



# GATEKEEPER

**GATEKEEPER SYSTEMS INC.**

## **Management's Discussion and Analysis**

For the Nine Months Ended May 31, 2022



**GATEKEEPER SYSTEMS INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE NINE MONTHS ENDED MAY 31, 2022**

**General**

This Management's Discussion and Analysis ("MD&A") has been prepared as of July 29, 2022 and should be read in conjunction with the Company's May 31, 2022 unaudited condensed interim consolidated financial statements with accompanying notes 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, 2021 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](http://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](http://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.

## Company History

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

On February 19, 2013, the Company completed the acquisition of all of the issued and outstanding shares of the private company, GSI Systems Inc., through a reverse takeover arrangement constituting its Qualifying Transaction under the applicable policies of the TSX Venture Exchange (“TSX-V”). On May 28, 2013, the Company changed its name to Gatekeeper Systems Inc. and its trading symbol on the TSX-V to “GSI”.

On March 1, 2018, the Company formed a wholly-owned subsidiary called Gatekeeper Systems USA Inc. (the “US Subsidiary”).

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.

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.

## Business 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 school buses, transit buses and trains with over 100,000 video devices and approximately 40,000 intelligent mobile data collectors which form 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 offers mobile video solutions which 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 offers video management and video analytics software which may be used as a mobile or desktop application for managing video evidence of incidents. Enterprise software can be used to stream live video from any vehicle, anywhere, anytime.

Gatekeeper’s Canadian head office is the primary production facility and is located in Abbotsford, British Columbia. Product research and development, design, and engineering take place at the Abbotsford head office. 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 has also pursued global distribution relationships outside of North America.

Gatekeeper operates its US Subsidiary in Bristol, PA which is its service center for transit customer South East Pennsylvania Transit Authority (SEPTA), and school customer The School District of Philadelphia. The US Subsidiary 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 to comply with “Buy America” requirements and mitigate the impacts of US trade tariffs.

The US Subsidiary provides service solutions and has recently increased its service fleet vehicles to support growing business in the Philadelphia area. The US operation is a model that can be extrapolated to differentiate the Company and obtain greater market share.

### **School Segment**

On March 17, 2021, the U.S. Department of Education announced US\$122 billion from the American Rescue Plan to help schools reopen safely and get students back in the classroom. The Company believes this funding package presents opportunity for additional business relating to technology on school buses, and the Company is preparing accordingly.

The Company's history has been anchored in the design and supply of video and data solutions for school buses that help protect school children while travelling to and from school. School Bus Fleet Magazine reports that approximately 480,000 school buses transport 22.6 million students daily in the United States alone. The Company has a full suite of video and data products designed to improve school bus safety, including:

Video Analytics Software - records time, location, audio, and video, enabling quick and easy assembly of video evidence needed to deal with school bus problems such as bullying, grazing, vaping, or verbal abuse.

Stop Arm Camera - records license plate information day or night, of vehicles that illegally pass a school bus when the stop arm is deployed. Gatekeeper's optional proprietary software also automates the ticketing process of stop-arm infractions.

360 Surround Vision Camera System - provides a surround view of the school bus and is automatically activated when the bus is reversing or making side turns. The surround view is displayed on a specialized rear-view mirror system allowing drivers to monitor school children all around the bus.

Interior Camera - records the video and audio activity on the bus interior using adjustable vandal-resistant cameras.

Tactical Ready Kit - is a portable unit that allows law enforcement personnel to obtain quick and easy display of the internal video and audio of a school bus in close proximity, even while in motion.

School bus safety is a growing concern due to the rise of vehicles illegally passing school buses while stopped. In the United States, The National Association of State Directors of Pupil Transportation Services conducts an annual survey of stop-arm violations. During the 2018-19 school year, 130,963 school buses reported that 95,319 vehicles passed their buses illegally on a single day (nearly one per bus per school day on average) which points to more than 17 million school bus stop-arm violations per year in the United States alone. Several states and provinces have recently authorized the use of video and photo evidence for issuing citations as a method to deter this dangerous practice.

The Company has developed Student Protector which is an advanced video-based system for recording school bus stop-arm violations. The system includes digital recorders, up to 10-megapixel cameras for multi-lane high-speed license plate capture, GPS location, and wireless network compatibility for remote downloading. Student Protector utilizes video analytics to automatically identify and record incidents and uses the Company's proprietary cloud-based application to provide automated video analysis and pre-formatted incident reports that can be used by enforcement agencies.

The Company has developed CLARITY an industry-first integrated video and school bus operating platform, which offers a solution to the logistics challenges created by the new era of hybrid schooling. CLARITY was developed in partnership with an established technology provider for school bus transportation who has developed software solutions for school bus scheduling and dispatch, school bus driver time and attendance, as well as driver communications. Their solutions have been embraced by a global leading transportation provider and under the partnership, Gatekeeper becomes their only video integration partner for the school bus market. CLARITY will also interface with Gatekeeper's on-board mobile data collectors and video devices on school buses to integrate additional data elements such as GPS location, passenger counting, and video analysis for social distancing. CLARITY provides school districts with the scheduling and on-bus video and data analysis tools they need to efficiently manage the logistics of their school bus operations.

The Company has developed Mobile WiFi to allow students and authorized users to connect their WiFi-enabled devices to the Internet when the school bus or vehicle is in motion or parked to provide a community Internet access point. The Mobile WiFi access point is mounted in the vehicle and is specially designed to operate in the extreme temperature range found on school buses. Mobile WiFi data is routed through the school's firewall and content filters to ensure a safe Internet experience for students. A report by Common Sense Media and the Boston Consulting Group shows that in the United States between 15 and 16 million K-12 school age children (approximately 30%) do not have access to adequate internet or devices to sustain effective distance learning at home. Of those, around 9 million have neither internet access nor devices.

High back seats on school buses are becoming increasingly popular for safety reasons and are mandated in some states in the US. This limits the view angles for traditional video systems, preventing adequate video capture of the passengers. Gatekeeper's high-definition wide angle dome cameras are designed to overcome this challenge and offer complete coverage inside the bus. Several school districts are therefore upgrading their buses with new digital video recorders as well as interior and exterior cameras.

School districts are embracing video and data solutions on school buses to help provide a safer transportation environment for school children and Gatekeeper has installed approximately 40,000 wireless enabled intelligent mobile data collectors and more than 100,000 video devices on school buses for more than 3,500 school district customers.

### **Transit Segment**

The Company designs, installs, and services intelligent video and data solutions for the transit industry. These solutions allow cities to improve passenger safety and operational efficiencies. Transit agencies throughout North America may consider enabling video enforcement solutions to enforce moving and parking violations in designated transit lanes in effort to keep buses on schedule. Starting January 1, 2022, California AB 917 becomes law, enabling public transit operators state-wide to install automated forward-facing cameras on transit vehicles to enforce parking violations in bus lanes, and at designated transit stops.

In June 2021, the Company announced the product launch of its AI-enabled Automated Lane Enforcement (ALE™) solution, designed to help cities reduce transit lane violations by automating the video evidence capture and processing vehicle infractions relating to bus lanes and streetcars. ALE uses video analytics and Artificial Intelligence to identify instances in which vehicles are violating transit lane traffic laws, including specialized applications such as vehicles that partially obstruct the bus lane, vehicles in the bus lane that signal a legal right-hand turn but illegally continue to drive straight, and vehicles that pass a streetcar when passengers are boarding or disembarking. ALE records the video evidence, captures the vehicle license plate, and prepares the instance for review and ticketing using the Company's proprietary Traffic Infraction Management System (TIMS) software. ALE builds on nearly a decade of experience within the Company using video analytics to identify, capture evidence and ticket vehicles that illegally pass stopped school buses.

In March 2018, the Company acquired substantially all of the business assets of a mobile video surveillance service provider to the transit industry, which 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 under a SEPTA contract announced October 17<sup>th</sup>, 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.

In November 2018, the Company announced it had been contracted to provide video solutions to be factory-installed for 335 diesel-electric hybrid transit buses manufactured by New Flyer of America. In June 2020, the Company also announced it had been contracted to supply approximately 70 video solutions to be factory-installed by a transit bus manufacturer. The Company believes that having its video solutions factory-installed is an endorsement of the value that transit customers recognize for the Company's offerings.

Gatekeeper offers 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. In November 2020, the Company announced the completion of a \$6.3 million contract to design and supply DVRs and CHMMs for SEPTA.

The Company has been awarded several contracts from SEPTA and views SEPTA as a strategic reference customer to enable other business opportunities in 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.

In November 2021 the US\$1.2 trillion Bipartisan Infrastructure Deal (BID) was signed in the United States. Following the signing of the BID, the U.S. Department of Transportation's Federal Transit Administration announced key priorities and historic funding amounts for public transportation. The BID authorizes up to US\$108 billion, including US\$91 billion in guaranteed funding for public transportation – the most significant federal investment in transit in the nation's history. It will boost transit funding for communities all over the country by an average of 30% – helping communities address maintenance backlogs, modernize and expand. The new funding provided under the bill will help transit agencies reduce the current maintenance backlog by 15% and replace more than 500 aging subway, light rail, and commuter rail cars. It will further modernize the nation's transit fleet by replacing more than 10,000 fossil-fuel powered transit vehicles with cleaner electric or low-emission transit vehicles. Key priorities for public transportation under the BID include safety programs, modernization of transit infrastructure, transit vehicle replacement to greener vehicles, and equity investment to improve transit accessibility. The Company believes this federal investment in transit represents significant opportunity for the Company.

The Company's strategic decision in 2018 to focus on the transit industry has resulted in over \$20 million in revenue and included the following announcements:

- April 2018 - \$1.7 million contract with SEPTA (the 6th largest transit authority in the U.S.);
- November 2018 – Contract with NFI Group to equip 335 diesel-electric hybrid transit buses;
- February 2019 - \$2 million contract with SEPTA;
- August 2019 – Contract to equip SEPTA paratransit buses;
- October 2019 – \$6.3 million contract to supply NTSB compliant digital video recorders on trains;
- October 2019 – \$11.8 million contract over 5 years for video services for SEPTA's 3,000 transit vehicles;
- June 2020 – Contract for factory-installed video solutions by US-based transit bus manufacturer;
- November 2020 – Completion of \$6.3 million contract for NTSB compliant recorders on trains;
- June 2021 – Launch of Automated Lane Enforcement (ALE) solution for transit bus lane violations;
- March 2022 – \$915,000 in contracts for transit bus wireless data connectivity and server upgrades; and
- May 2022 - \$5.08 million SEPTA transit video upgrade contract.

### **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 US\$22 million per year in liability claims, which had historically cost the transit authority more than US\$40 million 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.

### **Sales Backlog**

Subsequent to May 31, 2022, the Company announced a Master Services Agreement with National Express, the operator of over 20,000 school buses.

### **Future Development and Deployment**

During 2021, U.S. federal funding commitments for over US\$100 billion were announced for both the transit and school industries, which are the primary business segments the Company serves. This is the largest federal funding assistance these industries have ever received. The Company is taking steps to prepare for the opportunities that lie ahead in these industries by increasing investment in marketing and sales as well as research and development.

The Company has also increased its focus on services and solutions that are annually recurring. For example, in April 2021 the Company launched a new Software-as-a-Service (SaaS) based video management solution designed to store and manage school bus video data and announced its first customer deployment for a school bus fleet in Wisconsin. The school district in Wisconsin had previously purchased the PaaS solution for their buses in February 2021 and is now adding the SaaS-based video management software to achieve an advanced comprehensive intelligent video program for their fleet.

As new video and data technologies become more prominent, many of the Company's customers are returning to the Company for system upgrades and/or system replacement. These returning customers now represent a high percentage of the business, and the Company refers to this business as its "recurring customer" business. Growth in the recurring customer business is a testament to the excellent customer satisfaction which the Company prides itself in. In the transit market the Company is actively conducting proof-of-concept trials for new products and is developing solutions that integrate AI and video analytics capabilities. For example, the video analytics capabilities that have been developed for the school industry segment such as the Stop Arm Camera technology, can be adapted for transit applications for street cars to record video evidence of cars who illegally pass street cars while transit passengers are loading or unloading.

Gatekeeper remains committed to engineering and manufacturing industry leading video and 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.

The Company's video and data solutions can also be expanded to other niche markets and industries, such as transport and first responder applications. For example, 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. These technology solutions, which have already been developed, can be deployed in other new industries where customers can equip themselves with tools to detect, analyze, and respond to safety and security threats, and to reduce losses arising through false liability claims.

### 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, 2021	August 31, 2020	August 31, 2019	August 31, 2018
Revenue	\$ 17,231,080	\$ 20,316,576	\$ 13,726,313	\$ 7,850,933
Cost of Sales	\$ 9,715,096	\$ 11,967,766	\$ 7,622,185	\$ 3,661,863
Gross Profit	\$ 7,515,984	\$ 8,348,810	\$ 6,104,128	\$ 4,189,070
Gross Margin Percentage	44%	41%	44%	53%
Expenses	\$ 6,802,351	\$ 6,296,052	\$ 6,482,996	\$ 5,584,266
Operating Income (Loss)	\$ 713,633	\$ 2,052,758	\$ (378,868)	\$ (1,395,196)
Net Income (Loss) for the year	\$ 108,068	\$ 3,535,007	\$ (285,827)	\$ (1,323,277)
Earnings (Loss) per share –				
Basic	\$ 0.00	\$ 0.04	\$ (0.00)	\$ (0.02)
Diluted	\$ 0.00	\$ 0.04	\$ (0.00)	\$ (0.02)
Total Assets	\$ 14,401,634	\$ 15,601,937	\$ 9,249,093	\$ 7,894,272
Total Non-Current Liabilities	\$ 670,287	\$ 815,395	\$ 101,608	\$ -
Total Liabilities	\$ 3,301,803	\$ 4,764,064	\$ 2,331,195	\$ 873,817
Total Shareholders' Equity	\$ 11,099,831	\$ 10,837,873	\$ 6,917,898	\$ 7,020,455

### Overall Financial Performance

Company revenue for the three and nine months ended May 31, 2022 was \$4,388,520 and \$10,192,417 respectively, compared to \$3,831,373 and \$12,088,139, respectively, for the three and nine months ended May 31, 2021, representing an increase of 15% and a decrease of 16% respectively.

Revenue is earned in two main regions, being Canada and United States. Total revenue earned for the nine months ended May 31, 2022 in Canada was \$989,780 (2021 - \$733,045) and total revenue earned in the United States was \$9,202,636 (2021 - \$3,098,329).

Cost of sales for the three and nine months ended May 31, 2022 was \$2,577,924 and \$5,681,271, respectively, compared to \$1,978,344 and \$6,863,804 for the same prior year comparable periods, representing an increase in direct costs of 30% and decrease of 17%, respectively.



Gross margin for the three months and nine months ended May 31, 2022 was \$1,810,596 and \$4,511,146, respectively, compared to \$1,853,029 and \$5,224,335 for the same prior year comparable periods, representing a decrease in gross margin of 2% and 14%, respectively. Gross margin as a percentage of revenue for the three and nine months ended May 31, 2022 was 41% and 44%, respectively, compared to 48% and 43% for the same prior year comparable periods. The Company attributes the decrease in gross margin to higher-than-expected supply chain costs and inventory price increases which occurred after customer contracts were established. The Company considers these impacts to be short term and the Company has taken corrective action to mitigate these impacts where possible by increasing the amount of on-hand inventory and negotiating supplier terms.

Overall operating expenses for the three and nine months ended May 31, 2022 was \$2,129,518 and \$5,786,162, respectively, as compared to \$1,708,948 and \$4,734,843 for the same prior year comparable periods representing an increase in operating expenses of 24% and 22%, respectively. Operating expenses increased in the current period due to an increase in selling and marketing expenses and an increase in research and development costs associated with new product development.

Total comprehensive loss for the three and nine months ended May 31, 2022 was \$317,760 and \$800,875, compared to total comprehensive loss of \$42,393 and \$141,898 for the same prior year comparable periods. During the nine months ended May 31, 2022, deferred income tax recovery was recognized in the amount of \$404,000 (2021 - \$303,000 income tax expense).

### Selected Quarterly Information

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

	F2020-Q4	F2021-Q1	F2021-Q2	F2021-Q3	F2021-Q4	F2022-Q1	F2022-Q2	F2022-Q3
	31-Aug	30-Nov	28-Feb	31-May	31-Aug	30-Nov	28-Feb	31-May
	2020	2020	2021	2021	2021	2021	2022	2022
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>	7,732,074	4,964,805	3,291,961	3,831,373	5,142,941	2,699,589	3,104,308	4,388,520
<b>Gross Profit</b>	2,859,170	1,770,445	1,600,861	1,853,029	2,291,649	1,719,439	981,111	1,810,596
<b>Gross Profit</b>	37%	36%	49%	48%	45%	64%	32%	41%
<b>Expenses</b>	1,774,017	1,517,014	1,508,881	1,708,948	2,067,508	1,703,139	1,953,505	2,129,518
<b>Net Income (Loss)</b>	2,119,360	242,401	(341,909)	(42,393)	249,969	183,093	(666,208)	(317,760)
<b>EPS (Basic)</b>	0.02	0.00	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)
<b>EPS (Diluted)</b>	0.02	0.00	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)
<b>Assets</b>	15,601,937	14,894,941	14,085,358	13,911,315	14,401,634	16,061,901	15,823,229	17,806,191
<b>Liabilities</b>	4,764,064	3,767,819	3,231,045	3,051,923	3,301,803	4,741,253	4,846,086	6,951,808
<b>Shareholders Equity</b>	10,837,873	11,127,122	10,854,313	10,859,392	11,099,831	11,320,648	10,977,143	10,854,383

### 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 US\$1.40 billion in 2017 and is expected to reach US\$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 May 31, 2022, the Company had cash and cash equivalents of \$2,675,452 and working capital of \$8,600,816, compared to \$3,601,034 and \$9,022,267 respectively at August 31, 2021.

Cash used in operating activities was \$3,609,697 for the nine months ended May 31, 2022, as compared to cash provided of \$4,856,090 during the nine months ended May 31, 2021, which was primarily related to the decrease in inventories during the current period and the significant increase in trade and other receivables during the comparative period.

Cash used through investing activities was \$202,494 for the nine months ended May 31, 2022, as compared to \$82,435 during the nine months ended May 31, 2021, which was primarily related to the purchase of property, plant and equipment during the periods presented.

Cash flows provided through financing activities during the nine months ended May 31, 2022 was \$2,886,363 as compared to cash used of \$1,384,041 during the nine months ended May 31, 2021, primarily due to the draws on the line of credit during the current period and the repayment of short term loans during the comparative period.

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 May 31, 2022 there was \$2,663,361 owing under the Credit Facility (August 31, 2021 - \$Nil).

The Company had cash and cash equivalents of \$2,675,452 at May 31, 2022 (August 31, 2021 – \$3,601,034), 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 May 31, 2022, the Company’s contractual obligations and contingencies are as follows:

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 May 31, 2022, the Company had 91,399,394 common shares issued and outstanding, nil Class A preferred shares outstanding.

	Common Shares
Balance – August 31, 2021	90,303,894
Shares issued upon exercise of stock options	1,095,500
Balance – May 31, 2022	91,399,394

During the nine months ended May 31, 2022, 1,095,500 options were exercised between \$0.11 and \$0.40 for gross proceeds of \$371,950.

During the year ended August 31, 2021, 928,750 options were exercised between \$0.11 and \$0.25 for gross proceeds of \$141,495. The options exercised had a fair value of \$91,812, which has been reclassified from Reserves to Share Capital.

## 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 nine months ended May 31, 2022 were as follows:

	Weighted average exercise price	Number of Options
Balance – August 31, 2020	\$0.17	7,643,250
Options cancelled	\$0.23	(23,750)
Options granted	\$0.87	850,000
Options exercised	\$0.15	(928,750)
Balance – August 31, 2021	\$0.25	7,540,750
Options granted	\$0.39	2,225,000
Options cancelled	\$0.87	(760,000)
Options exercised	\$0.34	(1,095,500)
Balance – May 31, 2022	\$0.22	7,910,250

During the nine months ended May 31, 2022, the Company granted 1,100,000 stock options at \$0.385 for a term of 5 years, and granted 1,125,000 stock options at \$0.40 for a term of 2 years.

During the year ended August 31, 2021, the Company granted 850,000 options at an exercise price of \$0.87 for a period of 5 years from the date of grant. The options are subject to vesting provisions and may not be exercised until January 2026.

The weighted average fair value of the options granted during the period ended May 31, 2022 was estimated at \$0.17 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, 2022	August 30, 2021
Risk free interest rate	1.56%	-
Expected life	5	-
Expected volatility	76.9%	-
Expected dividend per share	-	-

Incentive share options outstanding and exercisable at May 31, 2022 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	200,000	6.46	\$0.105	200,000	6.46	\$0.105
\$0.11	300,000	2.09	\$0.11	300,000	2.09	\$0.11
\$0.12	1,150,000	5.50	\$0.12	1,150,000	5.50	\$0.12
\$0.12	200,000	1.01	\$0.12	200,000	1.01	\$0.12
\$0.12	980,000	2.17	\$0.12	872,500	2.17	\$0.12
\$0.13	500,000	3.93	\$0.13	500,000	3.93	\$0.13
\$0.16	75,000	2.80	\$0.16	75,000	2.80	\$0.16
\$0.195	718,750	4.16	\$0.195	718,750	4.16	\$0.195
\$0.25	1,440,000	0.84	\$0.25	1,440,000	0.84	\$0.25
\$0.25	25,000	1.01	\$0.25	25,000	1.01	\$0.25
\$0.30	277,000	1.28	\$0.30	277,000	1.28	\$0.30
\$0.135	500,000	2.85	\$0.135	425,000	2.85	\$0.135
\$0.87	90,000	3.87	\$0.87	-	-	-
\$0.385	1,100,000	4.68	\$0.385	400,000	4.68	\$0.385
\$0.40	354,500	1.74	\$0.40	4,500	1.74	\$0.40
	7,910,250	3.14	\$0.22	6,587,750	3.14	\$0.18

During the nine months ended May 31, 2022, the Company recorded total share-based payments of \$183,477 (2021 – \$24,467) which has been charged to general and administrative expense for the period. The share-based payments expense was in respect of the vesting of stock options.

### 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 May 31, 2022, 12% of the Company's trade accounts receivable balance is over 90 days past due (August 31, 2021 – 14%). The carrying amount of trade and other receivables as at May 31, 2022 was \$3,256,060 (August 31, 2021 - \$3,107,350). 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 May 31, 2022 and August 31, 2021 are summarized as follows:

	May 31, 2022	August 31, 2021
Trade payables and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 2,252,342	\$ 1,567,941
In later than 90 days, not later than one year	3,600,366	783,767
	<b>\$ 5,852,708</b>	<b>\$ 2,351,708</b>

### *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 May 31, 2022 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, 2022 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 May 31, 2022 and August 31, 2021:

	May 31, 2022	August 31, 2021
Cash and cash equivalents	\$ 2,675,452	\$ 1,697,681
Trade and other receivables	3,256,060	2,796,527
Trade and other payables and accrued liabilities	(3,384,675)	(1,620,361)
Finance lease obligation	(872,972)	(343,257)
	\$ 1,673,865	\$ 2,530,590

Based on the above net exposure at May 31, 2022, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$167,387 decrease or increase respectively in both net and comprehensive loss (August 31, 2021 – \$253,059). The Company has not employed any currency hedging programs during the period ended May 31, 2022.

#### 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.

	Three months ended		Nine months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Salaries and short-term benefits	\$ 244,951	\$ 231,608	\$ 1,007,078	\$ 685,592
	\$ 244,951	\$ 231,608	\$ 762,127	\$ 685,592

(b) Trade Related Party Transactions

The amounts due to related parties as at May 31, 2022 and August 31, 2021 are as follows:

	May 31, 2022	August 31, 2021
Chief Executive Officer	\$ -	\$ 332,633
Directors	4,077	5,118
Vice Presidents	6,643	39,089
	\$ 10,720	\$ 376,840

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

(c) Other Related Party Transactions

On September 1, 2020, the Company entered into an amended employment agreement with the Chief Executive Officer pursuant to which the CEO is to be awarded a bonus in the amounts of \$1,400,000. The bonus is to be paid out in installments over a period of five years at the CEO's discretion. During the period ended May 31, 2022, \$280,000 of the bonus was paid out, which was accrued during the year ended August 31, 2021.

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, which was extended for one additional year. During the period ended May 31, 2022, the loan was repaid in full.

**Outstanding Share Data**

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

	Common Shares	Stock Options
Balance, May 31, 2022	91,399,394	7,910,250
Balance, August 1, 2022	91,399,394	8,010,250

**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**

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

#### **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 May 31, 2022 of \$8,333,346. 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.

#### *Electronic Component Shortages*

Electronic component shortages have been a hindrance on a booming electronics marketplace and there may not be enough chips, capacitors, resistors and other parts to satisfy demand. If the company is unable to source electronic components directly or indirectly through its OEM partners, the company may experience delays with receipt of product. Furthermore, larger amounts of inventory commitments to protect the company against potential shortfall in inventory due to demand could result in pressure on cashflow.

#### *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 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 continue to be impacted 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. 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 US Subsidiary, would have been known to them as of May 31, 2022.

As well, as of May 31, 2022, the CEO and CFO have evaluated and concluded that the Company’s internal controls over financial reporting have been adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. However, control systems, no matter how well designed and operated, have inherent limitations, therefore, those systems, although determined to be adequately designed, can provide only reasonable assurance that the objectives of the system are met.

During the period ended May 31, 2022, 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.