1,600) | - | (1,600) | - | - | - |
| Bonus recovery | 16,470 | - | 16,470 | - | - | - |
| **Net Income (Loss) before Income Taxes** | (3,303,487) | 4,575,557 | 1,272,070 | $ (1,553,275) | $ 1,026,944 | $ (526,332) |
| Income tax recovery (expense) | - | - | - | - | - | - |
| **Net Income (Loss)** | (3,303,487) | 4,575,557 | 1,272,070 | $ (1,553,275) | $ 1,026,944 | $ (526,332) |
| **Other Comprehensive Income (Loss)** | | | | | | |
| Foreign currency translation differences | - | 152,713 | 152,713 | - | - | - |
| **Net Comprehensive Income (Loss)** | $ (3,303,487) | $ 4,728,270 | $ 1,424,783 | $ (1,553,275) | $ 1,026,944 | $ (526,332) |

*(expressed in Canadian dollars except where noted)*

## 23. Related Party Transactions

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

a) Key Management Personnel Compensation

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **May 31, 2020** | **May 31, 2019** | **May 31, 2020** | **May 31, 2019** |
| Salaries and short-term benefits | $ 82,015 | $ 95,342 | $ 231,046 | $ 309,166 |
| Share-based payment | 24,838 | Nil | 24,838 | 49,524 |
| | $ 106,853 | $ 95,342 | $ 255,884 | $ 358,690 |

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 May 31, 2020 and August 31, 2019 are as follows:

| | **May 31, 2020** | **August 31, 2019** |
|---|---|---|
| Chief Executive Officer | $ - | $ 177,575 |
| Chief Financial Officer | - | - |
| Directors | 6,000 | 2,000 |
| | $ 6,000 | $ 179,575 |

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 had 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. During the period ended May 31, 2020, the Company terminated this agreement and made a final payment of $1,297 CDN to the related party (notes 12 and 24).

The Company has approved the issuance of a discretionary bonus to the Chief Executive Officer through the issuance of 878,000 common shares of the Company which shall be issued within the first six months of 2020, subject to the policies and approval of the TSX Venture Exchange. The approved bonus of common shares were issued on March 10, 2020.

On December 16, 2019, the Company advanced to the Chief Executive Officer a loan of $200,000 bearing an interest of 1% per annum repayable in two years. The Company earned interest of $917 during the nine months ended May 31, 2020.

*(expressed in Canadian dollars except where noted)*

## 24. Commitments and Contingencies

As of May 31, 2020, 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 May 31, 2020 are as follows:

| | |
|---|---|
| 2020 | 64,915 |
| 2021 | 256,148 |
| 2022 | 188,484 |
| 2023 | 105,026 |
| 2024 | 93,516 |
| | $ 708,089 |

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. During the period ended May 31, 2020, the Company terminated this agreement and made a final payment of $1,297 CDN to the related party (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).