

GATEKEEPER

Third Quarter Management's Discussion and Analysis

May 31, 2018

**GATEKEEPER SYSTEMS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018**

General

This Management's Discussion and Analysis ("MD&A") of Gatekeeper Systems Inc. ("Gatekeeper," "GSI," or the "Company") is dated July 30, 2018 and provides an analysis of Gatekeeper's financial results for the three and nine months ended May 31, 2018 ("F2018-Q3") compared to the three and nine months ended May 31, 2017 ("F2017-Q3").

The following information should be read in conjunction with the Company's May 31, 2018 unaudited condensed interim consolidated financial statements with accompanying notes ("F2018-Q3 Interim F/S") which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and the Company's audited consolidated financial statements with accompanying notes and related MD&A for the fiscal year ended August 31, 2017 ("F2017") which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The F2018-Q3 Interim F/S follow the same accounting policies and methods of computation as compared with the most recent fiscal financial statements.

This discussion and analysis 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.

All dollar figures are expressed in Canadian dollars unless otherwise stated. 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. (formerly Indigo Sky Capital Corp. (“Indigo”)) (the “Company” or “Gatekeeper” or “we” or “our”) was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on August 26, 2010 and completed its initial public offering as a Capital Pool Company (“CPC”) on January 7, 2011. As a CPC, the Company’s only business had been to identify and evaluate businesses or assets with a view of completing a Qualifying Transaction.

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

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

Under Part 1 of National Instrument 51-102F1, following a reverse takeover, the RTO acquiree (Gatekeeper) is the reporting issuer and the financial statements are those of the RTO acquirer (GSI). The consolidated financial statements must be prepared and filed as if the RTO acquirer (GSI) has always been the reporting issuer.

As a result, this MD&A and the related audited consolidated financial statements are a continuation of the MD&A and financial statements of Gatekeeper with the comparative information being that of GSI.

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

Selected Financial Information

The following sets out selected financial information from the Company's period indicated and are derived from the Company's condensed interim consolidated financial statements. Users of this information should read the following in conjunction with those statements thereto.

	Three months ended		% change	Nine months ended		% change
	May 31, 2018	May 31, 2017		May 31, 2018	May 31, 2017	
Revenue	\$ 2,527,308	\$ 2,274,528	11%	\$ 5,194,527	\$ 4,953,564	5%
Cost of Sales	\$ 1,166,378	\$ 1,091,460	7%	\$ 2,427,285	\$ 2,522,804	(4%)
Gross Profit	\$ 1,360,930	\$ 1,183,068	15%	\$ 2,767,242	\$ 2,430,760	14%
Gross Margin	54%	52%		53%	49%	
Expenses	\$ 1,519,016	\$ 1,050,846	45%	\$ 3,844,983	\$ 2,865,036	34%
Operating Loss	\$ (158,086)	\$ 132,222	(220%)	\$ (1,077,741)	\$ (434,276)	(148%)
Net Loss for the period	\$ (126,209)	\$ 139,508	(190%)	\$ (966,048)	\$ (445,835)	(117%)
Loss per share –						
Basic	\$ (0.00)	\$ 0.00		\$ (0.01)	\$ (0.01)	
Diluted	\$ (0.00)	\$ 0.00		\$ (0.01)	\$ (0.01)	
	May 31, 2018	May 31, 2017		May 31, 2018	May 31, 2017	
Total Assets	\$ 8,047,103	\$ 8,655,985		\$ 8,047,103	\$ 8,655,985	
Total Liabilities	\$ 719,114	\$ 735,150		\$ 719,114	\$ 735,150	
Total Shareholders' Equity	\$ 7,327,989	\$ 7,920,835		\$ 7,327,989	\$ 7,920,835	

Overview

Gatekeeper is an industry leader providing high-definition safety and surveillance solutions for a range of clients including school districts, law enforcement, public transit authorities, as well as the US military and Coast Guard. In April 2018, the Company expanded its business scope to include the provision of maintenance, support and installation services to a major transit authority through its wholly owned US subsidiary.

Each system integrates high-definition digital video (HDDV) with the Global Positioning System (GPS) for real-time vehicle location, time, date and telematics data, and provides a valuable 360-degree view inside and outside vehicles. All data is recorded to a military standard digital recording system located inside the vehicle. High definition (HD) cameras work in day or night conditions and are vital for collecting evidence such as license plates of school bus stop arm violators. Gatekeeper wireless devices also provide real-time connectivity, streaming video, and vehicle tracking. Video management software can be used as a desktop application for managing basic incidents or its enterprise software can be used to stream live video from any vehicle anywhere, anytime. Our products are sold directly to end-user customers and through a network of distributors and system integrators who have relationships with customers in multiple mobile markets. Gatekeeper is focused on the North American market and we are expanding our interest and presence with a number of international partners.

Future oriented: While Gatekeeper is dedicated to offering superior HDDV systems, we believe that our future growth and success rests on offering comprehensive management solutions of the data and information that our equipment collects. We have a team committed to research and development that will harness our capabilities in integrated third-party software and hardware to deliver valuable value-added solutions that meet our customers' requirements and will drive future growth. Our core strategy is to evolve software applications for managing that data and transition parts of our business to software as a service revenue model.

School bus safety: The Gatekeeper brand is a recognized leader in school bus security and safety for the Kindergarten to Grade 12 market, a market which includes some 550,000 school buses across North America. Prospects for growth in this area are strong with an average of 25,000 to 50,000 school buses manufactured annually.

In an age of ever increasing focus on the safety of children at school, Gatekeeper technology platforms are used for recording incidents inside and outside school buses and offer valuable peace of mind to parents, administrators and public officials alike. For recording inside school buses, the platform integrates high-definition video with GPS, voice, live streaming, WiFi and vehicle sensors recorded to an onboard military grade high-definition digital video recorder.

The Company's high-definition platform records up to 24 cameras per location, all of which are displayed on the company's video management software. Gatekeeper customers can install command and control centers which gives them the ability to download video over WiFi or through live streaming. GPS integrated with video provides a full picture of where buses in the fleet are located, and what is happening on each bus in real time. In the event of a critical incident or suspicious behavior, law enforcement can be given permission to access live video from each bus allowing them to respond quickly.

Outside and around the school bus, Gatekeeper's HD platform protects children from deadly stop arm violations. These occur when buses are stationary, the stop arm is engaged, children are getting on or off the school bus, and a driver ignores the command and drives by, risking lives. In 2017 alone, it was estimated that more than 14 million stop arm violations occurred in the US. Our software synchronizes video, date and time, voice, and vehicle sensors such as activation of stop arms, signals, brake and warning lights, door switches or other electronic sensors. The synchronized data is then displayed on Gatekeeper's video management software allowing customers to find, save, and share evidence quickly and easily.

Gatekeeper's high-speed license plate reading system attaches to the outside of the school bus and records evidence required to prosecute violators. The software provides a blurring feature that allows end-users to protect the privacy of individuals not related to the incident by covering up faces during the video clipping process. This results in the company's video management software being used as an effective tool to help customers better manage incidents and evidence with speed and accuracy; saving significant time and money.

Recent legislation in some US states and Canadian provinces allow authorities to use video from a school bus video system as evidence to issue a citation. The Company's program is called "STUDENT PROTECTOR" and includes a cloud-based software application trade named TIMS™ (Traffic Infraction Management System) that connects to the vehicle owner database and manages the entire citation cycle. The STUDENT PROTECTOR™ program was designed to reduce dangerous activity and save children's lives. The average citation is estimated to be between \$250 USD and \$500 USD.

Reducing costs to schools and local government: One of Gatekeeper's business models provides the stop arm system free of charge to the school district and shares revenue from citations with the school districts and counties. The Company believes its technology could be applied to other video enforcement scenarios as cities and counties become aware of the capability of this technology to share revenue while increasing safety and reducing cost of operations. The Company's sales model for its video enforcement platform was designed to allow counties and cities to pay for the technology from the citations collected from drivers directly involved in the incidents rather than from law abiding taxpayers.

Expanding to transit and law enforcement: Gatekeeper's HDDV platform is also being expanded into transit, transport and law enforcement. Forward facing cameras provide the high-definition imagery required to determine the cause of an accident. This information can be used to protect drivers or settle legal disputes before costs escalate using indisputable evidence. Video integrated with GPS, time and date, and other vehicle sensors is becoming a more common means of providing evidence as well as valuable information to streamline operations.

With these technologies, our clients are armed with the right tools to detect, analyze, and respond to safety and security threats anytime; and to reduce losses arising through false liability claims.

The Company's products can be sold independently or as a total end-to-end solution including the following components and/or features:

- High resolution day/night cameras designed for extreme rugged environments;
- The industry's first high speed infrared license plate reading sensor system for school buses;
- Extensive range of mobile digital recording devices ranging from 4 to 16 cameras;
- Live or recorded GPS tracking;
- Voice recording on each camera;
- Wireless Downloading – WiFi and Live Streaming;
- G4 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
- TIMS™ (Traffic Infraction Management System) cloud base software application for managing citations from school bus stop arm violations and photo enforcement systems;
- High definition ("HD") Body Worn Cameras;

The Company's products can be applied to law enforcement, maritime, homeland security and defense markets. Under the brand Viperfish®, digital recorders are built to meet various military specifications and are used to record video and metadata from forward looking infrared cameras, radar and high definition cameras. Post-mission analysis software is used to analyze tactical operations recorded to the Viperfish® recorders. The Company's Viperfish® high-definition airborne digital video recorders are currently being used by the United States Air Force ("USAF") to record long range sensors used on the AC-130 Gunships, Sea King helicopters in Canada, and French Navy marine vessels. The Company's brand XFORCE™ includes body cameras and in car video systems for law enforcement, prisoner vehicles, and other public safety applications.

Overall Performance

Gatekeeper revenue for the three months ended May 31, 2018 of \$2,527,308 represents an increase of 11% as compared to \$2,274,528 for the three months ended May 31, 2017.

Net loss for the three months ended May 31, 2018 was \$126,209 (\$0.00 per share) compared to a net profit of \$139,508 (\$0.00 per share) for the three months ended May 31, 2017, which is a decline in profitability of \$265,717 (190%).

Cost of sales in third quarter of 2018 was \$1,166,378 compared to \$1,091,460 in third quarter of 2017, representing a 7% improvement. Gross margins as a percentage of revenue in third quarter of 2018 was at 54%, compared to 52% in third quarter of 2017.

The Company has increased sales efforts in areas where it needed improvement adding three outside sales staff as well as five engineers. Identified sales opportunities have become more complex as increased demand for IP cameras, network and wireless integration as well as end to end service solutions for video system maintenance becomes intensified. Two major US contracts were announced in the quarter within the Company's target markets. Initial contracts to provide products, maintenance, installation and support to the Southeastern Pennsylvania Transportation Authority (SEPTA) totaled approximately \$1.8 million Canadian. The company is also in discussions with Navistar's largest dealer of school buses to distribute Gatekeeper products throughout their network.

Until April 30, 2018, the Company had a margined credit facility to borrow up to \$1.5 million USD, negotiated in May of 2016, and amended on October 5, 2017, through a US-based lender. The non-dilutive credit facility was available to provide the Company with working capital and available borrowing is determined based on the value of eligible inventory and trade accounts receivable. The Company had no funds advanced against the credit facility, as at May 31, 2018. On February 27, 2018 the Company provided the lender with written notice of its intention to terminate the lending agreement, effective April 30, 2018, one year prior to the expiry of the term. The US lender is being replaced by the Company's bank, which has agreed to provide a margined line of credit of up to CAD\$1 million or US\$800,000 based on the value of eligible inventory and trade accounts receivable. As at May 31, 2018 the new lending agreement had not been executed, but was pending with an accepted term sheet.

Overall operating expenses were \$1,519,016 for the three months ended May 31, 2018 compared to \$1,050,846 during the comparative period of the prior year and representing a 45% increase, but remained within management's expectations and operating budgets. All areas of operating expenses experienced year-over-year increases, partially due to the opening an office in the US during the quarter, and are explained in more detailed below.

General and administrative expenses (G&A) during the three months ended May 31, 2018 were \$601,406 compared to \$397,605 during the three months ended May 31, 2017, representing a 51% increase. Share-based payments

relating to options issued during the year, along with increases in depreciation, office and travel expenses arising from opening a US subsidiary, all contributed to the quarterly increase.

Selling and marketing expenses (“S&M”) during the three months ended May 31, 2018 were \$641,069 compared to \$426,004 during the three months ended May 31, 2017, representing a 50% increase. S&M expenses are comprised of sales salaries, commissions and direct selling expenses. During the quarter, several large US customers have agreed to transition their bus fleets from competitors’ video, necessitating increase travel and other sales efforts. Three additional salespeople have also been hired to provide increased coverage within targeted markets. The Company expects to continue current levels of sales and marketing expenditures, and increase them as required, as it works to build out Gatekeeper’s brand awareness and increase market share.

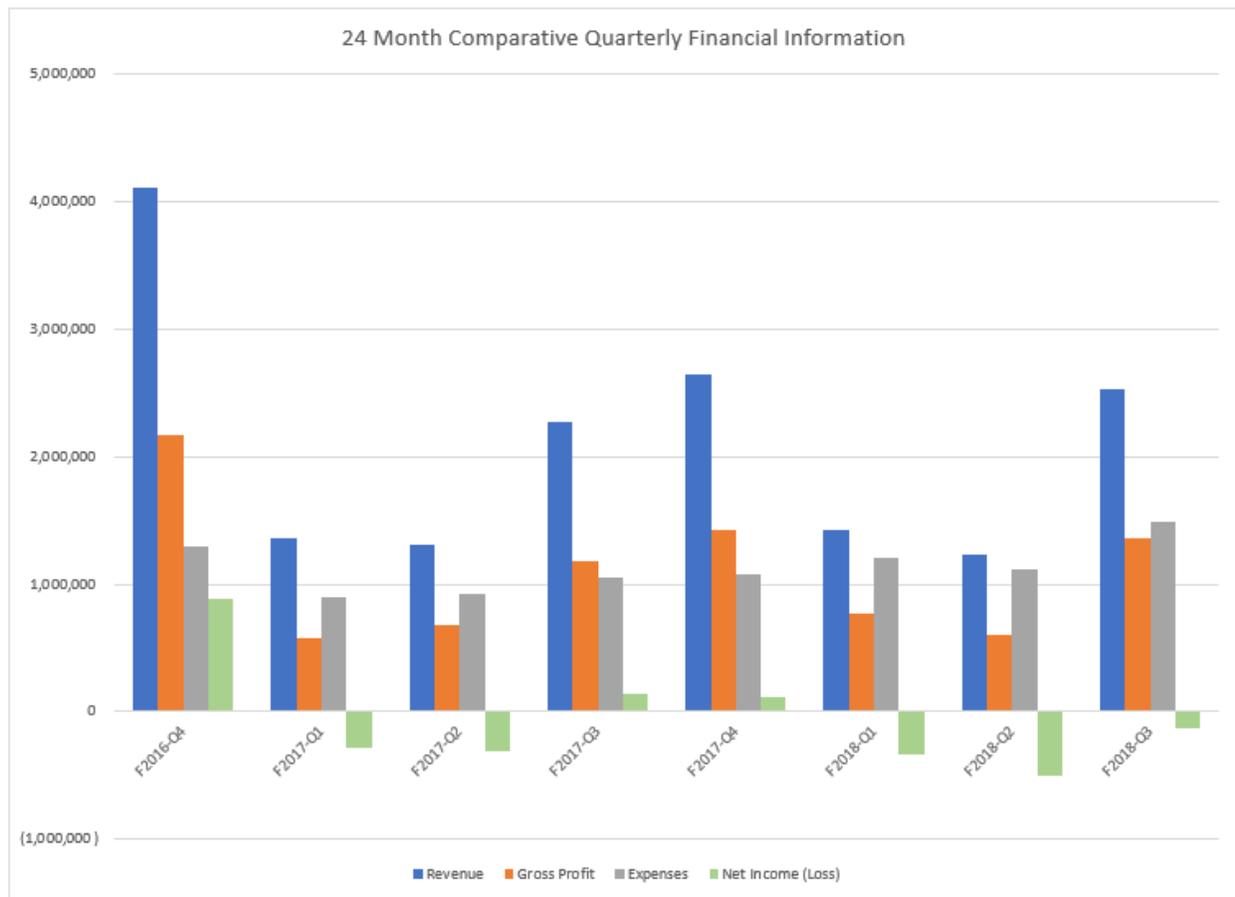
Research and development (“R&D”) expenses during the three months ended May 31, 2018 were \$276,541, compared to \$227,041 during the three months ended May 31, 2017, representing a 22% increase. Spending in R&D is largely consistent with the Q2 spending level, and the year-over-year comparable increase reflects the Company’s continued R&D efforts to accelerate new product features and functionality in its core product offering.

For the three months ended May 31, 2018, net loss was \$126,209, compared to a net income of \$139,508 during the three months ended May 31, 2017. Excluding non-cash charges of \$38,902 for depreciation and impairment, \$42,728 of unrealized foreign currency gain, and \$108,235 of share-based payments, the adjusted net loss was \$21,800 for the three months ended May 31, 2018, as compared to an adjusted net income of \$149,597 for the three months ended May 31, 2017. The term “adjusted net income” refers to net income before non-cash charges such as depreciation, unrealized gains or losses, inventory write-down, and share-based payment expenses.

As part of the Company’s corporate finance strategy, Gatekeeper successfully raised \$4,256,000 from over -subscribed private placements during fiscal 2017. The Company will continue to assess its capital needs, but believes its current working capital is sufficient. The need for additional capital in the form of equity is not required unless there is a defined event or combination of events that require additional financing. The Company has also arranged to have a margined operating line of credit made available through its bank, to assist with bridging working capital requirements, if required.

Selected Quarterly Information

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



	F2016-Q4	F2017-Q1	F2017-Q2	F2017-Q3	F2017-Q4	F2018-Q1	F2018-Q2	F2018-Q3
	31-Aug	30-Nov	28-Feb	31-May	31-Aug	30-Nov	28-Feb	31-May
	2016	2016	2017	2017	2017	2017	2018	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	4,114,960	1,364,541	1,314,495	2,274,528	2,651,543	1,429,899	1,237,320	2,527,308
Gross Profit	2,170,440	572,947	674,745	1,183,068	1,420,902	770,620	635,693	1,360,930
Expenses	1,291,948	893,770	920,420	1,050,846	1,084,440	1,205,931	1,120,036	1,487,139
Net Income (Loss)	884,711	(277,200)	(308,143)	139,508	114,076	(340,715)	(499,124)	(126,209)
EPS (Basic)	0.01	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)	(0.01)
EPS (Diluted)	0.01	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)	(0.01)
Assets	4,549,330	3,932,425	3,833,828	8,655,985	8,871,139	8,185,892	7,721,264	8,047,103
Liabilities	1,034,998	648,488	580,716	735,150	825,991	340,803	375,299	719,114
Shareholders' Equity	3,514,332	3,283,937	3,253,112	7,920,835	8,045,148	7,845,089	7,345,965	7,327,989

Discussion of Third Quarter Operations

Revenue

Revenue for the third quarter of fiscal 2018 was \$2,527,308 compared to \$2,274,528 during the comparative period of the prior year and represented an 11% increase. The Company's US subsidiary, Gatekeeper Systems USA Inc., commenced operations in April 2018 and contributed \$311,883 of new revenue to the quarter. Excluding new revenue from the US subsidiary, comparable sales declined 2.6% (\$59k) in the third quarter year-over-year.

Gross Margins

Gross margin for the Company's third quarter ended May 31, 2018, was 54% and compared to 52% during the same quarter of the prior year. The cost of sales consists primarily of materials and components, manufacturing labour, inventory write-off, warranty expenses, freight and shipping, and other selling costs. For two months of the current quarter, Gatekeeper Systems USA Inc. provided installation, maintenance, and repair services which generated a gross profit of 56%.

Operating Expenses

During the third quarter ended May 31, 2018, General and Administrative ("G&A") expenses were \$601,406 as compared to \$397,605 during the same quarter in the prior year and represented a 51% increase. The increase in G&A expenses related to increase in salaries and benefits, travel expense, accounting and legal, share-based payments, and depreciation. Those increases were partially offset by decreases in consulting fees, interest charges, investor relations and regulatory costs. G&A as a percentage of sales was 24% for the quarter. They were 28% of revenue for the year F2017 and 17% for the third quarter of the prior year. Commencing the operation of a US subsidiary and opening a US office accounted for a large portion of the increased G&A expenses during the quarter.

For the three months ended May 31, 2018, sales and marketing expenses were \$641,069 as compared to \$462,200 for the same quarter in the prior year and represents a 50% increase year over year. Sales and marketing expenses, as a percentage of sales were 25% for the third quarter, compared to 19% for the same quarter last year, primarily due to increased promotional and selling efforts. Selling and marketing ("S&M") expenses are comprised of sales salaries, commissions, and direct selling expenses. The increase in S&M expenses was within Management's budget expectations.

Research and development ("R&D") expenses were \$276,541 during the three months ended May 31, 2018 as compared to \$227,041 during the same quarter in the prior fiscal year and represented a 22% increase. R&D expenses, as a percentage of sales, were 11% in the third quarter of fiscal 2018 year, compared to 10% for the third quarter of fiscal 2017. The increase is arising from product enhancements undertaken for various technological features and functionality.

Outlook

According to IHS Inc., a global information and research provider, the global market for video surveillance equipment was estimated to be \$15 billion USD, annually, at the end of 2014, up from \$13.5 billion USD in 2013. In 2018, worldwide revenue is projected to be \$23.6 billion USD, equating to a 5-year compound annual growth rate of 12%¹. There are many niche segments within the surveillance market, including mobile video for school buses, transit buses, trains, law enforcement personnel and vehicles, general fleet vehicles, vessels and aircraft. The global mobile video market that Gatekeeper is focused on is estimated at \$1.2 billion USD excluding body-worn cameras, aircraft and marine vessels and portable markets such as automated video enforcement technology for safe zones in and around schools, parks and road construction.

The mobile market is slower to transition from analog to IP technology than the fixed site surveillance market, however Management expects there will be significant opportunities for Gatekeeper replacing existing analog cameras with high definition cameras. The Company projects new niche market growth over the next three years and has positioned its technology platform to execute on multiple product launches to satisfy safety and security requirements of these new markets. The Company believes these new niche markets have significant revenue upside to scale with its current revenue model, as well as add new recurring revenue by managing data that its devices collect.

Within the school bus, transit and law enforcement market segments, most companies provide end-to-end product solutions including video management software, cameras, digital video recorders and all other miscellaneous

¹ NASDPTS 2017 Study

equipment that complete the system. In the marine vessel and aircraft markets segments, there are companies that provide cameras, digital recorders and video management software. The Company provides a full suite of mobile security products and end-to-end solutions for its school bus, law enforcement and transit customers while providing high resolution recorders and post mission analysis software for customers such as the United States Air Force. In homeland security applications such as the Sea King Helicopters and the AC-130 Gunships, the Company's digital video recorders ("DVRs") are utilized to record video and other sensory data, from high performance aircraft cameras, for live or post mission review using the Company's video management software.

Gatekeeper's Growth Strategy

The Company's goal is to become the 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 that address them, as well as supporting local sales and service programs.

The Company's suite of products allows for expansion into multiple niches. The products provide customers with the ability to use its G4 Incident Management Software with its mobile video recorders, which can have four, eight, sixteen or twenty-four camera systems on a single vehicle. G4 software enables a user to share incidents quickly across hundreds of users without having to download software at each desktop. Additionally, the G4 software can connect and monitor any recorder over wireless networks anywhere in the world. The software provides live, dual-streaming video technology for customers to deal with emergency situations or monitor the health of their assets and cargo from remote locations. The G4 software is also capable of fusing fixed site surveillance cameras with its mobile video camera systems providing one common operating picture.

In the United States, recent independent studies estimated that over 14 million stop arm violations occurred in 2017². Depending on the US state law, the average fine for a stop arm violation ranges from \$250 to \$500 USD. It is illegal in every state in the USA and in every Canadian province to pass a school bus while the bus is stopped and the stop arm is engaged. States that have not passed legislation allowing video enforcement systems require law enforcement officers to witness the incident in order to issue a citation. Recent deaths, and near misses of children while loading and offloading school buses, have driven new legislation that allows authorities to use video recording from the Company's license plate reading system as evidence to issue tickets. The Company recognized this new trend two years ago and initiated the development of a cloud-based software application that adds automatic license plate recognition in the Cloud, integrates with County Vehicle Databases, in the USA, and manages the entire ticketing process. The Company is currently working on many projects, at various stages, and is in discussion with numerous law enforcement agencies to define workflow and revenue sharing structures generated from the tickets issued. The Company is experiencing growing inquiries, requests for tests, and evaluation programs for its stop-arm video enforcement application and has currently installed and launched pilot programs for over 20 school districts. The Company has successfully launched five revenue sharing projects in the state of Georgia and is anticipating more revenue from its stop arm camera business in F2019.

International

The Company's main focus over the next 24 months will be the North American market but it plans to introduce the technology in select countries outside of North America through strategic partnerships. The need to protect children in and around school buses, as well as increase safety on highways, is a global concern. New partnerships may be added to expand our technology to other select countries.

Marketing and Brand Awareness

The Company has participated in numerous trade shows in various countries that has led to many meetings and presentations with potential customers. The Company has recently expanded its presence on social media channels to build the brand and connect with customers and prospects. The Company launched a new public relations campaign distributing case studies, press and product releases to prospects across North America to increase awareness about successful projects and new technology launches by the Company.

² NASDPTS 2017 Study

Product Development

During F2018-Q3, Gatekeeper refreshed the 508HD4a DVR. The refresh enhanced the product based on customer feedback. Firmware updates for the Y35, 504HD1a and the 508HD4a were also released.

Gatekeeper added analog high definition (up to 1080p) recording capability to the 504HD2 DVR. The result was the launch of the 504HD2a DVR. With this additional functionality, all DVR's offered by Gatekeeper now have the ability to record analog high definition video in addition to IP high definition video. This is important as the analog high definition cameras are offered at a lower price point than IP based high definition cameras. This in turn keeps Gatekeeper's product price competitive in our targeted markets.

A trend in the school bus market is high back seats. High back seats provide additional protection for the passengers in the event of a rapid deceleration. As the seat height is raised it becomes difficult to see shorter passengers in the seats. In order to address this trend, Gatekeeper released the WA 11 camera. The WA 11 is a wide angle (163°horizontal field of view) 720p analog high definition camera. This camera is mounted above the passengers' heads and looks down between the seats. The combination of the wide field of view and mounting position provides a line of sight to be able to see the passengers between the seats.

A frequent issue in the mobile security market is the reliability that video will be available when it is needed. While Gatekeeper products are very reliable, the operating environment in vehicles is harsh. Not only is there significant shock and vibration but equipment is also subjected to extreme temperature swings, dust, dirt, tampering and vandalism.

In order to proactively provide feedback as to the operational state of DVR equipment on a vehicle, Gatekeeper completed the first release of Health Check during F2018 Q3. Health Check is a sever based software product that queries a DVR over a cellular or WiFi channel to determine the health of the DVR system installed on a vehicle. Gatekeeper's Health Check system verifies the operation of the wireless link, cameras and storage medium (hard drive or SD card). In addition, Health Check tracks DVR internal temperatures and supply voltage values. Temperature and voltage values are important in diagnosing the cause of issues a DVR system may be encountering.

Liquidity and Capital Resources

At May 31, 2018, the Company had cash and cash equivalents of \$4,625,143 and working capital of \$6,714,687 that compared to \$6,312,093 and \$7,840,380, respectively, at August 31, 2017.

Cash used in operating activities was \$785,309 for the three months ended May 31, 2018, compared to cash used from operating activities of \$623,074 for the same three months ended May 31, 2017.

Cash used for investing activities was \$411,018 during the three months ended May 31, 2018. The majority of the use of funds related to acquisition of goodwill, property, plant and equipment in connection with establishing a US subsidiary. The business assets were acquired for a purchase price of US\$300,000 (CAD\$387,239). This compared to cash used for investing activities of \$41,631 during the three months ended May 31, 2017.

Cash from financing activities was \$Nil for the three months ended May 31, 2018, compared with \$4,547,849 of cash generated during the three months ended May 31, 2017, from the issuance of common shares and the exercise of warrants.

On May 5, 2016, the Company entered into a non-dilutive revolving secured line of credit of up to \$1,500,000 (US) (the "Line of Credit") and the terms of Line of Credit were amended on October 5, 2017. Funds were available to the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory. The Line of Credit had an initial three-year term that expires April 30, 2019 and was renewed year-to-year thereafter unless terminated in writing by the Company with at least 60 days' notice. The lender could terminate the agreement at any time in writing with at least 90 days' notice.

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

- (a) On average borrowings during the preceding month not exceeding the availability formula based on eligible receivables, the interest rate is prime rate plus 3.25%;
- (b) On average borrowings during the preceding month exceeding the availability formula based on eligible receivables, the interest rate is prime rate plus 3.50%;
- (c) On any borrowings on any day exceeding the availability formula based on both eligible receivables and inventory, the interest rate is prime rate plus 6.50%; and

- (d) Prime rate must not be less than 3.50%.

The Line of Credit was repayable on demand, was secured by a first charge on the assets of the Company and its subsidiaries and required a maintenance of a tangible net worth of not less than negative \$1,500,000 and working capital of not less than negative \$1,500,000 tested at the end of each fiscal quarter.

The Line of Credit was also subject to amended annual facility fees of \$7,500 USD (previously \$15,000 USD) and amended monthly administration fees of \$250 USD (previously \$1,000 USD).

On February 27, 2018, the Company provided the lender with written notice of its intention to terminate the lending agreement, effective April, 30, 2018, one year prior to the expiry of the term. As of May 31, 2018, the agreement was terminated and the amount payable was \$Nil, as compared to a balance owing of \$259,294 on August 31, 2017.

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

The consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses in prior years and cash outflow from operations as a result of its sales and marketing and business development activities in its core markets and although these initiatives have grown its sales opportunity funnel, the timing of associated revenue-generating projects may be impacted by issues that are outside of the Company's control and, as a result, the Company may require additional financing from external sources.

The Company has a net loss of \$126,209 for the three months ended May 31, 2018 (May 31, 2017 – \$139,508 net profit) and has a working capital of \$6,714,687 at May 31, 2018 (August 31, 2017 – \$7,840,380). The Company had cash and cash equivalents of \$4,625,143 at May 31, 2018 (August 31, 2017 – \$6,312,093), but management cannot provide assurance that the Company will continue to achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. Future financing options may include obtaining bank credit facilities, short-term loans from third parties and/or through issuance of equity. 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. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Contractual Obligations

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

The following table summarizes the current contractual obligations of the Company and associated payment requirements as of May 31, 2018:

- a) The Company has entered into various operating lease contracts for office space and office equipment. The future minimum payments under these leases as at May 31, 2018 are as follows:

Contractual Obligations	2018	2019	2020	2021	Thereafter	Total
Operating leases	\$ 45,753	\$ 155,804	\$ 138,519	\$ 135,008	\$ 134,689	\$ 609,773
Trade and other payables	431,791	-	-	-	-	431,791
Accrued liabilities	285,947	-	-	-	-	285,947
	\$ 763,491	\$ 155,804	\$ 138,519	\$ 135,008	\$ 134,689	\$ 1,327,511

- b) The Company has agreed to pay a related party an annual fee of \$18,750 USD as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company.

Capital Structure

As at the May 31, 2018, the Company has 87,597,144 common shares issued and outstanding, nil Class A preferred shares outstanding.

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

During the three months ended May 31, 2018, the Company did not issue any new common shares.

On May 3, 2017, the Company closed its non-brokered private placement announced on April 3, 6, and 10, through the issuance of 21,280,000 units for gross proceeds of \$4.256 million. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant is exercisable at \$0.30 for a period of 24 month from the date of issue. Proceeds of the Offering will be used for expansion of sales, its stop-arm camera business, marketing and operations staff, and general working capital.

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

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

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

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

Stock Options

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

The changes in stock options during the three months ended May 31, 2018 were as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – August 31, 2017	\$0.210	5,663,250
Stock options granted	\$0.120	2,050,000
Options cancelled	\$0.200	(250,000)
Options cancelled	\$0.160	(100,000)
Options cancelled	\$0.195	(145,000)
Balance – May 31, 2018	\$0.180	7,218,250

During the three months ended May 31, 2018, the Company granted Nil (Q3 2017 – Nil) incentive stock options to employees, consultants and directors.

The weighted average fair value of the options granted during Q1 ended November 30, 2017 was estimated at \$0.11 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, 2017	August 31, 2017	August 31, 2016
Risk free interest rate	2.13%	-	1.14%
Expected life	10 years	-	9 years
Expected volatility	75.04%	-	89.60%
Expected dividend per share	-	-	-

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, 2016	\$0.25	8,957,330
Issuance of warrants	\$0.30	10,640,000
Exercise of warrants	\$0.25	(2,115,049)
Expired	\$0.25	(6,842,281)
Balance – August 31, 2017 and May 31, 2018	\$0.30	10,640,000

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

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

Use of Financial Instruments

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

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

Financial Risk Management

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

Credit Risk

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

At May 31, 2018, 3% of the Company’s accounts receivable balance is over 90 days past due (August 31, 2017 – 0%). The carrying amount of trade and other receivable and due from related parties as at May 31, 2018 of \$1,461,879 (August 31, 2017 – \$1,145,255).

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, 2018 and August 31, 2017 are summarized as follows:

	May 31, 2018	August 31, 2017
Trade payables and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 152,409	\$ 129,619
In later than 90 days, not later than one year	216,879	6,300
	\$ 369,288	\$ 135,919

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, 2018 to interest rate risk through its financial instruments.

Currency Risk

Currency risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities.

The Company realized approximately 86% 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, 2018 and August 31, 2017:

	May 31, 2018	August 31, 2017
Cash and cash equivalents	\$ 1,512,811	\$ 2,117,882
Restricted cash	89,344	86,499
Trade receivables	1,078,847	891,767
Trade payables	27,982	97,483
	\$ 2,708,984	\$ 3,193,661

Based on the above net exposure at May 31, 2018, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$270,898 decrease or increase respectively in both net and comprehensive loss (August 31, 2017 – \$319,366). The Company has not employed any currency hedging programs during the periods ended May 31, 2018 and August 31, 2017.

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Related Party Transactions

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

(a) Key Management Personnel Compensation

	Three months ended		Nine months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Salaries and short-term benefits	\$ 123,830	\$ 98,746	\$ 310,447	\$ 283,826
Share-based payment	108,235	2,065	248,891	21,327
	\$ 232,065	\$ 100,811	\$ 559,338	\$ 305,153

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

(b) Trade Related Party Transactions

The amounts due to related parties as at May 31, 2018 and August 31, 2017 are as follows:

	May 31, 2018	August 31, 2017
Chief Executive Officer	\$ Nil	\$ Nil
Directors	Nil	Nil
	\$ Nil	\$ Nil

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

The Company has agreed to pay the Chief Executive Officer 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.

Critical Accounting Estimates

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

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

Allowances for Doubtful Accounts

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

Inventory Valuation

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

Determination of Functional Currency

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

Accounting Standards and Amendments Issued but Not Yet Adopted

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised standards, amendments and interpretations which are not yet effective during the period ended May 31, 2018:

IFRS 10 'Consolidated Financial Statements' is an amendment related to the sale or contribution of assets between an investor and its associate or joint venture to be applied prospectively. The amendment is effective for annual periods beginning on or after a date to be determined by IASB. Earlier application is permitted.

IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its financial performance or its financial condition.

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.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' is interpretation that clarifies when an entity recognizes a non-monetary asset or non-monetary liability arising from payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The effective date for IFRIC 22 is for annual periods beginning on or after January 1, 2018.

IFRIC 23 'Uncertainty over Income Tax Treatments' is interpretation that clarifies how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over tax treatments. The effective date for IFRIC 23 is for annual periods beginning on or after January 1, 2019.

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, 2018 of \$10,556,125. 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 current global credit and financial crisis on consumers in its areas of operations and the discretionary spending available to them. General economic conditions have resulted in reduced consumer and government spending and have impacted the Company's financial results. Should these conditions continue to prevail, there will be further pressure 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, Tarriffs and proposed Destination-Based Cash Flow Tax (DBCFT)

Management of the Company believes that renegotiation of the North American Free Trade Agreement, implementation of United States Tarriffs on imports or implementation of the proposed DBCFT by the United States could significantly impact the Company's ability operate profitably. In either case, the Company may implement plans to move part of its operations to the United States by way of acquisition or expansion. Such an expansion could increase operating expenses, cost of goods sold and affect overall profitability.

Goodwill

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

Expansion

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

Available Workforce

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

Possible Adverse Effect of Future Government Regulations

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

Disclosure Controls and Procedures

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

The CEO and CFO have evaluated and concluded that the Company's disclosure controls and procedures are adequate and effective for providing reasonable assurance that material information relating to the Company, including its consolidated subsidiary, would have been known to them as of the three months ended May 31, 2018.

As well, as of the end of the three months ended May 31, 2018, 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 May 31, 2018, 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.