

GATEKEEPER

Third Quarter Report

GATEKEEPER SYSTEMS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the Three and Nine Months Ended May 31, 2018

These financial statements have not been reviewed by the Company's auditor

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

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

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

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

GATEKEEPER SYSTEMS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
AS AT

(expressed in Canadian dollars)

	May 31, 2018	August 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents (note 6)	\$ 4,625,143	\$ 6,312,093
Restricted cash (note 7)	112,344	109,499
Trade and other receivables (note 8)	1,461,879	1,145,255
Inventories (note 9)	847,262	1,013,799
Prepaid expenses and other current assets	387,173	85,725
	7,433,801	8,666,371
Non-Current Assets		
Property, plant and equipment (note 11)	465,860	204,768
Goodwill (note 10)	147,442	-
Total Assets	\$ 8,047,103	\$ 8,871,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit (note 12)	\$ -	\$ 259,294
Trade and other payables and accrued liabilities (note 13)	717,738	564,854
Unearned revenue	1,376	1,843
Total Liabilities	719,114	825,991
Shareholders' Equity		
Common shares (note 14)	15,881,627	15,881,627
Other capital reserves (notes 15 and 16)	2,002,487	1,753,598
Deficit	(10,556,125)	(9,590,077)
	7,327,989	8,045,148
Total Liabilities and Shareholders' Equity	\$ 8,047,103	\$ 8,871,139

COMMITMENTS AND CONTINGENCIES (note 23)

SUBSEQUENT EVENTS (note 24)

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

"Robert Galbraith"

(signed)

Director

"Robert C. Hill"

(signed)

Director

GATEKEEPER SYSTEMS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018 AND 2017

<i>(expressed in Canadian dollars)</i>	Three months ended		Nine months ended	
	May 31,	May 31,	May 31,	May 31,
	2018	2017	2018	2017
Revenues (note 21)	\$ 2,527,308	\$ 2,274,528	\$ 5,194,527	\$ 4,953,564
Cost of Sales	1,166,378	1,091,460	2,427,285	2,522,804
Gross Profit	1,360,930	1,183,068	2,767,242	2,430,760
Operating Expenses				
General and administrative (note 17)	601,406	397,605	1,476,811	1,127,662
Selling and marketing	641,069	426,200	1,590,589	1,154,900
Research and development	276,541	227,041	777,583	582,474
	1,519,016	1,050,846	3,844,983	2,865,036
Operating Income (Loss)	(158,086)	132,222	(1,077,741)	(434,276)
Other Income (Expenses)				
Interest	4,110	3,010	23,284	4,219
Foreign exchange	30,715	32,472	109,747	62,576
Finance costs	(2,948)	(28,196)	(21,338)	(78,354)
Net Income (Loss) and Comprehensive Income (Loss) for the period	\$ (126,209)	\$ 139,508	\$ (966,048)	\$ (445,835)
Basic (note 18)				
Income (Loss) Per Share	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.01)
Weighted Average Number of Shares Outstanding	87,597,144	71,659,670	87,597,144	66,438,085
Diluted (note 18)				
Income (Loss) Per Share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted Average Number of Shares Outstanding	87,646,359	71,659,670	87,596,359	66,438,085

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

GATEKEEPER SYSTEMS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018 AND 2017

(expressed in Canadian dollars)

	Three months ended		Nine months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Cash Flows from (used in) Operating Activities				
Net Income (Loss)	\$ (126,209)	\$ 139,508	\$ (966,048)	\$ (445,835)
Items not affecting cash from operations –				
Accrued interest	-	(114)	-	(337)
Depreciation and impairment (note 11)	38,902	12,120	70,908	34,588
Write-down of inventory (note 9)	-	4,125	-	4,193
Bad debt expense (recovery) (note 17)	-	-	738	(345)
Share-based payments (note 16)	108,235	22,851	248,891	102,701
Unrealized foreign exchange gain	(42,728)	(28,893)	(84,698)	(37,355)
	(21,800)	149,597	(730,209)	(342,390)
Changes in non-cash working capital balances related to operations –				
Decrease (Increase) in trade and other receivables	(803,958)	(528,821)	(317,364)	1,300,977
Decrease in inventories	(45,725)	(218,579)	166,537	(23,684)
Increase in prepaid expenses and other current assets	(257,640)	(137,220)	(301,448)	(138,972)
Increase (Decrease) in trade and other payables	343,814	111,314	152,884	(228,152)
Increase (Decrease) in unearned revenue	-	635	(467)	635
	(785,309)	(623,074)	(1,030,067)	568,414
Cash Flows used in Investing Activities				
Purchase of property, plant and equipment (note 11)	(262,614)	(11,810)	(332,000)	(100,957)
Purchase of Goodwill (note 10)	(147,442)		(147,442)	
Increase in restricted cash (note 7)	(962)	(29,821)	(2,845)	(30,744)
	(411,018)	(41,631)	(482,287)	(131,701)
Cash Flows from Financing Activities				
Proceeds from issuance of common shares		4,256,000	-	4,256,000
Shares issuance costs	-	(35,126)	-	(35,126)
Exercise of warrants	-	284,490	-	528,763
Proceeds from (Repayment of) line of credit (note 12)		42,485	(259,294)	(72,331)
	-	4,547,849	(259,294)	4,677,306
Foreign Exchange Gain on Cash and Cash Equivalents held in USD	42,728	28,893	84,698	37,355
Increase (Decrease) in Cash and Cash Equivalents	(1,196,327)	3,883,144	(1,771,648)	5,114,019
Cash and Cash Equivalents – Beginning of Period	5,778,742	2,137,668	6,312,093	898,331
Cash and Cash Equivalents – End of Period	\$ 4,625,143	\$ 6,049,705	\$ 4,625,143	\$ 6,049,705

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

**GATEKEEPER SYSTEMS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED MAY 31, 2018 AND 2017**

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

	Common Shares		Reserves (\$)	Deficit (\$)	Total (\$)
	Shares	Amount (\$)			
Balance – August 31, 2017	87,597,144	15,881,627	1,753,598	(9,590,077)	8,045,148
Net loss and comprehensive loss for the period	-	-	-	(966,048)	(966,048)
Share-based payments (note 16)	-	-	248,891	-	248,891
Balance – May 31, 2018	87,597,144	15,881,627	2,002,488	(10,556,125)	7,327,991
Balance – August 31, 2016	63,373,495	11,686,269	1,086,381	(9,258,318)	3,514,332
Net loss and comprehensive loss for the period	-	-	-	(445,835)	(445,835)
Private placement with value assigned to shares and warrants (note 14(b))	21,280,000	3,655,779	600,221	-	4,256,000
Exercise of warrants (note 14(b))	2,115,049	528,763	-	-	528,763
Share issuance costs (note 14(b))	828,600	(35,126)	-	-	(35,126)
Share-based payments (note 16)	-	-	102,701	-	102,701
Balance – May 31, 2017	87,597,144	15,835,685	1,789,303	(9,704,153)	7,920,835

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

1. Description of Business and Nature of Operations

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

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

The Company’s consolidated financial statements as at May 31, 2018 and 2017 and for the three and nine months then ended have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. The Company has a net loss of \$126,209 and \$966,048 for the three and nine months ended May 31, 2018 (2017 – net income of \$139,508 and net loss of \$445,835) 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 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 favourable terms and/or pursue other remedial measures.

2. Basis of Preparation and Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim financial statements follow the same accounting policies and methods of computation as compared with the most recent annual financial statements, being for the year ended August 31, 2017, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual financial statements. These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on July 30, 2018.

The Company’s consolidated financial statements have been prepared on a going concern basis under the historical cost method, except for certain financial instruments which are measured at fair value (note 19) and are presented in Canadian dollars except where otherwise indicated.

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

3. Summary of Significant Accounting Policies

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

(a) Basis of Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities (including special purpose entities) controlled by the Company, where control is achieved by the Company having the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Gatekeeper, and are deconsolidated from the date that control ceases.

The following subsidiaries have been consolidated for all dates presented within these financial statements, and are wholly owned: Gatekeeper Systems USA Inc., Deep Development Corp., GSI Systems Inc., and Road Safety Solutions Inc.

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

(b) Business Combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred for the combination of a business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

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

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

(c) Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash comprise of cash at banks and short-term money market instruments with an original maturity of one year or less, which are readily convertible into a known amount of cash.

(d) Inventories

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

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

3. Summary of Significant Accounting Policies (continued)

(e) Property, Plant and Equipment

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

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

Asset	Method	Basis	Useful Life
Automobile	Straight-line	3.3 years	3.3 years
Computer equipment	Straight-line	5 years	5 years
Computer software	Straight-line	1 year	1 year
Furniture and fixtures	Straight-line	5 years	5 years
Office equipment	Straight-line	5 years	5 years
Technical equipment	Straight-line	5 years	5 years
Research and development equipment	Straight-line	5 years	5 years
Leasehold improvements	Straight-line	5 years	5 years
Leasehold improvements (US subsidiary)	Straight-line	34 months	34 months

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognized within other gains or losses in earnings.

(f) Goodwill

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

(g) Leases

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

3. Summary of Significant Accounting Policies (continued)

(h) Provisions

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

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

(i) Revenue Recognition

Sales revenues are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The Company recognizes revenue from customer orders upon shipment of the order.

Installation revenues are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the reporting period can be measured reliably, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenues from extended warranty sales are recognized on a straight-line monthly basis over the term of the extended warranty.

(j) Research and Development Costs

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

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

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

3. Summary of Significant Accounting Policies (continued)

(k) Related Party Transactions

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

(l) Share-Based Payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options, as determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions, is expensed in profit or loss. The corresponding amount is recorded to other capital reserves. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

(m) Warrants

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

(n) Current and Deferred Income Taxes

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

Current income taxes are the expected taxes payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

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

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

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

3. Summary of Significant Accounting Policies (continued)

(n) Current and Deferred Income (Taxes continued)

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

(o) Foreign Currencies

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which they operate.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

(p) Earnings or Loss Per Share

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

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

(q) Financial Assets

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVTPL

Financial assets are classified as held for trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are also categorized as held for trading. These assets are carried at fair value with gains or losses recognized in profit or loss. Transaction costs associated with financial assets at FVTPL are expensed as incurred.

3. Summary of Significant Accounting Policies (continued)

(q) Financial Assets (continued)

Held-to-maturity and loans and receivables

Held-to-maturity and loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the financial asset classified in this category are derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset. Trade and other receivables are classified as loans and receivables.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Transaction costs are included in the initial carrying amount of the asset.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

(r) Financial Liabilities

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated by management on initial recognition. Transaction costs on financial liabilities at FVTPL are expensed as incurred. These liabilities are carried at fair value with gains or losses recognized in profit or loss.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade and other payables, bank indebtedness and loans payable are included in this category of financial liabilities.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

3. Summary of Significant Accounting Policies (continued)

(s) Impairment of Financial Assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at each period end.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale financial asset is impaired, the cumulative loss previously recognized in equity is transferred to profit or loss. Any subsequent recovery in the fair value of the asset is recognized within profit or loss, except for investments in an equity instrument.

(t) Derecognition of Financial Assets and Liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(u) Impairment of Non-Current Non-Financial Assets

The carrying amounts of non-current non-financial assets are reviewed and evaluated for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. Non-current non-financial assets include property, plant, and equipment. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized and the asset is written down to recoverable value.

The recoverable amount is the higher of an asset's "fair value less costs to sell" and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined, with a cash-generating unit being the smallest identifiable group of assets and liabilities that generate cash inflows independent from other assets. "Fair value less costs to sell" is determined as the amount that would be obtained from the sale of the asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties. In assessing "value-in-use", the future cash flows expected to arise from the continuing use of the asset or cash-generating unit in its present form are estimated using assumptions that an independent market participant would consider appropriate and are then discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or unit.

3. Summary of Significant Accounting Policies (continued)

(u) Impairment of Non-Current Non-Financial Assets (continued)

Where conditions that gave rise to a recognized impairment loss are subsequently reversed, the amount of such reversal is recognized into earnings immediately, though is limited such that the revised carrying amount of the asset or cash-generating unit does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in the prior period.

4. Significant Accounting Judgments and Estimates

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

Areas requiring a significant degree of estimation and judgment 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.

(a) Allowances for Doubtful Accounts

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

(b) Inventory Valuation

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

(c) 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.

5. Accounting Standards and Amendments Issued but Not Yet Adopted

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

5. Accounting Standards and Amendments Issued but Not Yet Adopted (continued)

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.

The Company has not early adopted nor assessed the financial statement impact of these standards, amendments and interpretations, and anticipates that the application of these standards, amendments and interpretations will not have a material impact on the financial position and financial performance of the Company.

6. Cash and Cash Equivalents

	May 31, 2018	August 31, 2017
Denominated in Canadian dollars	\$ 3,112,332	\$ 4,194,211
Denominated in US dollars	1,512,811	2,117,882
	\$ 4,625,143	\$ 6,312,093

The Company's line of credit is secured by a first charge over the assets of the Company, including cash and cash equivalents with a carrying value of \$4,625,143 (note 12 and 24).

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7. Restricted Cash

	May 31, 2018	August 31, 2017
Denominated in Canadian dollars	\$ 23,000	\$ 23,000
Denominated in US dollars	89,344	86,499
	\$ 112,344	\$ 109,499

As at May 31, 2018, total cash of \$112,344 (August 31, 2017 – \$109,499) is secured against the Company's credit cards and held in a Guaranteed Investment Certificate ("GIC") and is designated as restricted cash.

8. Trade and Other Receivables

	May 31, 2018	August 31, 2017
Trade receivables	\$ 1,415,065	\$ 1,079,700
Goods and Services Tax/Harmonized Sales Tax receivable	35,321	-
Deposits and other receivable	11,493	65,555
	\$ 1,461,879	\$ 1,145,255

The Company's line of credit is secured by a first charge over the assets of the Company, including trade and other receivables with a carrying value of \$1,461,879 (notes 12 and 24).

9. Inventories

	May 31, 2018	August 31, 2017
Raw materials	\$ 84,965	\$ 79,247
Finished goods	762,297	934,552
	\$ 847,262	\$ 1,013,799

For the three and nine months ended May 31, 2018, the cost of inventories recognized as an expense and included in cost of sales was \$866,726 and \$1,909,198 (May 31, 2017 – \$905,831 and \$2,139,445).

For the three nine months ended May 31, 2018, an adjustment of inventories of -\$871 and \$1,233 (May 31, 2017 – \$4,125 and \$4,193) was recorded, which was included in cost of sales in the consolidated statements of income (loss) and comprehensive income (loss).

The Company's line of credit is secured by a first charge over the assets of the Company, including inventories with a carrying value of \$847,262 (notes 12 and 24).

10. Business Combination

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

The business assets of Spector Logistics Inc. were acquired for a purchase price of US\$300,000 with payment terms of US\$100,000 due upon closing, US\$50,000 due April 1, 2019, and US\$150,000 payable in 12 monthly installments of USD\$12,500 commencing May 1, 2018.

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

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

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11. Property, Plant and Equipment

The changes in the Company's property, plant and equipment for the Nine months ended May 31, 2018 are as follows:

Cost	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Total
August 31, 2016	\$ 1	\$ 81,965	\$ 23,784	\$ 16,330	\$ 64,795	\$ 55,088	\$ 107,359	\$ 349,322
Additions	-	64,659	2,623	610	76,581	-	-	144,473
Disposal	-	(5,280)	-	(15,110)	-	-	-	(20,390)
August 31, 2017	\$ 1	\$ 141,344	\$ 26,407	\$ 1,830	\$ 141,376	\$ 55,088	\$ 107,359	\$ 473,405
Additions	88,116	134,643	29,027	-	14,799	-	65,415	332,000
May 31, 2018	\$ 88,117	\$ 275,987	\$ 55,434	\$ 1,830	\$ 156,175	\$ 55,088	\$ 172,774	\$ 805,405

Depreciation	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Total
August 31, 2016	\$ 1	\$ 25,823	\$ 20,140	\$ 15,232	\$ 34,952	\$ 55,088	\$ 87,322	\$ 238,558
Depreciation	-	22,331	1,072	305	14,803	-	11,958	50,469
Disposal	-	(5,280)	-	(15,110)	-	-	-	(20,390)
August 31, 2017	\$ 1	\$ 42,874	\$ 21,212	\$ 427	\$ 49,755	\$ 55,088	\$ 99,280	\$ 268,637
Depreciation	11,015	30,035	3,178	274	17,797	-	8,609	70,908
May 31, 2018	\$ 11,016	\$ 72,909	\$ 24,390	\$ 701	\$ 67,552	\$ 55,088	\$ 107,889	\$ 339,545

Net Book Value	Automotive	Computer Equipment	Furniture and Fixtures	Office Equipment	Technical Equipment	Research and Development Equipment	Leasehold Improvements	Total
August 31, 2017	\$ -	\$ 98,470	\$ 5,195	\$ 1,403	\$ 91,621	\$ -	\$ 8,079	\$ 204,768
May 31, 2018	\$ 77,101	\$ 203,078	\$ 31,044	\$ 1,129	\$ 88,623	\$ -	\$ 64,885	\$ 465,860

The Company's line of credit is secured by a first charge over the assets of the Company, including capital assets with a carrying value of \$465,860 (notes 12 and 24).

12. Line of Credit

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 the Line of Credit were amended on October 5, 2017. Funds are to be available to the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory. The Line of Credit has an initial three-year term that expires April 30, 2019 and is renewed year-to-year thereafter unless terminated in writing by the Company with at least 60 days' notice. The lender can terminate this agreement at any time in writing with at least 90 days' notice.

The Line of Credit bears 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 is repayable on demand, is secured by a first charge on the assets of the Company and its subsidiaries and requires 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 at the end of each fiscal quarter (note 20).

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

The Company has agreed to pay a related party an annual fee of \$18,750 US as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 22 and 23).

During the nine months ended May 31, 2018, the Company incurred finance costs of \$21,338 and made a repayment of \$259,294 in connection with the Line of Credit.

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 lending agreement had terminated and the amount payable was \$Nil. The lender held a positive net collected cash balance of \$29,787 accruing interest at a rate equal to one percent per annum. A new lending agreement with the Company's Canadian banker was pending as of May 31, 2018, but was not in place (note 24).

13. Trade and Other Payables and Accrued Liabilities

	May 31, 2018	August 31, 2017
Trade payables	\$ 369,288	\$ 135,919
Provincial Sales Tax payable and State Sales Tax Payable	2,503	7,625
Accrued liabilities	285,947	361,310
Accrued warranty liabilities	60,000	60,000
	\$ 717,738	\$ 564,854

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

The Company provides a one-year, three-year, five-year, ten-year, or lifetime warranty, depending on the product, to repair or replace defective components with respect to its product sales. The warranty provision in consolidated statements of loss and comprehensive loss includes management's best estimate of the total costs of all raw materials, labour and travel expenses required to repair issues related to all products that were sold and shipped prior to period. During the three and nine months ended May 31, 2018, warranty as an expense and included in cost of sales were \$11,065 and \$29,540 (2017 – \$17,556 and \$27,950).

14. Share Capital

(a) Authorized Share Capital

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

At May 31, 2018, the Company had 87,597,144 common shares outstanding (August 31, 2017 – 87,597,144), Nil Class A preferred shares outstanding (August 31, 2017 – Nil), Nil Class B preferred shares outstanding (August 31, 2017 – Nil), Nil Class C preferred shares outstanding (August 31, 2017 – Nil) and Nil common shares held in escrow (August 31, 2017 – Nil).

(b) Issued Share Capital

No Shares were issued during the nine months ended May 31, 2018.

On April 28, 2017, the Company closed a non-brokered private placement offering, by issuing 21,280,000 units, at a price of \$0.20 per unit, for total gross proceeds of \$4,256,000. Share issuance costs include cash of \$28,800 and the issuance of 828,600 common shares, the fair value of the finder's share is \$219,579. Each unit consists 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 months from the date of issue. All warrants issued in connection with this financing are subject to an acceleration clause. If the closing price of the Company's shares is above \$0.40 per share for a period of ten (10) consecutive days during the exercise period, the Company may accelerate the expiry date of the warrant to not fewer than 30 days from the date written notice is given by the Company to the holder.

15. 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

15. Warrants (continued)

During the year ended August 31, 2017, the fair value of the warrants was estimated using the BlackScholes Option Pricing Model assuming a risk free rate of 0.69%, an expected life of 2 years, an expected volatility of 76.92%, and no expected dividends.

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

16. Share-Based Payments

The Company adopted a stock option plan (the "Plan") whereby it can grant stock options to directors, officers, employees, and consultants of the Company. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company at any time.

The changes in stock options during the nine 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 and nine months ended May 31, 2018, the Company granted Nil and 2,050,000 (May 31, 2017 – Nil and Nil) incentive stock options to employees, consultants and directors. The options may be exercised within 10 years from the date of grant at a price of \$0.12 per share. In addition, 495,000 stock options expired, or were cancelled, for a net increase of 1,555,000 stock options issued during the nine months ended May 31, 2018.

The weighted average fair value of the options granted during the Nine months ended May 31, 2018 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	-	-	-

16. Share-Based Payments (continued)

Incentive share options outstanding and exercisable at May 31, 2018 are summarized as follows:

Exercise Price	Options Outstanding			Options Exercisable		
	Number of shares issuable on exercise	Weighted average remaining life (Years)	Weighted average exercise price	Number of shares issuable on exercise	Weighted average remaining life (Years)	Weighted average exercise price
\$0.12	2,350,000	9.06	\$0.12	2,100,000	9.01	\$0.12
\$0.13	900,000	7.93	\$0.13	700,000	7.93	\$0.13
\$0.16	175,000	6.96	\$0.16	175,000	6.96	\$0.16
\$0.18	250,000	6.14	\$0.18	250,000	6.14	\$0.18
\$0.20	1,176,250	6.91	\$0.20	838,125	6.41	\$0.20
\$0.25	1,885,000	4.83	\$0.25	1,885,000	4.83	\$0.25
\$0.30	482,000	5.29	\$0.30	482,000	5.29	\$0.30
	7,218,250	7.06	\$0.18	6,430,125	6.88	\$0.19

During the three and nine months ended May 31, 2018, the Company recorded total share-based payments of \$108,235 and \$248,891 (May 31, 2017 – \$22,851 and \$102,701), which has been charged to general and administrative expense for the period.

17. General and Administrative Expenses by Nature

The Company recorded general and administrative expenses for the three and nine months ended May 31, 2018 and 2017 as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
General and administrative expenses				
Accounting and legal	\$ 53,831	\$ 23,220	\$ 96,239	\$ 86,250
Bad debt (recovery)	-	-	738	(345)
Consulting fees	-	9,930	16,550	29,790
Depreciation and impairment (note 11)	38,902	12,120	70,908	34,588
Interest charges on loans	770	13,333	7,165	32,094
Investor relations	25,111	29,249	61,929	83,607
Office	130,128	89,885	342,886	241,565
Regulatory	6,000	29,574	9,433	38,991
Rent	38,983	31,859	103,120	86,051
Salaries and benefits	199,446	135,584	518,952	392,370
Share-based payments (note 16)	108,235	22,851	248,891	102,701
	\$ 601,406	\$ 397,605	\$ 1,476,811	\$ 1,127,662

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18. Income (Loss) Per Share

The following table sets forth the computation of basic and diluted income (loss) per share for the three and nine months ended May 31, 2018 and 2017:

	Three months ended		Nine months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Numerator				
Net Income (Loss) for the period	\$ (126,209)	\$ 139,508	\$ (966,048)	\$ (445,835)
Denominator				
For basic – weighted average number of shares outstanding	87,597,144	71,659,670	87,597,144	66,438,085
Effect of dilutive securities –				
Incentive share options	49,215	-	49,215	-
Share purchase warrants	-	-	-	-
For diluted – adjusted weighted average number of shares outstanding	87,646,359	71,659,670	87,646,359	66,438,085
Income (Loss) Per Share				
Basic	(\$0.00)	\$0.00	(\$0.01)	(\$0.01)
Diluted	(\$0.00)	\$0.00	(\$0.01)	(\$0.01)

The basic income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. There are presently no common shares in escrow (May 31, 2017 – Nil) and thus do not impact on the weighted average number of common shares outstanding. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Fully diluted loss per share is not materially different from basic loss per share and the effect of conversion of 4,868,250 stock options, each with an exercise price at and above \$0.12 per share, and all of the share purchase warrants, are anti-dilutive.

19. Financial Instruments

Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at May 31, 2018 and August 31, 2017 is summarized as follows:

	May 31, 2018	August 31, 2017
Financial Assets		
Fair value through profit and loss, at fair value		
Cash and cash equivalents (note 6)	\$ 4,625,143	\$ 6,312,093
Restricted cash (note 7)	112,344	109,499
Loans and receivable, at amortized cost		
Trade receivables (note 8)	1,461,879	1,145,255
Total Financial Assets	\$ 6,199,366	\$ 7,566,847
Financial Liabilities		
Other liabilities, at amortized cost		
Line of credit (note 12)	\$ -	\$ 259,294
Trade payables (note 13)	369,288	135,919
Salaries and benefits payable	145,176	105,813
Total Financial Liabilities	\$ 514,464	\$ 501,026

19. Financial Instruments (continued)

Financial Assets and Liabilities (continued)

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value due to the demand nature or short term maturity of these instruments.

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

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly. As at May 31, 2018, the Company does not have any Level 2 financial instruments.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at May 31, 2018, the Company does not have any Level 3 financial instruments.

	May 31, 2018	August 31, 2017
Level 1		
Financial assets at fair value		
Cash and cash equivalents (note 6)	\$ 4,625,143	\$ 6,312,093
Restricted cash (note 7)	112,344	109,499
Total Financial Assets at Fair Value	\$ 4,737,487	\$ 6,421,592

There were no transfers between level 1 and 2 and 3 during the periods ended May 31, 2018 and August 31, 2017.

Financial Instrument Risk Exposure

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. These risks arise from the normal course of operations and all transactions are under taken to support the Company's ability to continue as a going concern. Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates the financial risks in co-operation with the Company's operating units. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance, in the context of its general capital management objectives (note 20).

Credit Risk

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

At May 31, 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 receivables as at May 31, 2018 was \$1,461,879 (August 31, 2017 – \$1,145,255).

19. Financial Instruments (continued)

Financial Instrument Risk Exposure (continued)

Liquidity Risk

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

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

The Company coordinates this planning and budgeting process with its financing activities through the capital management process (note 20). 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 rate.

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

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in US dollars as of May 31, 2018 and August 31, 2017:

	May 31, 2018	August 31, 2017
Cash and cash equivalents (note 6)	\$ 1,512,811	\$ 2,117,882
Restricted cash (note 7)	89,344	86,499
Trade receivables	1,078,847	891,767
Trade payables	27,982	97,483
	\$ 2,708,984	\$ 3,193,661

19. Financial Instruments (continued)

Financial Instrument Risk Exposure (continued)

Currency Risk (continued)

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 (note 24).

20. Management of Capital

The capital managed by the Company includes a Line of Credit (note 12) and the components of shareholders' equity as described in the consolidated statements of shareholders' equity. During the first eight months of the year, the Company was subject to financial covenants related to the Line of Credit. The covenants require a tangible net worth of not less than negative \$1,500,000 and working capital of not less than negative \$1,500,000 at the end of each fiscal quarter (note 12). During the nine months ended May 31, 2018, the Company has been in compliance with the financial covenants.

The Company's objectives of capital management are to create long-term value and economic returns for its shareholders. It does this by seeking to maximize the availability of finance to fund the growth and development of its operations, and to support the working capital required to maintain its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Company considers all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part. The Company's overall strategy with respect to management of capital at May 31, 2018 remains fundamentally unchanged from the year ended August 31, 2017.

21. Segmented Information

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

	Three months ended		Nine months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Revenue				
Canada	\$ 350,522	\$ 355,049	\$ 750,629	\$ 853,069
United States	2,176,786	1,919,479	4,443,898	4,100,495
	\$ 2,527,308	\$ 2,274,528	\$ 5,194,527	\$ 4,953,564

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FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018 AND 2017
(expressed in Canadian dollars except where noted)

21. Segmented Information (continued)

The company operates separately incorporated companies in the US and in Canada. The following selected financial information is presented by geographic region of business incorporation:

<i>(expressed in Canadian dollars)</i>	Three months ended May 31		Nine months ended May 31	
	CANADA	USA	CANADA	USA
Revenues (note 21)	\$ 2,215,425	\$ 311,883	\$ 4,882,644	\$ 311,883
Cost of Sales	1,030,188	136,190	2,291,095	136,190
Gross Profit	1,185,237	175,693	2,591,549	175,693
Operating Expenses				
General and administrative (note 16)	503,920	97,486	1,379,325	97,486
Selling and marketing	634,126	6,943	1,583,646	6,943
Research and development	276,541	-	777,583	-
	1,414,587	104,429	3,740,554	104,429
Operating Loss	\$ (229,350)	\$ 71,264	(1,149,005)	\$ 71,264

22. Related Party Transactions

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

(a) Key Management Personnel Compensation

	Three months ended		Nine months ended	
	May 31, 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.

22. Related Party Transactions (continued)

(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 (note 13).

(c) Other Related Party Transactions

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

23. Commitments and Contingencies

As of May 31, 2018, the Company's contractual obligations and contingencies are as follows:

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

2018	\$ 45,753
2019	155,804
2020	138,519
2021	135,008
Thereafter	134,689
	\$ 609,773

- b) The Company has agreed to pay a related party an annual fee of \$18,750 US as consideration for subordinating the related party's first charge over the Company's assets on any debts to the related party by the Company (notes 12 and 22).
- c) 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, interest and penalties payable.

24. Subsequent Events

Lending Agreement

On June 12, 2018, the Company entered into a non-dilutive, revolving secured operating loan facility of up to an aggregate principal amount not to exceed CAD\$1,000,000 or USD\$800,000 (the "Line of Credit"). Funds are to be available to the Company under the Line of Credit pursuant to an availability formula based on eligible receivables and inventory.

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

- (i) For CAD overdraft loans, the Bank's prime rate plus 1% per annum
- (ii) For USD overdraft loans, the Bank's US base rate plus 1% per annum
- (iii) A standby fee equal to 0.25% per annum of the daily unutilized portion of the maximum limit available;

The Line of Credit is repayable on demand, is secured by a first charge on the assets of the Company and its subsidiaries. The Company is required to maintain a debt to tangible net worth ratio not to exceed 2.75 to 1.0 and ratio of current assets to current liabilities of less than 1.23 to 1.0 and a debt service coverage ratio of not less than 1.25 to 1.0, calculated on a rolling 4 quarter basis.

Letter of Guarantee Facility

A letter of guarantee facility is available up to a maximum US\$500,000 to finance the day to day operations through the issuance of guarantee, standby letters of credit, performance bonds, counter guarantees, counter standby letter of credit or similar credits (each an "LG"). Each issuance of an LG is deemed an advance of credit and any amount drawn under any LG must be immediately reimbursed by the Company to the Bank.

Upon issuance of an LG, the Company will be responsible to pay fees as follows:

- (i) A fee equal to 2.0% per annum calculated against the face amount and over the term of the financial LG
- (ii) A fee equal to 1.5% per annum calculated against the face amount and over the term of the performance LG
- (iii) Any amount drawn, that is not immediately reimbursed to the Bank, shall accrue daily interest at the Bank's US base rate plus 21% per annum

Foreign Exchange Facility

A demand revolving foreign exchange facility of up to US\$500,000 is available to purchase foreign exchange forward contracts for major currencies, for periods up to one year, in order to hedge against currency fluctuations in connection with the import purchases and export sales (note 19).