



Condensed Interim Consolidated financial statements of  
**GATEKEEPER SYSTEMS INC.**  
For the three and six months ended February 28, 2014  
(Unaudited)

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, Deloitte LLP, has not performed a review of these unaudited interim condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of unaudited interim condensed interim consolidated financial statements by an entity's auditor.

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

*(expressed in Canadian dollars)*

	FEBRUARY 28, 2014	AUGUST 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 426,343	\$ 191,104
Trade and other receivables (see note 7)	693,105	725,441
Inventories (see note 8)	437,835	501,655
Prepaid expenses and other current assets	52,867	35,154
	1,610,150	1,453,354
<b>Non-Current Assets</b>		
Property, plant and equipment (see note 9)	172,193	189,035
<b>Total Assets</b>	<b>\$ 1,782,343</b>	<b>\$ 1,642,389</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables and accrued liabilities (see note 10)	\$ 241,573	\$ 698,155
Unearned revenue	378	-
<b>Total Liabilities</b>	241,951	698,155
<b>Shareholders' Equity</b> (see notes 11, 12 and 13)	1,540,392	944,234
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,782,343</b>	<b>\$ 1,642,389</b>

**NATURE OF OPERATIONS** (see note 1)  
**COMMITMENTS** (see note 20)

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

**"Beverly Bartlett"**  
*(signed)*

**Director**

**"Gary Cope"**  
*(signed)*

**Director**

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

**GATEKEEPER SYSTEMS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 (UNAUDITED)**

*(expressed in Canadian dollars)*

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
<b>Revenues</b>	\$ 514,928	\$ 829,868	\$ 2,088,727	\$ 1,618,460
<b>Cost of Sales</b>	289,343	625,007	1,187,047	1,154,328
<b>Gross Profit</b>	225,585	204,861	901,680	464,132
<b>Operating Expenses</b>				
General and administrative (see note 14)	359,729	317,549	809,198	564,174
Selling and marketing	294,783	286,182	589,255	455,572
Research and development	176,637	92,301	349,525	189,386
	831,149	696,032	1,747,978	1,209,132
<b>Operating Loss</b>	(605,564)	(491,171)	(846,298)	(745,000)
<b>Other Income (Expenses)</b>				
Interest	1,407	(3,697)	1,407	(3,697)
Foreign exchange	36,937	(3,377)	37,337	(4,547)
Gain on disposal of property, plant and equipment (see note 9)	-	-	-	1,190
Write-down of inventory (see note 8)	(362)	-	(14,472)	(14,083)
Listing expense (see note 6)	-	(683,038)	-	(683,038)
<b>Net Loss and Comprehensive Loss for the period</b>	\$ (567,582)	\$ (1,181,283)	\$ (826,026)	\$ (1,449,175)
<b>Weighted Average Number of Common Shares</b> (see note 15)	31,969,515	16,714,900	30,873,857	14,147,193
<b>Basic and Diluted Loss Per Share</b> (see note 15)	(\$0.02)	(\$0.07)	(\$0.03)	(\$0.09)

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

**GATEKEEPER SYSTEMS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 (UNAUDITED)**

*(expressed in Canadian dollars)*

	Three months ended February 28, 2014		Six months ended February 28, 2014	
	February 28, 2013		February 28, 2013	
<b>Cash Flows used in Operating Activities</b>				
Net loss	\$	(567,582)	\$	(1,449,175)
Items not affecting cash from operations –				
Accrued interest		-		2,591
Depreciation		11,031		17,812
Gain on disposal of property, plant and equipment		-		(1,190)
Write-down of inventory		362		14,083
Share-based payments		44,757		21,422
Listing expense (see note 6)		-		683,038
		(511,432)		(711,419)
Changes in non-cash working capital balances related to operations –				
Decrease in trade and other receivables		383,556		966,555
Decrease (Increase) in inventories		(77,578)		109,641
Decrease (Increase) in prepaid expenses and other current assets		31,890		(43,733)
(Decrease) in trade and other payables		(198,787)		(660,036)
(Decrease) in demand loan		-		(254,620)
(Decrease) Increase in unearned revenue		378		(2,197)
		(371,973)		(595,809)
<b>Cash Flows used in Investing Activities</b>				
Purchase of property, plant and equipment		(5,158)		(20,154)
Proceeds from disposal of property, plant and equipment		-		2,200
		(5,158)		(17,954)
<b>Cash Flows from used in Financing Activities</b>				
Proceeds from issuance of common shares		-		2,110,000
Proceeds from exercise of stock options		-		500
Share issuance costs		(233,000)		(233,000)
Repayment of line of credit		(222,055)		(208,859)
		-		1,668,141
<b>Increase (decrease) in Cash and Cash Equivalents</b>		(377,131)		1,054,378
<b>Cash and Cash Equivalents – Beginning of Period</b>		803,474		162,007
<b>Cash and Cash Equivalents – End of Period</b>		426,343		1,216,385

**SUPPLEMENTAL INFORMATION** (see note 17)

**GATEKEEPER SYSTEMS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

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

	Common Shares		Class A Preferred Shares		Contributed Surplus	Deficit	Total
	Shares	Amount	Shares	Amount			
<b>Balance – August 31, 2013</b>	33,268,655	\$ 6,053,281	5,405,405	\$ 2,000,000	\$ 258,676	\$ (7,367,723)	\$ 944,234
Net loss for the period	-	-	-	-	-	(822,026)	(822,026)
Shares issued for:							
Cash (see note 11(b)(i))	5,264,100	1,421,307	-	-	-	-	1,421,307
Conversion of Class A Preferred Shares to common shares (see note 11(b)(ii) and (iii))	3,603,603	1,333,333	(3,603,603)	(1,333,333)	-	-	-
Exercise of stock options	2,000	500	-	-	-	-	500
Value assigned to warrants	-	(153,544)	-	-	153,544	-	-
Share –based payments (see note 13)	-	-	-	-	133,081	-	133,081
Share issuance costs	-	(157,496)	-	-	20,792	-	(136,704)
<b>Balance – February 28, 2014</b>	42,138,358	\$ 8,497,381	1,801,802	\$ 666,667	\$ 566,093	\$ (8,189,749)	\$ 1,540,392
<b>Balance – August 31, 2012</b>	22,028,655	\$ 3,639,481	5,405,405	\$ 2,000,000	\$ 133,880	\$ (4,736,261)	\$ 1,037,100
Net loss for the period	-	-	-	-	-	(1,449,175)	(1,449,175)
Shares issued for:							
Cash (see notes 11(b)(v) and (vi))	8,440,000	2,110,000	-	-	-	-	2,110,000
Reverse acquisition (see note 6)	2,800,000	700,000	-	-	31,758	-	731,758
Value assigned to warrants	-	(15,149)	-	-	15,149	-	-
Share –based payments (see note 13)	-	-	-	-	21,422	-	21,422
Share issuance costs	-	(235,413)	-	-	2,413	-	(233,000)
<b>Balance – February 28, 2013</b>	33,228,655	\$ 6,198,919	5,405,405	\$ 2,000,000	\$ 204,622	\$ (6,185,436)	\$ 2,218,105

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

**GATEKEEPER SYSTEMS INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

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*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**1. Description of Business and Nature of Operations**

GSI Systems Inc. (formerly Gatekeeper Systems Inc.) ("GSI", or "Gatekeeper") was incorporated under the laws of the Province of British Columbia under the name of RDR Marketing Ltd. on July 7, 1992. The Company subsequently changed its name to Dymont & Associates Marketing Ltd. and later to Gatekeeper Systems Inc. On April 26, 2013, Gatekeeper changed its name to GSI Systems Inc.

Gatekeeper Systems Inc. (formerly Indigo Sky Capital Corporation) ("Indigo") was incorporated under the provisions of the Business Corporations Act in the Province of British Columbia on August 26, 2010. On January 7, 2011, Indigo's common shares were listed on the TSX Venture Exchange ("TSX-V") under the symbol "IDS.P". On May 28, 2013, Indigo changed its name to Gatekeeper Systems Inc. and its trading symbol on the TSX-V to "GSI".

On February 19, 2013, Indigo completed its qualifying transaction (the "Qualifying Transaction") with Gatekeeper. Pursuant to the Qualifying Transaction, Indigo acquired all of the issued and outstanding common shares and Class A preferred shares of Gatekeeper, whereby former Gatekeeper shareholders received one common share of Indigo for each Gatekeeper common share held and one special warrant ("Special Warrant") of Indigo for each Gatekeeper Class A preferred share held. Special Warrants were convertible into preferred shares of Indigo for no additional consideration. The outstanding common share purchase warrants of Gatekeeper were also exchanged for common share purchase warrants of Indigo on a 1:1 basis. In addition, all outstanding Gatekeeper stock options were cancelled and Indigo stock options were issued as replacement options under new terms.

Upon closing of the Qualifying Transaction, the shareholders of Gatekeeper owned 90% of the issued and outstanding common shares of Indigo, on a diluted basis, and as a result, the Qualifying Transaction is considered a reverse acquisition of Indigo by Gatekeeper (see note 6), where Gatekeeper is considered the acquirer and Indigo is the acquiree for accounting purposes. As a result, these consolidated financial statements are a continuation of the financial statements of Gatekeeper and references to the "Company" will mean the combined entity subsequent to the date of the Qualifying Transaction and to Gatekeeper prior to that date.

The Company's interim condensed consolidated financial statements as at February 28, 2014 and for the period 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 \$567,582 and \$822,026 for the three and six months ended February 28, 2014 (2013 – \$1,181,283 and \$1,449,175) and has a working capital of \$1,368,199 at February 28, 2014 (August 31, 2013 – \$755,199).

The Company had cash and cash equivalents of \$426,343 at February 28, 2014 (August 31, 2013 – \$191,104), 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. 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. 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.

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. Also, the registered and records office is located at 10th floor, 595 Howe Street Vancouver, British Columbia, V6C 2T5.

**GATEKEEPER SYSTEMS INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

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*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**2. (a) Basis of Preparation and Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. Other than as described in note 3, 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, 2013, 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 condensed consolidated financial statements were approved for issuance by the Board of Directors on April 24, 2014.

These consolidated financial statements have been prepared on a going concern basis under the historical cost method, except for derivative financial instruments, stock-based compensation and certain financial assets which have been measured at fair value. All figures are expressed in Canadian dollars unless otherwise indicated.

**(b) Prior Period Adjustments**

During the fourth quarter of the year ended August 31, 2013, the Company finalized the accounts associated with the reverse acquisition (see note 6), as a result the listing expense was adjusted from \$689,755 to \$683,038. For the comparative three and nine months ended February 28, 2013, net loss was reduced by \$6,717. There is no impact to loss per share in the prior period. The nature and extent of the prior period adjustment is not considered material and has no pervasive impact on the financial statements.

**(c) Comparative Figures**

Certain comparative figures in 2013, with respect to operating expenses, have been reclassified in accordance with the current period's presentation. There is no impact to Net Loss and Comprehensive Loss in the prior period.

**3. New and Revised Accounting Standards**

The following new and revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, and accordingly have now been adopted by the Company. The adoption of these standards and amendments has had no significant impact on the Company's condensed interim consolidated financial statements.

- (i) IFRS 10 'Consolidated Financial Statements' is a new standard effective for annual periods beginning on or after January 1, 2013 that replaces consolidation requirements in IAS 27 (as amended in 2008) and SIC-12.
- (ii) IFRS 11 'Joint Arrangements' is a new standard effective for annual periods beginning on or after January 1, 2013 that replaces IAS 31 and SIC-13.
- (iii) IFRS 12 'Disclosure of Interests in Other Entities' is a new standard effective for annual periods beginning on or after January 1, 2013 that replaces disclosure requirements in IAS 27 (as amended in 2008), IAS 28 (as revised in 2003) and IAS 31.
- (iv) IFRS 13 'Fair Value Measurement' is a new standard effective for annual periods beginning on or after January 1, 2013 that replaces fair value measurement guidance in other IFRSs.
- (v) IAS 19 (Amendment) 'Employee Benefits' is effective for annual periods beginning on or after January 1, 2013 and revises recognition and measurement of post-employment benefits.
- (vi) IAS 27 (Amendment) 'Separate Financial Statements' is effective for annual periods beginning on or after January 1, 2013 that prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.



**GATEKEEPER SYSTEMS INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

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*(figures in tables are expressed in Canadian dollars, except per share amounts)*

- (vii) IAS 28 (Amendment) 'Investments in Associates and Joint Ventures' is effective for annual periods beginning on or after January 1, 2013 that prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

#### **4. Accounting Standards and Amendments Issued but Not Yet Adopted**

At the date of authorization of these condensed interim 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 year ended August 31, 2014:

- (i) IFRS 9 'Financial Instruments: Classification and Measurement' is a new financial instruments standard effective for annual periods beginning on or after January 1, 2015 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.
- (ii) IAS 32 (Amendment) 'Financial Instruments: Presentation' is effective for annual periods beginning on or after January 1, 2014 and revises certain aspects of the requirements on offsetting.

The Company has not early adopted these standards, amendments and interpretations and anticipates that the application of these standards, amendments and interpretations will not have a material impact on the consolidated financial position and financial performance of the Company.

#### **5. Significant Accounting Judgments and Estimates**

The preparation of the Company's condensed interim 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.

**GATEKEEPER SYSTEMS INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

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**(c) Warranty Reserve**

Provisions are made at the time of sale for warranties, which are based on historical experience and are regularly monitored. If estimates for warranties and returns are too low, additional charges could be incurred in future periods and these additional charges could have a material adverse effect on the financial position and results of operations.

**6. Reverse Acquisition**

Indigo successfully completed its Qualifying Transaction with Gatekeeper on February 19, 2013. Pursuant to the Qualifying Transaction, Indigo acquired all of the issued and outstanding common shares and Class A preferred shares of Gatekeeper whereby former Gatekeeper shareholders received one common share of Indigo for each Gatekeeper common share held and one Special Warrant of Indigo for each Gatekeeper Class A preferred share held. The Special Warrants were convertible into Class A preferred shares of Indigo for no additional consideration. The outstanding common share purchase warrants of Gatekeeper were also exchanged for common share purchase warrants of Indigo on a 1:1 basis (see note 12). In addition, all outstanding stock options of Gatekeeper were cancelled and Indigo stock options were issued as replacement options under new terms (see note 13). During the year ended August 31, 2013, all Special Warrants were converted into Class A preferred shares of Indigo.

As a result of the Qualifying Transaction, the shareholders of Gatekeeper owned approximately 90% of the issued and outstanding common shares of Indigo on a diluted basis. For accounting and reporting purposes, Gatekeeper is the accounting acquirer and Indigo is the accounting acquiree because of the significant holdings and influence of the control group of Gatekeeper before and after the Qualifying Transaction. The reverse acquisition has been accounted for as a share-based payment transaction on the basis that Indigo did not meet the definition of a business because Indigo is a shell based company with no ongoing business operations. As a result, the difference between the fair value of the consideration deemed to have been paid by the accounting acquirer and the fair value of the identifiable net assets of the accounting acquiree is expensed.

The results of operations of Indigo are included in the consolidated financial statements from February 19, 2013, the date of the reverse acquisition.

The net assets acquired at fair value on February 19, 2013 are as follows:

<b>Consideration paid</b>	
2,800,000 common shares	\$ 700,000
280,000 stock options	31,758
	731,758
<b>Less: Value of net assets</b>	
Cash	52
Amounts receivable	281,699
Trade and other payables	(233,031)
	(48,720)
<b>Listing expense</b>	<b>\$ 683,038</b>

The fair value of the stock options have been estimated using the Black-Scholes Option Pricing Model assuming a risk free interest rate of 1.78% per annum, an expected life of 7.89 years, an expected volatility of 38.63%, and no expected dividend. The expected volatility was determined using the average historical volatility of similar listed entities on the basis that the Company has limited historical information.

**GATEKEEPER SYSTEMS INC.**  
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)  
*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**7. Trade and Other Receivables**

	<b>February 28, 2014</b>	<b>August 31, 2013</b>
Trade receivables	\$ 690,003	\$ 693,284
Goods and Services Tax/Harmonized Sales Tax receivable	3,102	32,157
	<b>\$ 693,105</b>	<b>\$ 725,441</b>

Included in trade and other receivables of the Company are \$nil (2013 - \$nil) due from related parties. The amounts are unsecured, interest free and repayable upon written notice given from the Company.

**8. Inventories**

	<b>February 28, 2014</b>	<b>August 31, 2013</b>
Raw materials	\$ 196,952	\$ 214,940
Finished goods	240,883	286,715
	<b>\$ 437,835</b>	<b>\$ 501,655</b>

For the three and six months ended February 28, 2014, the cost of inventories recognized as an expense and included in cost of sales was \$289,343 and \$1,187,047 (2013 – \$625,007 and \$1,154,328).

For the three and six months ended February 28, 2014, a write-down of inventories of \$362 and \$14,472 (2013 – \$nil and \$14,083) was recorded and included in other income (expenses).

**GATEKEEPER SYSTEMS INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**9. Property, Plant and Equipment**

The changes in the Company's property, plant and equipment for the six months ended February 28, 2014 are as follows:

<b>Cost</b>	<b>Automotive</b>	<b>Computer equipment</b>	<b>Computer Software</b>	<b>Furniture and Fixtures</b>	<b>Office Equipment</b>	<b>Other Equipment</b>	<b>Research and Development</b>	<b>Leasehold Improvements</b>	<b>Total</b>
August 31, 2012	\$ 4,387	\$ 345,160	\$ 77,056	\$ 46,623	\$ 48,276	\$ 262,675	\$ 146,004	\$ 47,569	\$ 977,750
Additions	-	16,866	15,120	-	-	-	2,610	56,290	90,886
Disposals	(4,087)	-	-	-	-	-	-	-	(4,087)
August 31, 2013	\$ 300	362,026	92,176	46,623	48,276	262,675	148,614	103,859	1,064,549
Additions	-	1,834	-	-	-	3,324	-	-	5,158
Disposals	-	-	-	-	-	-	-	-	-
February 28, 2014	\$ 300	363,860	92,176	46,623	48,276	265,999	148,614	103,859	1,069,707
<b>Depreciation</b>	<b>Automotive</b>	<b>Computer equipment</b>	<b>Computer Software</b>	<b>Furniture and Fixtures</b>	<b>Office Equipment</b>	<b>Other Equipment</b>	<b>Research and Development</b>	<b>Leasehold Improvements</b>	<b>Total</b>
August 31, 2012	\$ 3,077	\$ 313,797	\$ 76,260	\$ 39,708	\$ 41,863	\$ 193,257	\$ 112,959	\$ 47,569	\$ 828,490
Deprecation	90	12,391	8,356	1,383	1,283	13,884	7,128	5,586	50,101
Disposal	(3,077)	-	-	-	-	-	-	-	(3,077)
August 31, 2013	90	326,188	84,616	41,091	43,146	207,141	120,087	53,155	875,514
Deprecation	32	3,630	3,780	553	513	5,569	2,853	5,070	22,000
Disposal	-	-	-	-	-	-	-	-	-
February 28, 2014	\$ 122	\$ 329,818	\$ 88,396	\$ 41,644	\$ 43,659	\$ 212,710	\$ 122,940	\$ 58,225	\$ 897,514
<b>Net Book Value</b>	<b>Automotive</b>	<b>Computer equipment</b>	<b>Computer Software</b>	<b>Furniture and Fixtures</b>	<b>Office Equipment</b>	<b>Other Equipment</b>	<b>Research and Development</b>	<b>Leasehold Improvements</b>	<b>Total</b>
August 31, 2012	\$ 1,310	\$ 31,363	\$ 796	\$ 6,915	\$ 6,413	\$ 69,418	\$ 33,045	\$ -	149,260
August 31, 2013	\$ 210	\$ 35,838	\$ 7,560	\$ 5,532	\$ 5,130	\$ 55,534	\$ 28,527	\$ 50,704	\$ 189,035
February 28, 2014	\$ 178	\$ 34,042	\$ 3,780	\$ 4,979	\$ 4,617	\$ 53,289	\$ 25,674	\$ 45,634	\$ 172,193

**GATEKEEPER SYSTEMS INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013 (UNAUDITED)**

*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**10. Trade and Other Payables and Accrued Liabilities**

	<b>February 28, 2014</b>	<b>August 31, 2013</b>
Trade payables	\$ 92,592	\$ 81,334
Provincial Sales Tax payable	136	1,711
Accrued liabilities	66,345	523,898
Accrued warranty liabilities	82,500	91,212
	<b>\$ 241,573</b>	<b>\$ 698,155</b>

Included in trade and other payables are amounts \$nil (2013 - \$nil) due to related parties.

The Company provides a one to five year warranty to repair or replace defective components with respect to its product sales. The warranty provision in this period's condensed interim consolidated financial statements includes management's best estimate of the total costs of all raw materials, labour and travel expenses required to repair all known issues related to all products that were sold and shipped prior to period. During the three and six months ended February 28, 2014, warranty as an expense and included in cost of sales was \$21,785 and \$48,997 (2013 – \$29,491 and \$131,223).

**11. 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 February 28, 2014, the Company had 42,138,358 common shares outstanding (August 31, 2013 – 33,268,655), 1,801,802 Class A preferred shares outstanding (August 31, 2013 – 5,405,405), Nil Class B preferred shares outstanding (August 31, 2013 – Nil) and Nil Class C preferred shares outstanding (August 31, 2013 – Nil). A total of 8,407,081 common shares are in escrow and thus, have been excluded from the weighted average number of common shares outstanding.

The Class A preferred shares are convertible to common shares, at the option of the holder, at a conversion rate of one to one subject to certain adjustments as determined by reference to additional common shares issued during the year.

The Class B preferred shares are redeemable at the option of the Company on 21 days' notice for an amount of \$1,000 per share.

The Class C preferred shares may include one or more series of shares. The board of directors may, by resolution, if none of the shares of any particular series are issued, alter the Articles of the Company and authorize the alteration of the Notice of Articles of the Company to do one or more of the following:

- Determine the maximum number of shares of that series that the Company is authorized to issue, determine that there is no such maximum number, or alter any such determination;
- Create an identifying name by which the shares of that series may be identified, or alter any such identifying name; and
- Attach special rights and restrictions to the shares of that series, or alter any such special rights or restrictions.

**(b) Issued Share Capital**

During the six months ended February 28, 2014 and the year ended August 31, 2013, the Company issued common shares as follows:

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- (i) On February 26, 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.
- (ii) On September 30 and October 3, 2013, the Company closed its first and second and final tranches of its non-brokered private placement offerings, by issuing 3,784,100 and 1,480,000 units, respectively, totaling 5,264,100 units, at a price of \$0.27 per unit, for total gross proceeds of \$1,421,307. Share issuance costs include agents' commission of \$99,491, \$37,213 other issuance costs, and issuance of 368,487 agents' warrants. Each unit consists of one common share and one-half share purchase warrant. Each full warrant and agents' warrants is exercisable at \$0.35 for a period of 24 months from the date of closing. Should the stock price trade over \$0.50 per share for ten consecutive days, the Company will have the right to accelerate the expiry of the warrants by giving notice to the holders of warrants by news release that the warrants will expire on the date that is not less than 30 days from the date notice is given.
- (iii) On September 30, 2013, pursuant to the Qualifying Transaction completed on February 19, 2013, 1,801,801 Class A preferred shares were converted into common shares of the Company.
- (iv) On February 19, 2013, the former shareholders of Gatekeeper received one common share of the Company for each common share of Gatekeeper held related to the completion of the Qualifying Transaction (see note 6).
- (v) On February 19, 2013, the Company issued 8,000,000 units at a price of \$0.25 per unit for total proceeds of \$2,000,000. Each unit consists of one common share and one-half of a share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.50 per share which entitlement will expire 12 months following the date of the issuance of the share purchase warrant. Finder fees consisted of a cash payment of \$233,000 and 640,000 share purchase warrants at an exercise price of \$0.50 per share which exercise entitlement will expire on February 19, 2014.
- (vi) On February 19, 2013, the Company issued 440,000 units at a price of \$0.25 per unit for total proceeds of \$110,000. Each unit consists of one common share and one-half of a share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.50 per share which entitlement will expire 12 months following the date of the issuance of the share purchase warrant. In addition, finder fees consisted of 35,200 share purchase warrants at an exercise price of \$0.50 per share which exercise entitlement will expire on February 19, 2014.
- (vii) During the year ended August 31, 2013, the Company incurred \$156,539 (2012 - \$nil) in additional share issuance costs related to the Qualifying Transaction and issuance of units.

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**12. Warrants**

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise	Amount
Balance – August 31, 2013	\$0.50	5,793,961	\$ 14,082
Issuance of warrants (see note 11(b)(i))	\$0.35	3,000,537	169,294
Expired	\$0.50	(1,573,961)	(17,476)
Balance – February 28, 2014	\$0.44	7,220,537	\$ 165,900
Balance – August 31, 2012	\$0.50	1,014,761	\$ 8,708
Issuance of warrants (see notes 11(b) (v) and (vi))	\$0.50	4,895,200	5,630
Cancellation of Gatekeeper warrants on reverse acquisition (see note 6)	\$0.50	(1,153,961)	-
Reissuance of Indigo warrants on reverse acquisition (see note 6)	\$0.50	1,153,961	1,032
Issuance of special warrants (see note 6)	-	5,405,405	-
Exercise of special warrants	-	(5,405,405)	-
Expired	\$0.50	(116,000)	(1,288)
Balance – August 31, 2013	\$0.50	5,793,961	\$ 14,082

During the three months ended February 28, 2014, the Company extended the previous exercise period of the 4,220,000 share purchase warrants for an additional 12 months, to February 19, 2015. Under IFRS 2 'Share-based payment', the extension of the exercise period was considered a modification of the terms and conditions on which the equity instrument were granted. As such, the Company is required to recognize the effects of modification that increases the total fair value of the share-based payment arrangements or are otherwise beneficial to the option holders. The incremental fair value was \$5,041, calculated as the difference between the total fair value of the modified share purchase warrants and the total fair value of the original share purchase warrants on February 19, 2013.

During the six months ended February 28, 2014, the Company issued 2,632,050 share purchase warrants and 368,487 agents' warrants (see note 11(b)(i)).

On February 19, 2013, as part of the Qualifying Transaction (see note 6), 1,153,961 share purchase warrants of Gatekeeper were exchanged for common share purchase warrants of Indigo on a 1:1 basis and 5,405,405 Class A preferred shares of Gatekeeper were exchanged for special warrants of Indigo on a 1:1 basis. Special warrants were convertible into Class A preferred shares of Indigo. On February 1, 2013, 116,000 warrants expired and therefore forfeited. During the year ended August 31, 2013, 5,405,405 special warrants were converted into Class A preferred shares (see note 6).

During the year ended August 31, 2013, the Company issued 4,220,000 share purchase warrants and 675,200 agents' warrants (see notes 11(b)(v) and (vi)).

On February 19, 2013, pursuant the Qualifying Transaction all issued and outstanding share purchase warrants of Gatekeeper were cancelled and share purchase warrants of Indigo were issued as replacements. Under IFRS 2 'Share-based payment', the cancellation and reissuance was considered a modification of the terms and conditions on which the equity instrument were granted. As such, the Company is required to recognize the effects of modification that increases the total fair value of the share-based payment arrangements or are otherwise beneficial to the option holders. The incremental fair value was \$1,032, calculated as the difference between the total fair value of the modified share purchase warrants and the total fair value of the original share purchase warrants on February 19, 2013.

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The fair value of the warrants has been estimated using the Black-Scholes Option Pricing Model assuming a risk free rate of 1.04% to 1.19% (2012 – nil%), an expected life of 1 to 2 year (2012 – nil), an expected volatility of 38.70% to 46.38% (2012 – nil), and no expected dividends (2012 – nil). The expected volatility was determined using the average historical volatility of similar listed entities on the basis that the Company has limited historical information.

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

	<b>Exercise price</b>	<b>Number of warrants</b>	<b>Expiry date</b>
Share purchase warrants	\$0.50	4,220,000	February 19, 2015
Agents' warrants	\$0.35	264,887	September 30, 2015
Share purchase warrants	\$0.35	1,892,050	September 30, 2015
Agents' warrants	\$0.35	103,600	October 3, 2015
Share purchase warrants	\$0.35	740,000	October 3, 2015
		<b>7,220,537</b>	

### 13. 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 incentive share options outstanding are summarized as follows:

	<b>Weighted average exercise price</b>	<b>Number of shares issued or issuable on exercise</b>	<b>Amount</b>
Balance – August 31, 2013	\$0.25	2,432,500	\$ 243,307
Stock options granted	\$0.30	1,439,500	133,081
Stock options exercised	\$0.25	(2,000)	(80)
Options forfeited	\$0.25	(178,000)	(15,700)
Balance – February 28, 2014	\$0.27	3,692,000	\$ 360,608
Balance – August 31, 2012	\$0.47	2,062,500	\$ 125,172
Cancellation of Gatekeeper stock options on reverse acquisition (see note 6)	\$0.43	(1,592,500)	-
Reissuance of Indigo stock options on reverse acquisition (see note 6)	\$0.25	1,587,500	58,532
Stock options on purchase of Indigo (see note 6)	\$0.25	280,000	31,758
Stock options granted	\$0.25	565,000	27,845
Options forfeited	\$0.60	(470,000)	-
Balance – August 31, 2013	\$0.25	2,432,500	\$ 243,307

During the three and six months ended February 28, 2014, the Company granted Nil and 1,439,500 (2012 – nil and nil) incentive stock options to employees, consultants, officers and directors. The options may be



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exercised within 10 years from the date of grant at a price of \$0.30 per share. All outstanding options have vesting periods of up to 2 years

On February 19, 2013, pursuant the Qualifying Transaction, all issued and outstanding stock options of Gatekeeper were cancelled and on April 3, 2013 stock options of Indigo were issued as replacement options (see note 6). Under IFRS 2 'Share-based payment', the cancellation and reissuance was considered a modification of the terms and conditions on which the equity instrument were granted. As such, the Company is required to recognize the effects of modification that increases the total fair value of the share-based payment arrangements or are otherwise beneficial to the option holders. The incremental fair value was \$58,532, calculated as the difference between the total fair value of the modified share-based options, measured at the grant date of April 3, 2013, and the total fair value of the original share-based options, measured at the cancellation date of February 19, 2013.

During the year ended August 31, 2013, the Company granted 565,000 incentive stock options to employees, consultants, officers and directors. The options may be exercised within 10 years from the date of grant at a price of \$0.25 per share. All outstanding options have vesting periods of up to 2 years

The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model, assuming a risk-free interest rate of ranging from 1.86% to 2.23% per annum (2013 – nil), an expected life of options of 5 years (2013 – nil), an expected volatility ranging from 38.87% to 39.07% (2013 – nil), and no expected dividends (2013 – nil).

Incentive share options outstanding and exercisable February 28, 2014 are summarized as follows:

<b>Exercise Price</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Shares Issuable on Exercise</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares Issuable on Exercise</b>	<b>Weighted Average Exercise Price</b>
\$0.25	2,302,500	9.08	\$0.25	2,115,000	\$0.25
\$0.30	1,389,500	9.57	\$0.30	744,750	\$0.30
	3,692,000	9.27	\$0.26	2,859,750	\$0.26

During the three and six months ended February 28, 2014, the Company recorded total share-based compensation expense of \$44,757 and \$133,081 (2013 – \$21,422 and \$21,422), which has been charged to income for the period.

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**14. General and Administrative Expenses by Nature**

The Company recorded general and administrative expenses for the three and six months ended February 28, 2014 and 2013 as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>February 28, 2014</b>	<b>February 28, 2013</b>	<b>February 28, 2014</b>	<b>February 28, 2013</b>
<b>General and administrative expenses</b>				
Accounting and legal	\$ 15,314	\$ 107,091	\$ 21,951	\$ 111,290
Consulting fees	-	2,275	-	5,275
Depreciation (see note 9)	11,031	8,605	22,000	17,210
Interest charges on loans	103	1,523	103	2,146
Investor relations	36,520	8,349	76,237	8,349
Office	64,526	86,665	170,719	149,730
Regulatory	1,810	-	2,020	-
Rent	25,984	24,017	51,968	48,033
Salaries and benefits (see note 19)	159,684	57,602	331,119	200,719
Share-based payments (see note 13)	44,757	21,422	133,081	21,422
	<b>\$ 359,729</b>	<b>\$ 317,549</b>	<b>\$ 809,198</b>	<b>\$ 564,174</b>

**15. Loss Per Share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the three and six months ended February 28, 2014 and 2013. There were 3,692,000 stock options and 7,220,537 share purchase warrants excluded from the weighted average number of common shares outstanding during the period as they were anti-dilutive since the average fair market value of the common shares did not exceed the exercise price of the stock options and share purchase warrants for the period.

**16. Management of Capital**

The capital managed by the Company includes the components of shareholders' equity as described in the consolidated statements of shareholders' equity. The Company is not subject to externally imposed capital requirements.

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 mining projects, 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 February 28, 2014 remains fundamentally unchanged from the year ended August 31, 2013.

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**17. Supplemental Cash Flow Information**

The Company made the following cash payments for interests and income taxes during the three and six months ended February 28, 2014 and 2013:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>February 28,</b>	<b>February 28,</b>	<b>February 28,</b>	<b>February 28,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Interest paid	-	-	-	-
Taxes paid	-	-	-	-
	-	-	-	-

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The Company operates in one segment in which it develops, manufacture, markets and sells high resolution mobile surveillance camera systems. Revenue is earned in two main regions, being Canada and United States. The following is a breakdown of revenue and current assets by geographic areas based on the customers' location:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>February 28, 2014</b>	<b>February 28, 2013</b>	<b>February 28, 2014</b>	<b>February 28, 2013</b>
<b>Revenue</b>				
Canada	29,201	123,344	202,211	194,215
United States	485,727	706,524	1,886,516	1,424,245
	514,928	829,868	2,088,727	1,618,460
<hr/>				
	<b>February 28, 2014</b>		<b>August 31, 2013</b>	
<b>Current Assets</b>				
Canada	\$	889,607	\$	382,595
United states		720,543		1,070,759
	\$	1,610,150	\$	1,453,354

All non-current assets are held in Canada.

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**19. 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.

i) Key Management Personnel Compensation

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Salaries and short-term benefits	146,351	80,466	264,346	161,836
Share-based payment	12,748	-	64,380	-
	159,099	80,466	328,726	161,836

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

ii) Trade Related Party Transactions

During the three and six months ended February 28, 2014, the Company incurred \$Nil and \$Nil (2012 – \$Nil and \$Nil) in respect of accounting fees with ZAMD Holdings Ltd. ("ZAMD"), a company controlled by the Chief Executive Officer of the Company.

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount established and agreed to by the related parties. The resulting accounts payable and accrued liabilities are payable currently under normal third-party trade payable terms and conditions.

The amounts due to related parties as at February 28, 2014 and August 31, 2013 are as follows:

	February 28, 2014	August 31, 2013
Chief Executive Officer	\$ -	\$ 100,000
Vice President of Safety	-	9,567
	\$ -	\$ 109,567

Amounts due from and to related parties have been included in trade and other receivables and trade and other payables, respectively. In addition, amounts due to the Chief Executive Officer, ZAMD and vice president of safety are non-interest bearing, unsecured and due on demand (see notes 7 and 10).

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**20. Commitments**

As of February 28, 2014, the Company's contractual obligations are as follows:

The Company has entered into various operating lease contracts for office space and office equipment. The future minimum payments under these leases as at February 28, 2014 are as follows:

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2014	\$ 62,799
2015	109,199
2016	109,642
2017	55,067
2018	-
Thereafter	-
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	\$ 336,707

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