



GATEKEEPER

GATEKEEPER SYSTEMS INC.

Management's Discussion and Analysis

For the Three Months Ended November 30, 2020



**GATEKEEPER SYSTEMS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020**

General

This Management's Discussion and Analysis ("MD&A") has been prepared as of January 25, 2021 and should be read in conjunction with the Company's November 30, 2020 unaudited condensed interim consolidated financial statements with accompanying notes ("F2021-Q1 Interim F/S") which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and the consolidated financial statements of Gatekeeper Systems Inc. ("Gatekeeper," "GSI," or the "Company") for the year ended August 31, 2020 and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar figures are expressed in Canadian dollars unless otherwise stated.

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

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

Description of Business

Gatekeeper Systems Inc. (the “Company” or “Gatekeeper” or “we” or “our”) was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on August 26, 2010 and completed its initial public offering as a Capital Pool Company (“CPC”) on January 7, 2011. As a CPC, the Company’s only business had been to identify and evaluate businesses or assets with a view of completing a Qualifying Transaction.

Gatekeeper engineers, manufactures and distributes industry leading high-definition mobile video and data solutions for a range of markets including school districts, law enforcement, public transit authorities, as well as the US military and Coast Guard.

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

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

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

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

Selected Financial Information

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

| | For the years ended | | | |
|--------------------------------|---------------------|--------------------|--------------------|--------------------|
| | August 31, 2020 | August 31, 2019 | August 31, 2018 | August 31, 2017 |
| Revenue | \$ 20,316,576 | \$ 13,726,313 | \$ 7,850,933 | \$ 7,605,107 |
| Cost of Sales | \$ 11,967,766 | \$ 7,622,185 | \$ 3,661,863 | \$ 3,753,445 |
| Gross Profit | \$ 8,348,810 | \$ 6,104,128 | \$ 4,189,070 | \$ 3,851,662 |
| Gross Margin Percentage | 41% | 44% | 53% | 51% |
| Expenses | \$ 6,296,052 | \$ 6,482,996 | \$ 5,584,266 | \$ 3,949,476 |
| Operating Income (Loss) | \$ 2,052,758 | \$ (378,868) | \$ (1,395,196) | \$ (97,814) |
| Net Income (Loss) for the year | \$ 3,535,007 | \$ (285,827) | \$ (1,323,277) | \$ (331,759) |
| Earnings (Loss) per share – | | | | |
| Basic | \$ 0.04 | \$ (0.00) | \$ (0.02) | \$ (0.00) |
| Diluted | \$ 0.04 | \$ (0.00) | \$ (0.02) | \$ (0.00) |
| Total Assets | \$ 15,601,937 | \$ 9,249,093 | \$ 7,894,272 | \$ 8,871,139 |
| Total Non-Current Liabilities | \$ 815,395 | \$ 101,608 | \$ - | \$ - |
| Total Liabilities | \$ 4,764,064 | \$ 2,331,195 | \$ 873,817 | \$ 825,991 |
| Total Shareholders' Equity | \$ 10,837,873 | \$ 6,917,898 | \$ 7,020,455 | \$ 8,045,148 |

During the year ended August 31, 2020, the Company adopted IFRS 16, Leases. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Right-of-use assets will be measured at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

On transition, the Company elected to apply the practical expedient to grandfather the determination of which contract is or contains a lease and applied IFRS 16 to those contracts that were previously identified as leases. The Company elected to apply the effect of changes retrospectively with the cumulative effect of initially applying the standards recognized to retained earnings at the date of initial application which is September 1, 2019 (see Note 14 to the financial statements). The right-of-use assets are measured on adoption at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to the lease recognized in the statement of financial position at adoption.

At the date of adoption, the Company had two building leases and four automobile leases affected by the transition to IFRS 16. The two building leases include office and warehouse space for the Company's headquarters located in Abbotsford, BC in Canada and for the US Subsidiary in Bristol, Pennsylvania. These leases were previously accounted for as operating leases under IAS 17. The fair value of the lease liability was estimated using level 2 inputs on the adoption date of IFRS 16 using the Company's incremental borrowing rate of 5.28% and a weighted average lease term of 7.57 years.

The four automobile leases were previously accounted for as finance leases under IAS 17. During the year ended August 31, 2019, the fair value of the lease liability was estimated using level 2 inputs on the date of the lease agreements using the implicit rate of the leases at 6.325%, a weighted average lease term of 4 years and a weighted average Guaranteed Residual Value of \$29,398. During the year ended August 31, 2020, one of the four automobile leases was terminated.

See Note 11 to the accompanying financial statements for the Right of Use Assets of these leases.

Overview

Gatekeeper engineers, manufactures and distributes industry leading high-definition mobile video and data solutions for a range of markets including school districts, law enforcement, public transit authorities, as well as the US military. Over the past seven years, Gatekeeper has equipped approximately 34,000 school buses, transit buses and trains with 100,000 video devices and intelligent mobile data collectors, which forms the foundation of the Company's Platform-as-a-Service ("PaaS") business model. The intelligent devices collect vehicle data such as video, audio, GPS, time, door open/close, and serve as the "black box" to aid in transit accident investigations. The PaaS units are WiFi enabled, mobile connected, or mobile enabled, allowing public transport assets to become part of the intelligent transportation solution in a Smart City ecosystem

Gatekeeper's mobile video solutions integrate high-definition digital video (HDDV) with the Global Positioning System (GPS) for real-time vehicle location, time, date and telematics data, and provides a comprehensive 360-degree view inside and outside vehicles. Video evidence is recorded on a military standard digital recording system located inside the vehicle. High definition cameras operate in day or night conditions and are vital for collecting video evidence such as license plate details of vehicles illegally passing streetcars or school buses while passengers are loading or unloading. Gatekeeper's wireless devices also provide real-time connectivity, streaming video, and vehicle tracking. Gatekeeper's video management software is used as a desktop application for managing basic incidents and its enterprise software can be used to stream live video from any vehicle, anywhere, anytime.

Gatekeeper offers a Platform-as-a-Service ("PaaS") business model, designed to enable intelligent transportation systems for Smart City initiatives. A Smart City is an urban area that uses different types of electronic Internet of Things sensors to collect data and then use insights gained from that data to manage assets, resources and services efficiently. The PaaS platform is centered around the intelligent video devices that the Company is actively installing for transit authorities on multiple transportation modes. The devices are GPS equipped and interface with vehicle signals such as door open/close. The devices can be wirelessly connected, which enables future software downloads and most importantly, allows public transit assets to be interconnected into the ecosystem of a Smart City.

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

Transit Initiative

In March 2018, the Company expanded its strategic focus to include the transit industry as a key growth initiative and created a wholly owned US-based subsidiary, Gatekeeper Systems USA Inc. ("Gatekeeper USA"), in the state of Delaware. In April 2018, Gatekeeper USA completed an agreement to acquire substantially all of the business assets of an existing mobile video surveillance service provider to the transit industry. The assets purchased included assignment of existing contracts to provide mobile video surveillance products, support, and maintenance to the Southeastern Pennsylvania Transportation Authority ("SEPTA"). SEPTA is the sixth largest public transportation system in the USA with an average weekday ridership of approximately 1.1 million and is actively using vehicle video surveillance to evaluate and defend claims, monitor system safety and security, and protect against fraud. SEPTA has an installed base of more than 27,000 video cameras on vehicles and in stations. Gatekeeper USA provides annually recurring vehicle video system maintenance services for SEPTA's approximately 3,000 vehicles.

Gatekeeper USA has been awarded several contracts from SEPTA, and the Company is now leveraging this customer's endorsement along with the Company's service strategy to attract other transit customers and additional

business in other industries. Gatekeeper USA provides service solutions and manufacturing from its newly renovated facility in Bristol PA to provide regional service for customers, comply with “Buy America” requirements, and mitigate the impacts of US trade tariffs.

Passenger Health Check Initiative

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic, which severely disrupted all modes of global passenger travel including school buses and public transportation vehicles. The Company immediately began to research, design, and configure passenger health check and contact tracing solutions that could be deployed by school and transit authorities to provide a safer transportation environment for their passengers. Each weekday in the US alone, more than 25 million school students and 18 million transit passengers board buses at locations that are primarily not stations, meaning that health screening tools are needed at the bus boarding point.

On August 4, 2020, the Company launched Intelligent Temperature Sensing System (ITSS), an infrared body temperature sensor system that incorporates a smart panel, thermal imaging and artificial intelligence to quickly and accurately measure the body temperature of passengers who board school buses and public transportation vehicles. ITSS allows transit and school bus agencies to deploy health screening tools similar to those being put in place at airports. ITSS is a contactless system that can determine body temperature within 20 milliseconds using thermal cameras, artificial intelligence, and video analytics. Visual and audible alarms are triggered when temperature thresholds are exceeded. When passengers board a bus, the ITSS panel records body temperature with an accuracy of +/- 0.5 degree Celsius. The 7-inch ITSS panel is equipped with facial recognition capabilities to improve accuracy and allows customers or authorities to prepare future applications such as intelligent passenger routing, contact tracing, passenger counting, or payment verification. The panel records images within 40 milliseconds and has storage capacity of 50,000 facial images.

During November 2020, the Company commenced a national marketing campaign to raise awareness of how ITSS can help organizations with health monitoring and contact tracing. The marketing campaign has been designed to reach over 50,000 influencers and decision makers in school districts, universities, transit authorities and more.

The Company believes passenger health monitoring in public transportation is an emerging North American growth trend that will continue even after the COVID-19 pandemic subsides. The Company intends to integrate ITSS into its PaaS platform business model as a new additional data layer.

Artificial Intelligence and Video Analytics

The Company continually innovates and launches new products and feature enhancements to expand existing products capability and customer service offerings in order to broaden its market reach. The Company now provides Artificial Intelligence (AI) solutions to support reliable video evidence collection and it believes that AI is an important component within vehicle video safety and security. Vehicle video solutions can be viewed as mobile data collection systems where video data is analyzed and available to be transmitted in real-time. Customers are now equipping a greater number of vehicles with video systems and are also increasing the number of video components within each vehicle – most of which are using high definition video. This trend dramatically increases the amount of video data collected and analyzed in today's vehicle video systems.

The Company believes that Artificial Intelligence has the potential to transition conventional mobile video systems to intelligent machine vision solutions that automatically make decisions without human interaction. These intelligent machine vision solutions could change the way conventional systems manage data. With more cameras being installed in mobile applications and each camera having higher resolution, the amount of video data that has to be analyzed may eventually overwhelm staffing operations. Examples of applications that could greatly benefit from new AI algorithms are driver performance monitoring, abnormal passenger behavior, passenger tracking and counting and illegal passing of vehicles while buses are stopped putting passengers at risk during loading and unloading. Another example is in area of one of a transit agencies largest expenses which is claims and liabilities. A common problem in this area is false liability claims. A reliable mobile data collection system with built in AI could be a valuable tool to help mitigate the millions of dollars spent on legal fees every year.

SEPTA offers an example of the importance of using Artificial Intelligence in vehicle video surveillance. SEPTA has over 27,000 video cameras installed in vehicles and stations and operates a fleet of approximately 3,000 vehicles operating more than 12 hours per day transporting more than 1 million riders per weekday. These vehicle video surveillance systems now collect an enormous amount of video evidence, which requires wireless transmission, long-term data storage, and analysis. Video evidence and analysis is extremely important to SEPTA. SEPTA's *Fiscal Year 2020-2024 Financial Projections* identifies significant savings of approximately \$22 million USD per year in liability

claims, which had historically cost the transit authority more than \$40 million USD per year, through effective collection and management of video evidence.

The Company believes its Artificial Intelligence and video analytics solutions for vehicle and mobile applications are competitive differentiators and growth drivers that being now being exposed and recognized by customers with sophisticated video evidence systems – such as SEPTA.

NTSB Compliant Digital Video Recorders

The Company provides digital video recorders (DVRs) and crash hardened memory modules (CHMMs) that record and protect operating evidence in rail transit applications. The DVRs and CHMMs have continuous-recording capabilities that can be used to verify crew actions and train operating conditions, which greatly aids accident investigations in the same way that black boxes are used in the airline industry. They are compliant with the recommendation made by the National Transportation Safety Board (NTSB), which calls upon the Federal Transit Administration to install crash-resistant inward and outward-facing cameras and continuous recorders in all rail transit vehicles.

The related devices meet the EN 50155 international standard for electronic equipment used in railway applications. Additional product certifications, strategic partnering, and bundling is being explored to capture additional opportunities within the commuter rail market. The Company has already completed its first installation, equipping the trains of the sixth largest transit authority in the US through a \$6.3 million contract.

Sales Backlog

As at November 30, 2020, the Company's contracted sales backlog and sales funnel remains brisk, indicating the Company is currently on track to hit revenue targets in fiscal 2021. Interest in the Company's platform has expanded to multiple mobile markets including city and military vehicles, special law enforcement vehicles, courier vehicles, first responder and ambulances. This new interest adds to the Company's core markets of school and transit buses. The Company executed on its plan to expand service-based recurring revenue by winning a contract with SEPTA to service existing video equipment and provide certain evidence management services for up to five years, worth approximately \$12 million CDN. The order size and growth potential with this evolved customer mix is aligned with the Company's mandate to achieve accelerated revenue growth and to achieve profitability year over year. The Company is in the process of expanding recurring revenue offerings with hosted data management services.

Future Development and Deployment:

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

Additionally, offering the capability to provide professional, hosted data management services to monitor, review and package video evidence, on behalf of customers, is another potential area of growth that could represent significant scalable recurring revenue. Product development efforts have been focused on emerging technologies that incorporate intelligent self-diagnostics, video analytics, artificial intelligence, deep learning, and overall data management.

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

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

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

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

Overall Performance

Company revenue for the three months ended November 30, 2020 was \$4,964,805, compared to \$3,356,397 for the three months ended November 30, 2019, representing an increase of 48%. Revenue is earned in two main regions, being Canada and United States. Total revenue earned for the three months ended November 30, 2020 in Canada was \$497,759 (2019 - \$718,871), and total revenue earned in the United States was \$4,467,047 (2019 - \$2,637,526). Revenue in the United States increased significantly while revenue and interest in Canada met expectations during the current year as compared to the comparative year primarily due to operations of the US subsidiary ramping up after the initial buildout of infrastructure and resources subsequent to Gatekeeper Systems USA Inc. becoming a wholly-owned subsidiary of the Company in April 2018, which has added a layer of efficiency for USA-based customers. The Company has also expanded its direct sales and sales support team in an effort to increase sales in the North American market.

Cost of sales for the three months ended November 30, 2020 was \$3,194,360, compared to \$1,888,385 for the three months ended November 30, 2019, representing an increase in direct costs of 69%. Tariffs imposed by the US government, effective September 2018, on products manufactured in China continue to have an impact on the Company's gross profit margin. The Company is anticipating gross margin increases by implementing strategic pricing initiatives and software services during second half of fiscal 2021.

Gross Margin for the three months ended November 30, 2020 was \$1,770,445, compared to \$1,468,012 for the three months ended November 30, 2019, representing an increase in gross margin of 21%.

Net operating profit for the three months ended November 30, 2020 was \$253,431, as compared to a net operating loss of \$29,205 for the three months ended November 30, 2019. Total comprehensive income for the three months ended November 30, 2020 was \$242,401, compared to total comprehensive loss of \$332 for the three months ended November 30, 2019. Non-cash expenses included in net income for the three months ended November 30, 2020 total \$176,893, which includes depreciation, share-based compensation, and foreign exchange losses. During the three months ended November 30, 2020, a deferred income tax recovery was recognized in the amount of \$12,000 (2019 - \$Nil) as it is probable they will be realized given the increasing profitability of the Company.

Overall operating expenses for the three months ended November 30, 2020 was \$1,517,014, as compared to \$1,497,217 for the three months ended November 30, 2019 representing an increase in operating expenses of 1%. During the current fiscal quarter, management continued to execute on its operating cost management plan implemented in Q3 2019 with the goal to be profitable year over year despite pressure on gross margin caused by changes in tariff policies between China and United States.

Gatekeeper USA initiated its service obligations under its new SEPTA contract announced October 17th, 2019 for approximately \$2.36M per year. SEPTA approved an initial three-year service term beginning in November 2019 for approximately \$7.1 million, plus two one-year extension options, for a total potential contract value of up to \$11.8 million over five years.

The Company views Philadelphia and surrounding counties serviced by SEPTA as a strategic platform to provide additional services to the North American transit market. Revenues related to transit have been increasing, and the Company is optimistic about expansion opportunities in the transit market. The Company has expanded its Gatekeeper USA operations to include manufacturing and assembly of all video products delivered to customers in the United States for transit, education, first responder and military customers. Gatekeeper USA has also recently increased its service fleet vehicles by 50% to support growing business at SEPTA. The US operation is a model that can be extrapolated to differentiate the Company and obtain greater market share.

The Company intends to increase its focus on services and solutions that are considered to be annually recurring. Annually recurring revenue for the year ended August 31, 2020 was estimated by management to be approximately \$2.3M million, representing approximately 11% of total revenue. As part of its Platform as a Service (PASS) business model, the Company intends to scale current recurring revenue by offering hosted services to manage data its systems collect.

Selected Quarterly Information

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

| | F2019-Q2 | F2019-Q3 | F2019-Q4 | F2020-Q1 | F2020-Q2 | F2020-Q3 | F2020-Q4 | F2021-Q1 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| | 28-Feb | 31-May | 31-Aug | 30-Nov | 29-Feb | 31-May | 31-Aug | 30-Nov |
| | 2019 | 2019 | 2019 | 2019 | 2020 | 2020 | 2020 | 2020 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 2,698,819 | 4,308,506 | 4,879,510 | 3,356,397 | 3,574,643 | 5,653,462 | 7,732,074 | 4,964,805 |
| Gross Profit | 1,142,129 | 1,973,883 | 2,076,830 | 1,468,012 | 1,614,468 | 2,407,160 | 2,859,170 | 1,770,445 |
| Gross Profit | 42% | 46% | 43% | 44% | 45% | 43% | 37% | 36% |
| Expenses | 1,565,750 | 1,424,785 | 1,828,201 | 1,497,217 | 1,551,966 | 1,472,852 | 1,774,017 | 1,517,014 |
| Net Income (Loss) | (423,621) | 616,572 | 167,601 | (332) | 90,551 | 1,325,428 | 2,119,360 | 242,401 |
| EPS (Basic) | (0.01) | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.02 | 0.00 |
| EPS (Diluted) | (0.01) | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.02 | 0.00 |
| Assets | 6,949,394 | 7,840,198 | 9,249,093 | 8,917,960 | 8,162,994 | 9,820,196 | 15,601,937 | 14,894,941 |
| Liabilities | 996,829 | 1,271,061 | 2,331,195 | 1,955,590 | 1,104,573 | 1,292,977 | 4,764,064 | 3,767,819 |
| Shareholders' Equity | 5,952,565 | 6,569,137 | 6,917,898 | 6,692,370 | 7,058,421 | 8,527,219 | 10,837,873 | 11,127,122 |

Outlook

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

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

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

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

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

Gatekeeper's Growth Strategy

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

The Company believes its PaaS business model is important to its growth strategy. PaaS has been designed to enable intelligent transportation solutions for Smart City initiatives. The *Statista Research Department* expects technology spending in worldwide Smart City initiatives to reach US\$124 billion in 2020, an increase of 20% from 2019, and to reach US\$189.5 billion by 2023. The PaaS platform is centered around the intelligent video devices that the Company is actively installing for transit authorities on multiple transportation modes.

Gatekeeper's software and AI solutions supports growth in reliable video evidence collection, and the Company believes that AI is an important component within vehicle video safety and security. Customers are now equipping a greater number of vehicles with video systems and are also increasing the number of video components within each vehicle – most of which are using high definition video. This trend dramatically increases the amount of video data collected and analyzed in today's vehicle video systems. AI dramatically changes how this data is managed and creates an opportunity for Gatekeeper to deliver significant value to its customers.

Smart City and video-based solutions continue to evolve with the addition of new and different sensors, higher resolution images, larger storage, faster processing and increased durability. Developing smart devices and providing video management software that possess the ability to integrate with other discrete systems represents an opportunity to both gain an increased share of existing markets and enter new markets. Gatekeeper's development efforts are focused on providing a robust open architecture video management software platform that can integrate and interface with other manufacturer's devices, to form a comprehensive control system that brings all components together in a single application.

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

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

Liquidity and Capital Resources

At November 30, 2020, the Company had cash and cash equivalents of \$2,729,239 and working capital of \$8,624,034, compared to \$1,029,324 and \$8,325,049, respectively at August 31, 2020.

Cash provided by operating activities was \$3,199,910 for the three months ended November 30, 2020, as compared to \$216,589 during the three months ended November 30, 2019, which was primarily related to the significant decrease in receivables during the current quarter.

Cash used through investing activities was \$42,315 for the three months ended November 30, 2020, as compared to cash provided of \$938 during the three months ended November 30, 2019, which was primarily related to the purchase of property, plant and equipment during the quarter.

Cash flows used through financing activities during the three months ended November 30, 2020 was \$1,432,564 as compared with \$290,746 during the three months ended November 30, 2019, primarily due to the full repayment on the credit facility entered into during the year ended August 31, 2020.

Effective June 12, 2018 and amended July 12, 2019, the Company entered into a non-dilutive, revolving and non-revolving, secured line of credit of up to \$1,000,000 (the "**Line of Credit**") with its bank. Funds are to be available to

the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory and is secured by a General Security Agreement over the assets of the Company.

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

- (a) For CAD Overdraft Loans, the Bank's Prime Rate plus 1.00% per annum 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 USD Overdraft Loans, the Bank's U.S. Base Rate plus 1.00% per annum on the basis of a year of 360 days, calculated monthly in arrears on the daily balance 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 (the "**Short-Term Loan**") 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:

- (a) For CAD Prime Rate Loan, the Bank's Prime Rate 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 is repayable on demand, secured by a first charge on the assets of the Company and its subsidiaries and requires a maintenance of a Debt to Tangible Net Worth ratio not to exceed 2.75 to 1.0; current ratio of not less than 1.25 to 1.0; and Debt Service Ratio of not less than 1.25 to 1.0.

As at November 30, 2020 there was \$Nil advanced or owing under the Line of Credit, and \$Nil owing as a Short-Term Loan, which was paid in full during the year end August 31, 2020.

The Company has agreed to pay a related party an annual fee of \$18,750 USD as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company. During the year ended August 31, 2020, the Company terminated this agreement and made a final payment of \$1,297 CDN to the related party.

On July 23, 2020, the Company entered a \$3,000,000 revolving credit facility with Toronto Dominion Bank (the "**Credit Facility**") bearing interest at a rate of prime plus 0.85% per annum and United States Base Rate (USBR) loans at a rate of prime plus 0.75%. The Credit Facility is intended to be used for general working capital purposes. The Credit Facility is secured by a General Security Agreement (GSA) for Gatekeeper Systems Inc., representing a first charge on the Company's present and after acquired personal property, and a Uniform Commercial Code Security Agreement ("UCC") for Gatekeeper Systems USA Inc., among other customary guarantees, and is repayable upon demand. The initial drawdown under the Credit Facility is subject to satisfaction or waiver of certain conditions precedent customary for a financing of this type.

As at November 30, 2020 there was \$Nil owing under the Credit Facility (August 31, 2020 - \$1,411,969).

The Company had cash and cash equivalents of \$2,729,239 at November 30, 2020 (August 31, 2020 - \$1,029,324), however management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. Management intends to continue to support the operations with financing initiatives primarily through, but not limited to, the issuance of equity. Alternative financing options may include obtaining bank credit facilities and short-term loans from third parties. If the Company is unable to raise additional capital in the future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures.

Circumstances that may impact the Company's ability to obtain financing in the future include poor market conditions, increased interest rates and actual operations being different than expected by management. The Company mitigates these risks through a planning and budgeting process by which it anticipates and determines the funds required to support its normal operating requirements.

The Company has maintained a working capital balance of over \$6 million for the last three fiscal years, which has been sufficient to repay the Company's liabilities in the normal course of business and meet its contractual obligations for the next 12 months.

The Company operates in two geographic segments, being Canada and the United States, and is subject to 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.

Contractual Obligations

As of November 30, 2020, the Company's contractual obligations and contingencies are as follows:

- a) The Company has commitments to make payments related to the acquisition of certain operating assets and service contracts of Spector Logistics, Inc.
- b) The Company derives its revenue from the sale of products in various tax jurisdictions, which are subject to various Canadian and foreign federal and provincial laws and regulations governing taxes. These laws and regulations are continually changing. The Company believes its operations are materially in compliance with all applicable laws and regulations. There is no guarantee that the Company's chosen tax position will not be challenged by tax authorities in these jurisdictions which could result in additional taxes, related non-income tax amounts, interest and penalties payable.

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

Capital Structure

As at November 30, 2020, the Company had 89,400,144 common shares issued and outstanding, nil Class A preferred shares outstanding.

| | Common Shares | Class A Preferred Shares |
|--|----------------------|-------------------------------------|
| Balance – August 31, 2020 | 89,375,144 | - |
| Shares issued upon exercise of stock options | 25,000 | - |
| Balance – November 30, 2020 | 89,400,144 | - |

During the three months ended November 30, 2020, 25,000 options were exercised at \$0.11 for gross proceeds of \$2,750.

During the year ended August 31, 2020, 900,000 options were exercised between \$0.11 and \$0.30 per share for gross proceeds of \$147,000. The options exercised had a fair value of \$91,472, which has been reclassified from Reserves to Share Capital.

During the year ended August 31, 2020, 878,000 common shares were issued to the Chief Executive Officer of the Company, as a bonus, at a fair market value of \$166,820, of which \$31,820 was recorded as salaries and benefits expense included in general and administrative expenses and \$135,000 was accrued for during the year ended August 31, 2019.

Stock Options

Under the current stock option plan a maximum of 10% of the total issued and outstanding common shares of the Company are reserved for issuance.

The changes in stock options during the three months ended November 30, 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 | \$0.14 | 770,000 |
| Options exercised | \$0.16 | (900,000) |
| Balance – August 31, 2020 | \$0.17 | 7,643,250 |
| Options exercised | \$0.11 | (25,000) |
| Balance – November 30, 2020 | \$0.17 | 7,618,250 |

During the year ended August 31, 2020, the Company granted 770,000 (2019 – 675,000) incentive stock options to directors, officer, employees and consultants which may be exercised within 5 years from the date of grant at prices ranging from \$0.135 to \$0.20 per share.

The weighted average fair value of the options granted during the year ended August 31, 2020 was estimated at \$0.085 per option as at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

| | November 30, 2020 | August 31, 2020 |
|-----------------------------|----------------------|--------------------|
| Risk free interest rate | - | 0.69% |
| Expected life | - | 5 years |
| Expected volatility | - | 76.41% |
| Expected dividend per share | - | - |

Incentive share options outstanding and exercisable at November 30, 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 | 300,000 | 7.96 | \$0.105 | 300,000 | 7.96 | \$0.105 |
| \$0.11 | 325,000 | 3.54 | \$0.11 | 300,000 | 3.54 | \$0.11 |
| \$0.12 | 1,600,000 | 7.06 | \$0.12 | 1,550,000 | 7.05 | \$0.12 |
| \$0.12 | 1,030,000 | 3.67 | \$0.12 | 815,000 | 3.67 | \$0.12 |
| \$0.13 | 500,000 | 5.42 | \$0.13 | 500,000 | 5.42 | \$0.13 |
| \$0.16 | 175,000 | 4.45 | \$0.16 | 175,000 | 4.45 | \$0.16 |
| \$0.18 | 125,000 | 3.63 | \$0.18 | 125,000 | 3.63 | \$0.18 |
| \$0.195 | 831,250 | 5.66 | \$0.195 | 831,250 | 5.66 | \$0.195 |
| \$0.25 | 1,605,000 | 2.34 | \$0.25 | 1,605,000 | 2.34 | \$0.25 |
| \$0.30 | 357,000 | 2.78 | \$0.30 | 357,000 | 2.78 | \$0.30 |
| \$0.20 | 45,000 | 3.97 | \$0.20 | 45,000 | 3.97 | \$0.20 |
| \$0.135 | 725,000 | 4.35 | \$0.135 | 450,000 | 4.35 | \$0.135 |
| | 7,618,250 | 4.75 | \$0.167 | 7,053,250 | 4.80 | \$0.171 |

During the three months ended November 30, 2020, the Company recorded total share-based payments of \$45,733 (2019 – \$8,804), which has been charged to general and administrative expense for the period.

Share Purchase Warrants

Details regarding warrants issued and outstanding are summarized as follows:

| | Weighted average exercise price | Number of shares issued or issuable on exercise |
|------------------------------------|---------------------------------|---|
| Balance – August 31, 2018 | \$0.30 | 10,640,000 |
| Expired | \$0.30 | (10,640,000) |
| Balance – August 31, 2019 and 2020 | - | - |
| Balance – November 30, 2020 | - | - |

Use of Financial Instruments

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

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

Financial Risk Management

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

Credit Risk

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

At November 30, 2020, 19% of the Company's trade accounts receivable balance is over 90 days past due (August 31, 2020 – 26%). The carrying amount of trade and other receivables as at November 30, 2020 was \$4,759,365 (August 31, 2020 - \$7,720,780). The Company insures its non-government accounts receivable.

Liquidity Risk

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

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

The Company coordinates this planning and budgeting process with its financing activities through the capital management process. The Company's financial liabilities are comprised of its trade payables and accrued liabilities, the contractual maturities of which at November 30, 2020 and August 31, 2020 are summarized as follows:

| | November 30, 2020 | August 31, 2020 |
|--|----------------------|---------------------|
| Trade payables and accrued liabilities with contractual maturities – | | |
| Within 90 days or less | \$ 935,824 | \$ 1,793,149 |
| In later than 90 days, not later than one year | 982,665 | 2,002,323 |
| | \$ 1,918,490 | \$ 3,795,472 |

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 rates.

The Company has no significant exposure at November 30, 2020 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 November 30, 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 realized approximately 89% of its sales and makes a significant amount of its purchases in US dollars. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by holding its cash and cash equivalents in USD and Canadian dollars. The Company monitors and forecasts the values of net foreign currency cash flow and statement of financial position exposures and from time to time could authorize the use of derivative financial instruments such as forward foreign exchange contracts to hedge a portion of foreign currency fluctuations.

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in US dollars as of November 30, 2020 and August 31, 2020:

| | November 30, 2020 | August 31, 2020 |
|--|----------------------|---------------------|
| Cash and cash equivalents | \$ 2,282,014 | \$ 538,191 |
| Trade and other receivables | 4,314,566 | 7,208,833 |
| Trade and other payables and accrued liabilities | 495,974 | (1,941,883) |
| Finance lease obligation | (401,807) | (419,235) |
| | \$ 6,690,747 | \$ 5,385,906 |

Based on the above net exposure at November 30, 2020, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$669,074 decrease or increase respectively in both net and comprehensive loss (August 31, 2020 – \$538,591). The Company has not employed any currency hedging programs during the period ended November 30, 2020.

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Proposed Transactions

The Company does not have any proposed transactions.

Related Party Transactions

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

(a) Key Management Personnel Compensation

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

| | November 30, 2020 | November 30, 2019 |
|----------------------------------|----------------------|----------------------|
| Salaries and short-term benefits | \$ 217,564 | \$ 171,911 |
| | \$ 217,564 | \$ 171,911 |

(b) Trade Related Party Transactions

The amounts due to related parties as at November 30, 2020 and August 31, 2020 are as follows:

| | November 30, 2020 | August 31, 2020 |
|-------------------------|----------------------|--------------------|
| Chief Executive Officer | \$ - | \$ 44,266 |
| Directors | 5,692 | 3,000 |
| Vice Presidents | 2,551 | 66,542 |
| | \$ 8,243 | \$ 113,808 |

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

Other Related Party Transactions

On September 1, 2020, the Company entered into an amended employment agreement with the Chief Executive Officer if the Company pursuant to which the CEO is to be awarded a bonus in the amounts of \$1,400,000 which is included in prepaid expenses. The bonus is to be paid out in installments over a period of five years at the CEO's discretion. As at November 30, 2020, \$1,400,000 remains payable to the CEO as a bonus.

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 \$500 during the three months ended November 30, 2020.

On March 10, 2020, the Chief Executive Officer received a bonus of 878,000 common shares of the Company at a fair market value of \$166,820, of which \$31,820 was included in general and administrative expenses and \$135,000 was accrued for during the year ended August 31, 2019.

The Company has agreed to pay the Chief Executive Officer an annual fee of \$18,750 US as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company. During the year ended August 31, 2020, the Company terminated this agreement and made a final payment of \$1,297 CDN to the related party.

Outstanding Share Data

As of the report date, the Company had the following securities outstanding:

| | Common Shares | Stock Options |
|----------------------------|---------------|---------------|
| Balance, November 30, 2020 | 89,400,144 | 7,618,250 |
| Balance, January 25, 2021 | 89,730,145 | 7,288,250 |

Critical Accounting Estimates

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

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

Allowances for Doubtful Accounts

The Company must make an assessment of whether trade receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration customer credit, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Inventory Valuation

The Company adjusts inventory values so that the carrying values do not exceed the net realizable value. The valuation of inventory at the lower of cost or net realizable value requires the use of estimates with regards to the amount of current inventory that will be sold, the prices at which it will be sold, and an estimate of expected orders from customers. Additionally, the estimates reflect changes in products or changes in demand because of various factors, including the market for products, obsolescence, changes in product offerings, technology changes and competition.

Determination of Functional Currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Accounting Standards and Amendments Issued 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 September 1, 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.

At the date of adoption, the Company had two building leases and four automobile leases affected by the transition to IFRS 16.

The two building leases include office and warehouse space for the Company's headquarters located in Abbotsford, BC in Canada and for the US Subsidiary in Bristol, Pennsylvania. These leases were previously accounted for as operating leases under IAS 17. The fair value of the lease liability was estimated using level 2 inputs on the adoption date of IFRS 16 using the Company's incremental borrowing rate of 5.28% and a weighted average lease term of 7.57 years.

The four automobile leases were previously accounted for as finance leases under IAS 17. During the year ended August 31, 2019, the fair value of the lease liability was estimated using level 2 inputs on the date of the lease agreements using the implicit rate of the leases at 6.325%, a weighted average lease term of 4 years and a weighted average Guaranteed Residual Value of \$29,398. During the year ended August 31, 2020, one of the four automobile leases was terminated.

See Note 11 – Property, Plant and Equipment of the accompanying financial statements for the Right of Use Assets of these leases, and Note 14 – Leases, for the lease obligations continuity table.

Risk Factors

The following are major risk factors management has identified which relate to the Company's business activities. Such risk factors could materially affect the Company's future financial results and could cause events to differ materially from those described in forward-looking statements relating to the Company. Though the following are major risk factors

identified by management, they do not comprise a definitive list of all risk factors related to the Company's business and operations. Other specific risk factors are discussed elsewhere in this MD&A.

Capitalization and Commercial Viability

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

History of Operating Losses

The Company has an accumulated deficit since its incorporation through November 30, 2020 of \$7,404,012. The deficit may increase in the near term, as the Company continues its product development and establishes sales channels for its new products.

General Economic Conditions

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

Key Employees

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

Supply Chain

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

New Products and Technology Change Risk

The Company operates in a competitive marketplace; there are no guarantees that the Company can maintain or expand its advantages. The Company invests significantly in the development of products and continually seeks to improve its current product offerings. The success of the Company continues to depend upon market acceptance of its new products, its existing products and its ability to refine and enhance current product lines. In some situations, new legislation is driving requirements for various subsets of the Company's products, particularly in the area of recording license plates of vehicles illegally passing a school bus. Should legislation or public opinion change, relating to various issues surrounding right of privacy, there would be no guarantee that the Company would maintain sales of these products.

New Market Risk

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

Competition

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

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

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

Ability to Maintain Profitability and Manage Growth

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

Intellectual Property Risks

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

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

Technological Change, New Products and Standards

The technology industry is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render the Company's existing products and systems obsolete. The

Company's products employ complex technology and may not always be compatible with current and evolving technical standards and products developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition.

Reliance on Information Systems and Technology

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

Reliance on Third Party Licenses

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

Effectiveness and Efficiency of Sales and Marketing Expenditures

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

Product Liability

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

Risk Associated with International Operations

Management of the Company believes that its future growth and profitability opportunities will require expansion of its sales further in the United States and into other foreign markets. This expansion will require significant management attention and financial resources and could adversely affect the Company's operating margins. In order to increase international sales in subsequent periods, the Company may establish additional foreign operations, incur substantial infrastructure costs, hire additional personnel and recruit international resellers. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products and services. The risk associated with currency fluctuations comprise mainly of the Company's United States denominated sales, component purchases and other expenses. In the future, it is expected that a portion of revenues may be realized in other foreign currencies as a result of international sales. Fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the United States dollar, may have a material adverse effect on the Company's results of operations,

financial condition and any business prospects. The Company may use hedges to mitigate the risk of foreign currency exposure.

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

Management of the Company believes that renegotiation of the North American Free Trade Agreement, the pending ratification of the agreement between the United States of America, the United Mexican States, and Canada (USMCA), and implementation of United States Tariffs on imports or implementation of the proposed DBCFT by the United States could significantly impact the Company's ability to operate profitably. More specifically, the emergence of tariffs on products manufactured in Canada, the USA, and China have material impacts on the cost of Gatekeeper products being imported and exported. The USA's prohibition of some surveillance products manufactured by specific Chinese companies could affect the Company and require redesign to comply with certain regulations. To mitigate the impact of any of these changes, the Company has implemented plans to move part of its operations to the United States by way of expansion. Such an expansion could increase operating expenses, cost of goods sold and affect overall profitability.

USA / China relations

The United States and China relations relating to such topics of allegations relating to illegal surveillance activities by certain Chinese companies on American assets could restrict these companies or subsidiaries from doing business in the United States. Gatekeeper cannot guarantee that its direct or indirect relationships with certain ODM partners in China will not impact future revenue should USA and China relations not improve.

COVID-19

In March 2020, government authorities declared a state of emergency due to the to the current and ongoing COVID-19 crisis, which the World Health Organization has declared as a global pandemic. The Company is considered an essential business and has remained in regular operation with employees continuing to work remotely where possible.

To date, the Company has experienced an impact on revenue in the areas that are deemed to be non-essential business. Revenue could be impacted if long term lock down continues caused by the COVID-19 pandemic. The Company relies on products from China and other overseas countries to be included in its overall system solutions and if supply chains are affected because of lock downs the Company may not be able to guarantee current revenue levels will continue. Approximately 30% of the Company's revenue in 2019 was from one customer and although that government customer has deemed the Company as an essential business thus assisting with continued revenue, there is no guarantee that status will continue if the pandemic worsens and a total shutdown of the transit industry was ordered. Should the Company's revenue be reduced substantially the Company may be forced to deplete its current work force and scale the business back. The Company sources products from a limited number of companies overseas and should that supply chain weaken or be unable to deliver because of the COVID-19 pandemic, the Company may be forced to reduce or shut down operations. The Company has immaterial long term debt and sufficient working capital to meet its commitments and maintain operations for twelve months.

Goodwill

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

Expansion

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

Available Workforce

Continued success will depend on the performance and continued service of the Company's employees. We rely on the ability to attract new engineers, research and development staff, production personnel and key sales and marketing employees. During the coming year, we will continue to develop our employees and search for key new hires, however

there is no assurance that the Company will be able to retain existing personnel or attract, hire and retain additional qualified personnel.

Possible Adverse Effect of Future Government Regulations

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

Government Contract Risk

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

Disclosure Controls and Procedures

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

The CEO and CFO have evaluated and concluded that the Company's disclosure controls and procedures are adequate and effective for providing reasonable assurance that material information relating to the Company, including its consolidated subsidiary, would have been known to them as of November 30, 2020.

As well, as of November 30, 2020, the CEO and CFO have evaluated and concluded that the Company's internal controls over financial reporting have been adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. However, control systems, no matter how well designed and operated, have inherent limitations, therefore, those systems, although determined to be adequately designed, can provide only reasonable assurance that the objectives of the system are met.

During the three months ended November 30, 2020, there was no change in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.