

## Gatekeeper Systems (GSI) Company Report – January 19, 2019

Gatekeeper has a simple philosophy: It uses the latest in smart digital video technology to keep people safe and secure whether they are taking transit to work or riding a school bus to classes. Gatekeeper designs innovative, high-definition end-to-end video safety, and security solutions for mobile applications including, transit and school buses, light and heavy rail, ambulances, firetrucks, law enforcement vehicles, and airborne digital recording systems for military applications.

The Company has installed more than 100,000 cameras on school and transit buses and serves more than 3,500 customers all across North America.

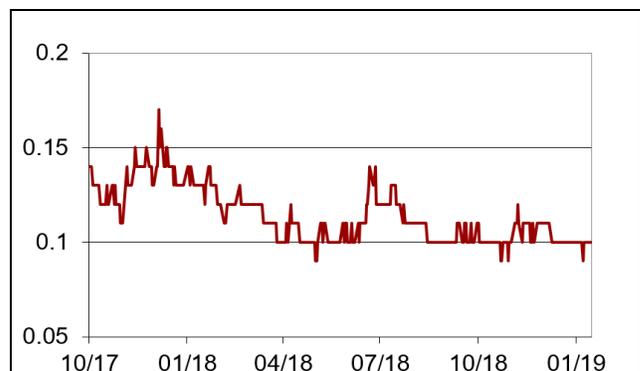
Although mobile video equipment remains Gatekeeper’s core business, the Company is adding more focus on data analytics. Providing customers with access to live data and intelligent analytics will rapidly advance the adoption of smart city strategies and drive increased sales. Automated video analytics and self-diagnostics can greatly enhance the customers’ ability to quickly identify actionable events and initiate a response. Gatekeeper is actively exploring opportunities in video analytics applications that can provide facial recognition, people counting, detection of pot holes, automated ticketing of parking violations, and driver behavior monitoring.

We reiterate our buy recommendation for Gatekeeper Systems with a price target of \$0.28, which is 211% above today’s stock price.

# GATEKEEPER

Gatekeeper undertook a strategic makeover in fiscal 2018, to adjust and realign its business focus and model. The Company’s previous strategies did not generate the consistency, rapid growth, or profitability expected by its stakeholders. Consequently, it became necessary to develop new strategies and to approach the business from a fresh perspective.

Fiscal 2018 represented a transitional year that included adding bench strength to the existing team through new hires, developing and launching a new strategic plan with the Board of Directors, and focusing on market segments in which Gatekeeper products add the highest value. These changes have helped set the stage for a reinvigorated organization that is well positioned to take advantage of expanded market opportunities.



Market Data	
Price	\$0.09
Sector	Technology
52-Week Price Range	\$0.08 - \$0.145
Shares Issued (m)	87.6
Market Cap (m)	\$7.88
Listings	GSI (TSXV), GKPRF (US), 1GK (Fra)
Website	<a href="http://www.gatekeeper-systems.com">http://www.gatekeeper-systems.com</a>

## THE COMPANY

Based in Abbotsford, BC, Gatekeeper Systems Inc. provides high-definition safety and surveillance solutions for a range of clients including school districts, law enforcement, public transit authorities, as well as the US military and Coast Guard.

Each system integrates high-definition digital video (HDDV) with the Global Positioning System (GPS). A GPS integrated with video provides a full picture of where buses in the fleet are located, and what is happening on each bus in real time. In the event of a critical incident or suspicious behavior, law enforcement can be given permission to access live video from each bus allowing them to respond quickly.

The Company's high-definition platform records up to 24 cameras per vehicle, all of which are displayed on the Company's video management software, which can be used as a desktop application for managing basic incidents. In addition, Gatekeeper enterprise software allow customers to install command and control centers which provide them with the ability to download video over WiFi or through live streaming.

Gatekeeper's products are sold directly to end-user customers and through a network of distributors and system integrators who have relationships with customers in multiple mobile markets. Gatekeeper is focused on the North American market and plans on expanding its interest and presence through international partners.

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

Revenue for the fiscal year 2018, ended August 31, 2018 was \$7,850,933 compared to \$7,605,107 in fiscal 2017, representing a 2% increase. Net loss for fiscal year 2018 was \$1,323,277 compared to a net loss of \$331,759 during fiscal year 2017.

Fiscal 2018 represented a repositioning of the Company's sales and marketing strategy to target large customers in both school bus and the transit markets. This strategy generated substantial success through increased order sizes and a greater sales diversification.



**In Mississippi, motorists pay \$750 for a first stop arm violation, and \$1500 for a second offence. With the revenue sharing potential, made possible with Gatekeepers's technology, clients see their cameras quickly paying for themselves.**

At the end of fiscal 2018 the Company's contracted sales backlog and sales funnel have grown to exceed prior years, and have become weighted more towards the transit industry, with school bus continuing contribute at historical levels. Service-based recurring revenue is now part of the Company's business model. The order size and growth potential with this evolved customer mix is better aligned with the Company's mandate to achieve accelerated revenue growth and to achieve sustainable near-term profitability.

Commenting on the results, Doug Dymant, President and CEO of Gatekeeper said, "Fiscal 2018 was a year of expansion and strategic repositioning for Gatekeeper. Our expansion into the USA, through the creation of our subsidiary, Gatekeeper Systems USA Inc., demonstrates our commitment to delivering our products, service and support directly into the markets where our customers operate. During the year we invested in building our team's bench strength to create a solid, scalable foundation on which to grow our business. We are confident that the decisions and investments made during the year make Gatekeeper well positioned to achieve significant growth in the year ahead."

## Multiple Revenue Streams

In an age of ever-increasing focus on the safety of children at school, Gatekeeper technology platforms are used for recording incidents inside and outside school buses and offer valuable peace of mind to parents, administrators and public officials alike.

All data is recorded to a military standard digital recording system located inside the vehicle. High definition (HD) cameras work in day or night conditions and are vital for collecting evidence such as license plates of school bus stop arm violators.

These stop arm violations occur when buses are stationary, the stop arm is engaged, children are getting on or off the school bus, and a driver ignores the stop arm command and drives by, risking lives. Gatekeeper's high-speed license plate reading system attaches to the outside of the school bus and records evidence required to prosecute violators.

Legislation in some US states and Canadian provinces allow authorities to use video from a school bus video system as evidence to issue a citation. The Company's program is called "STUDENT PROTECTOR" and includes a cloud-based software application trade named TIMS (Traffic Infraction Management System) that connects to the vehicle owner database and manages the entire citation cycle.

One of Gatekeeper's business models provides the stop arm system free of charge to the school district and shares revenue from citations with the school districts and counties. **Knowing that in 2017 alone, more than 14 million stop arm violations occurred in the US and that a stop arm citation starts around \$250 USD, it's clear that this is a massive opportunity for Gatekeeper** (also read Growth Drivers). Additional business models will include software licensing and service contracts.

Gatekeeper's HDDV platform is also being expanded into transit and transport. Forward facing cameras provide the high-definition imagery required to determine the cause of an accident. This information can be used to

protect drivers or settle legal disputes before costs escalate using indisputable evidence.

In April 2018, the Company expanded its business scope to include the provision of maintenance, support and installation services to a major transit authority through its wholly owned US subsidiary (also read Recent Events).

## Gatekeeper Systems USA

In March 2018 Gatekeeper established Delaware-based Gatekeeper Systems USA. The division was created because the Company had an attractive acquisition in mind, and at the same time to meet Buy America regulations.

A couple of weeks later, Gatekeeper announced an acquisition through its new subsidiary. They acquired certain assets of Delaware-based Spector Logistics Inc. The assets acquired include a production facility, work force with technical expertise which expands the Company's capability in the train market, a command and control centre in Wilmington designed to manage portable video installations for special events, crowd surveillance, and remote site-monitoring.

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 instalments of USD\$12,500 commencing May 1, 2018.

Included in the acquisition were transfer of Spector's contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA), which are expected to generate approximately \$1.7-million in revenue through the provision of video system maintenance and support services of mobile video equipment on 2,400 of SEPTA's 2,800 transit buses as well as to supply and install various video components on selected SEPTA trains.

Establishing a US subsidiary during the year, and targeting a major transit authority, has added a service and support capability that is proving to be attractive to customers. The

addition of Gatekeeper USA has also expanded the scope of vehicles in which Gatekeeper products are being installed, to include regional commuter rail trains and subway trains.

Gatekeeper USA has helped to position the organization as a technology developer, manufacturer, installer, and maintenance support company; filling a void in the market for one-stop accountability in mobile video surveillance systems. The US operation was immediately profitable in fiscal year 2018 and is viewed as a model that can be expanded upon to differentiate the Company and gain greater market share.

### Deep Development Corp

While Gatekeeper is widely known for its mobile video systems on buses and trucks, the Company has a second division called Deep Development Corp, which focuses on military and oil & gas markets.

Under the brand Viperfish, digital recorders are built to meet various military specifications and are used to record video and metadata from forward looking infrared cameras, radar and high definition cameras. Post-mission analysis software is used to analyze tactical operations recorded to the Viperfish recorders.

The Company's Viperfish high-definition airborne digital video recorders are currently being used by the United States Air Force (USAF) to record long range sensors used on AC-130 Gunships, Sea King helicopters in Canada, and French Navy marine vessels.

In addition, the company offers in car video systems for law enforcement, prisoner vehicles, and other public safety applications.

### Vision for the Future

While Gatekeeper is dedicated to offering superior HDDV systems, its future growth and success rests on offering comprehensive management solutions of the data and information that its equipment collects. For example, student tracking, stop arm violations, people counting, bus tracking,

facial recognition, and 360 degree warning sensor systems are all areas of future growth for the Company (also read Growth Drivers).

The Gatekeeper stop arm camera solution was its first conduit to a recurring revenue model by way of sharing in ticket or citation revenue collected from stop arm violators. In the future, Gatekeeper plans to offer customers multiple services including video management, driver analysis and other services that integrate video with operation data that delivers a positive return on investment for transportation companies.

The Company has a team committed to research and development that will harness its capabilities in integrated third-party software and hardware to deliver valuable value-added solutions that meet customer requirements and will drive future growth.

As the Company grows, it anticipates executing an aggressive sales strategy to begin managing multiple data packages its systems collect that deliver different value propositions depending on customer requirements.

## MARKET SEGMENTS

A recent report from MarketsandMarkets, a global information and research provider, the mobile video surveillance market was valued at USD\$1.40 billion in 2017 and is expected to reach USD\$2.32 billion by 2023, at a CAGR of 8.77% between 2017 and 2023.

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

The Company projects new niche market growth over the next three years and has positioned its technology platform to execute

on multiple product launches to satisfy safety and security requirements of these new markets.

The newest products provide customers with the ability to use its G4 Incident Management Software with its mobile video recorders, which can have four, eight, sixteen or twenty-four camera systems on a single vehicle. The software provides live, dual-streaming video technology for customers to deal with emergency situations or monitor the health of their assets and cargo from remote locations. G4 software enables a user to share incidents quickly across hundreds of users without having to download software at each desktop.

The Company believes these new niche markets have significant revenue upside to scale with its current revenue model, as well as add new recurring revenue by managing data that its devices collect.

## Public Transport

Whether on a school bus, transit bus or in a taxi, a safe ride should be a given for passengers and drivers. Thanks to Gatekeeper's digital video recorder solutions, it is possible to detect, analyze and quickly respond to events and incidents.



**Gatekeeper's Y724 mobile Digital Video Recorder supports the recording of 16 IP channels (video and audio) up to 1080p and up to 30 frames per second on all channels simultaneously.**

Seeing everything means you can hold violators accountable, quickly resolve liability claims and protect your buses from misuse and vandalism. But seeing everything goes beyond safety. It also ensures that drivers stay on designated routes and make designated stops, improve on-time

performance and operational efficiencies, and resolve liability claims quickly.

Gatekeeper's scalable G-Series Digital Video Recorders support up to 24 cameras and deliver dynamic, real-time video to give you maximum coverage of your school buses. The S-Series cameras offer the highest resolution in the industry and feature infrared technology for precision viewing in any light, even no light. These vandal-proof cameras include a microphone for clear audio recordings.

As for taxi drivers, they never know who their next customer will be, Gatekeeper Y62 combines a high definition forward facing camera, rear looking camera and built-in DVR providing them with a reliable safety and security solution for in the cab that deter dangerous offenders, and in the event of an incident you immediately send help to the driver's exact location. Plus, evidence is provided in case it is necessary to prosecute criminals, investigate accidents and quickly resolve liability claims.

## Transport Services

Also, for truck drivers and trucking companies, video evidence protects against lawsuits, insurance claims, deductibles, theft, vandalism, road rage and robbery. Video is also a useful tool for training new drivers, or monitoring and coaching their driving habits.

Gatekeeper does this with digital video recorder solutions that give management and on-highway captains reliable, high resolution digital video and clear audio recordings integrated with vehicle sensors, including GPS, G-sensor and speed.

Gatekeeper also offers the SD-700 camera, which is a small, vandal resistant, outdoor camera with IR LED's for night use. It utilizes a Sony Super HAD II 700 TVL color, day/night CCD with 12 integrated IR LEDs. The camera's housing is metal and built to survive in rugged and vandal susceptible environments. The SD-700 is ideal to mount on the outside of trucks, as it has been built to operate in extreme environments that have significant shock and vibration and can operate in a temperature range of -22°F to +131°F, (-30°C to +55°C).

## Law Enforcement

While law enforcement officers are busy protecting the public, Gatekeeper's digital video recorder solutions are protecting them and giving them the proof they need to get the job done. Reliable, high resolution digital video and clear audio recordings are integrated with vehicle sensors, including GPS, speed and sirens. It's the evidence needed to assist with convictions, quickly resolve liability claims, protect officers from dangerous offenders and demonstrate police officer accountability.

In law enforcement or first responder vehicles, scalable G-Series Digital Video Recorders support up to 16 cameras and deliver dynamic, real-time video to give maximum coverage of the vehicles.

Back in the office, finding, saving and sharing incidents is fast and easy with the G4 Viewer Plus Incident Management Software, which can retrieve video from vehicles wirelessly anytime, even when the vehicle is turned off. G4 lets you synchronize video with Integrated GPS Mapping, vehicle sensors, alarms and audio so that incidents can be seen from all angles. Live-streaming video also makes it possible to quickly identify dangerous incidents and send backup to the officer's exact location. Finally, it also allows to view historical data to track where officers have been and what transpired in the vehicle.

## Homeland Security

Whether the mission is close air support, air interdiction or force protection, operations are required to record data from sophisticated sensor, navigation and fire control system for post mission analysis.

The AC-130 gunship supports troops, provides convoy escort, and manages urban operations. Air interdiction missions are conducted against preplanned targets or targets of opportunity. Force protection missions include air base defense and facilities defense.

The high definition recorder meets military standards for airborne applications and is

used to record the Gunships forward facing sensor system. Multiple sensors allow the gunship to visually or electronically identify friendly ground forces and targets any place, any time. The AC-130U employs synthetic apertures strike radar for long-range target detection and identification. The gunship's navigational devices include the inertial navigation systems and global positioning system.



**Deep Development Corp provided its Viperfish airborne digital recorders and post-mission analysis software for use on the AC-130 Gunships.**

## GROWTH DRIVERS

### Evidence Management for the American Public Transit Industry

A significant growth opportunity lies ahead for Gatekeeper in this area. After all, with approximately 100,000 cameras installed on school and transit buses throughout North America (3,500 customers), the Company currently tracks, stores and processes a tremendous amount of data "within" and "around" public vehicles.

Statistics from the Bureau of Justice and the U.S. Dep't of Transportation make it clear that there's a tremendous need for more video surveillance data:

- The personal injury law industry is worth an estimated \$27 Billion annually.
- American cities with large public transportation networks will spend millions annually "settling" public transportation lawsuits – with the huge majority settled out-of-court (although frivolous or fraudulent).
- Over 70,000 bus accidents typically occur in any given year. Causes

include driver fatigue, distracted driving, speeding or violating other rules.

- 12,000 injuries annually are experienced by children on school buses.

So, as the need for evidence management grows, Gatekeeper has a product that is not only unique, but of tremendous benefit to private transit operators and local government.

SEPTA command and control room manages all video from its buses, trains and city cameras. Designing a proactive evidence management program they have been able to save approximately \$20M each year in false liability claims. Also, Clovis Unified School District, a Gatekeeper client since 2010, claims they save \$10,000 to \$20,000 in seat repair costs every year by being able to charge vandals thanks to the on-board surveillance system.

Next to the stop arm violations (see below), the video systems could also be used to detect vehicles that drive in the designated bus lane, or park on a bus stop.

### Buses for Smart Cities

More and more cities want to become "Smart Cities" and video is one of those elements that is enabling cities to go from simple situational awareness to situational intelligence where you can predict things.

Smart Cities need increased amounts of data for planning, decision-making, and to provide new services. Mass-transit vehicles are everywhere in the city, so using them to provide real-time data for these applications makes obvious sense.

A camera combined with analytics, for example, can detect the movement of vehicles and humans on the roads and provide data on which areas are congested, peak time traffic hours, foot traffic count, vehicular count and even operate and manage traffic control systems.

The same technology can be pivoted for other purposes. Citizens will be able to track

parking spots in their area, traffic authorities can forecast traffic congestion, determine the need to close a road, decide to open a one-way street or designate a lane for buses and trolleybuses.

Moreover, the camera data can also be used to offer solutions for smaller problems, such as potholes. Most potholes start as small cracks in a road's surface, which allow water to seep in. In winter, when the water freezes, it expands, widening the crack. If the water repeatedly thaws and refreezes, the hole can grow quickly, especially since the continued passage of vehicles will worsen the damage as they drive over it.

Small potholes are a nuisance; big ones can damage cars, and even cause serious and sometimes fatal accidents.

These developing markets present a tremendous opening for Gatekeeper's video equipment systems. This is a unique opportunity that could propel the Company into another category of growth.

### Stop Arm Violations

It is illegal in every state in the USA and in every Canadian province to pass a school bus while the bus is stopped and the stop arm is engaged.



**Gatekeeper's technology is able to capture license plates of vehicles in lanes 2, 3, and 4 with high, with its latest 10 megapixel stop arm camera system.**

Recent deaths, and near misses of children while loading and offloading school buses, have driven new legislation that allows authorities to use video recording from the

Company's license plate reading system as evidence to issue tickets.

States that have not passed legislation allowing video enforcement systems require law enforcement officers to witness the incident in order to issue a citation.

A couple of years ago, the Company recognized this new trend and initiated the development of a cloud-based software application named TIM's ( Traffic Infraction Management System). Tags of the violators are matched with vehicle owner information and added to the rest of the evidence package recorded by the Student Protector system. Law enforcement officers log into TIMS and approve the violation by insuring all evidence is accurate and that a violation occurred. Tickets are then mailed and tracked through the TIMS software. Violators are able to connect to TIMS and pay for the tickets online.

The Company has successfully launched five revenue sharing projects in the state of Georgia. It provides the systems free of charge, but shares the revenue: 50% goes to Gatekeeper, 25% to the school district and 25% to the county. In Georgia, stop-arm violation tickets begin at USD \$300 for the first offence; USD \$750 for the second offense; and USD \$1,000 for subsequent offences within a five-year period.

With the recent launch of its 10 mega pixel stop arm camera system, the Company is experiencing significant interest and expects sales in the stop arm camera business to increase in 2019.

## RECENT EVENTS

### Major Contracts Closed with SEPTA

Back in April 2018, Gatekeeper announced it had acquired a beachhead into the United States market with its purchase of certain assets of Spector Logistics Inc. The deal was structured to establish a central facility in Wilmington, Delaware, for the newly created subsidiary Gatekeeper Systems USA Inc.

Also included in the acquisition was a contract with the Southeastern Pennsylvania

Transportation Authority (SEPTA) worth approximately CDN \$1.7 million to provide video system maintenance and support services of mobile video equipment on 2,400 of SEPTA's 2,800 transit buses. Serving the greater Philadelphia area, SEPTA operates a vast fleet of buses, trolleys and trains.



**SEPTA's New Flyer Xcelsior XDE40 bus in Philadelphia. This bus is equipped with a Cummins ISL, an Allison EP40 HybriDriv, and soon a Gatekeeper high definition multi camera system.**

Last November, Gatekeeper reported that its US division had won two new purchase orders from SEPTA. First, it announced a deal with an expected value of C\$1.5 million for the purchase and installation of state-of-the-art video monitoring systems on part of SEPTA's 970 passenger trains currently in service. The system is durable and supported by uninterruptable power supply with rugged crash-proof hard drives to store data generated from high definition cameras.

This purchase order expands the relationship between Gatekeeper and SEPTA, and demonstrates that the latter has realized benefits of the video monitoring system already in operation for its bus fleet.

Moreover, this deal is a validation of the corporate strategy to expand into the US market, and it will be managed through the command and control center in Wilmington. The facility is fully staffed with trained specialists to complete the equipment installation for the trains, and work will begin shortly as soon as the specific 'Statement of Work' has been finalized by SEPTA.

Later that month, Gatekeeper USA Inc., announced yet another agreement. This time it was to upgrade Gatekeeper's technology on

buses to be delivered by New Flyer as part of SEPTA's plan to support passenger safety.

With a contract awarded for the installation of its high definition video monitoring systems on its new fleet of modern hybrid diesel-electric buses, SEPTA has once again demonstrated its confidence in Gatekeeper from service provider to high definition video technology supplier to enhance the security for millions of passengers that commute daily on its trains and buses.

This agreement is related to a five year contract that is already in process with New Flyer of America Inc. for the purchase of 525 hybrid diesel-electric Xcelsior buses. These modern buses are equipped with advanced technology that includes a variety of safety features and they are designed to operate efficiently and with lower pollution emissions. SEPTA anticipates the Xcelsior buses will eventually comprise 95% of its bus fleet and the choice to invest in this advanced technology represents a statement of corporate values and leadership for the transit authority.

It is fitting then that SEPTA has also opted for the most advanced video monitoring system on these buses and has partnered with Gatekeeper to install its high definition cameras as standard equipment on each new bus prior to delivery from the factory. The new high definition multi camera system has built-in GPS and analytics capabilities.

SEPTA has reported that video imaging captured on monitoring cameras has led to savings of more than \$33 million in liability payments related to damages and injury claims from passengers on the buses. This substantial savings occurred just in the 2016 fiscal year.

As the 5th largest regional transit authority in the United States, with more than 300 million passenger trips each year, the positive results reported by SEPTA will be recognized by other public transportation agencies elsewhere in the country. This will make it much easier for Gatekeeper to achieve new sales contracts and grow the US division.

## Gatekeeper Sets the Standard for Digital Video Technology With Latest System Upgrades

Late October 2018, Gatekeeper reported details on a new school bus camera system. Performance improvements have been incorporated throughout the design and the dual-camera configuration now provides even greater monitoring capability along with capturing critical evidence necessary for law enforcement and the protection of children when boarding and exiting school buses.

The brand new SP25 camera system, introduced at the National Association of Pupil Transportation (NAPT) conference, provides advanced capabilities beyond any other product currently available on the market. It is ideally suited to provide critical evidence when motorists ignore a deployed stop arm on a school bus. For example, the image field is now wider to allow scanning of wider roads with up to 4 or 5 lanes of traffic. Other cameras can typically only scan 1 to 3 lanes. The system is also able to function properly under harsh weather conditions, and even in low light or night-time operations.



**The brand new 10-megapixel SP25 camera is ideally suited to provide critical evidence when motorists ignore a deployed stop arm on a school bus.**

The new 10-megapixel camera on the SP25 is the first such unit available for this application and delivers high quality resolution. The image is also projected to a greater range than its predecessor and may now provide clear images up to 50 meters from the mount. The cameras weigh just 1.1 lbs (500 grams), are quick and easy to install, and despite the improvement in technology, are less expensive.

The need for this technology continues to be demonstrated time and again under tragic circumstances as children are killed or injured while boarding or disembarking school buses. The same day Gatekeeper was launching its latest weapon to help deter stop arm violators this happened:

**FULTON COUNTY, Ind. — The National Transportation Safety Board launched an investigation after Xzavier and Mason Ingle, both 6, and Alivia Stahl, 9, were struck while crossing the road to get on their bus Tuesday morning. They died at the scene of the crash near 4600 North Ind. 25, north Rochester in Fulton County.**

In order to prosecute these irresponsible drivers however, the access to clear, real time camera imaging is critical. Therefore, the rollout of a more powerful camera system is a necessity to keep school children safer at bus stops.

The material benefits of the SP25 system will lead to sales for upgrades among districts that have already chosen to adopt this technology, and promote growth in the market sector overall as other jurisdictions begin using the system.

### Gatekeeper Lands Contract with Major NYC School Bus Operator

Gatekeeper keeps adding new contracts. In September 2018, it received an initial order with Logan Bus Company for the supply and installation of high-definition video systems on 40 New York City (NYC) area school buses.

Logan Bus owns more than 2,000 buses and 15-seater mini-wagons and has been providing transportation services for more than 30 years. Logan Bus is based in NYC and has multiple locations in Brooklyn, Queens, the Bronx, and Nassau County.

Cory Muirhead, Vice President, Logan Bus says that, "Logan and Gatekeeper share a common vision to protect children and provide a safe, worry free experience during their bus ride to and from school. The quality and reliability of the video systems, as well as Gatekeeper's local service and support, ensures that we can meet that commitment to our customers. Parents can have full confidence and peace of mind knowing that

we care as much as they do about the safety of their children."

Logan Bus and Gatekeeper are members of the New York School Bus Contractors Association, an organization of nearly 100 school transportation service companies with the primary mission of promoting safe, reliable, and cost-effective student transportation in New York State. Private school bus companies employ approximately 45,000 people, operate roughly 30,000 school vehicles, and provide service to more than 300 school districts in New York State.

## FINANCIALS

Gatekeeper's revenue for the year ended August 31, 2018 of \$7,850,933 represents an increase of 3% as compared to \$7,605,107 for the year ended August 31, 2017.

Overall operating expenses were \$5,584,266 for the year ended August 31, 2018 compared to \$3,949,476 during the comparative period of the prior year and represented a 41% increase.

The Company increased spending in all areas to accelerate product development, penetrate new markets, and to create a scalable infrastructure upon which to grow.

General and administrative expenses, for example, were \$2,135,723 during fiscal 2018, compared to \$1,534,272 during fiscal 2017, representing a 39% increase. Share-based payments, relating to options issued during the year, along with increases in depreciation, office and travel expenses arising from opening a US subsidiary, contributed to the increase.

Also selling and marketing expenses were higher. During the year ended August 31, 2018 they reached \$2,334,341 compared to \$1,627,833 during the year ended August 31, 2017, representing a 43% increase. During the year, there was a greater focus on developing relationships with large fleet owner customers and penetrating industries outside of school bus. Strategies designed to gain market share within the school bus industry were also undertaken and resulted in new

contracts being announced with Logan Bus Company, of New York, and Midwest Transit Equipment, of Illinois.

Finally, research and development expenses for the year ended August 31, 2018 were \$1,114,202, compared to \$787,371 during the year ended August 31, 2017, representing a 42% increase. The Company has been developing new functionality to incorporate deep learning, artificial intelligence, and expanding opportunities to manage customer data. The year-over-year comparable increase reflects the Company's increased R&D efforts to accelerate product development and feature enhancements that create greater differentiation of the Company's products from those of its competitors.

While sales did not meet expectations for the year, the efforts to diversify into high growth, complementary markets with large institutional customers, proved to be very successful.

Overall, gross margins for the year ended August 31, 2018 were 53%, compared to 51% during the year ended August 31, 2017.

Amounts in \$000's	08/31/18	08/31/17
Net Sales	2,656	2,652
Cost of Goods Sold	1,235	1,230
<b>Gross Profit</b>	<b>1,422</b>	<b>1,421</b>
G&A	659	406
Selling & Marketing	743	473
<b>Operating Expenses</b>	<b>1,739</b>	<b>1,084</b>
<b>Net Income (Loss)</b>	<b>(357)</b>	<b>114</b>
Diluted Shares Outs.	87,597	72,142
Diluted EPS	(0.00)	0.00
<b>Selected income statement data for the quarters ending August 31, 2018 and August 31, 2017. Source: Company Filing</b>		

Net loss for the year ended August 31, 2018 was \$1,323,277 (\$0.02 per share) compared to a net loss of \$331,759 (\$0.00 per share) for the year ended August 31, 2017, which is a decline in profitability of \$991,518 (299%).

Revenues for the fourth quarter of fiscal 2018 was \$2,656,406 compared to \$2,651,543 during the comparative period of the prior year and represented an 0.2% increase. The Company's US subsidiary, Gatekeeper

Systems USA Inc., commenced operations in April 2018 and contributed \$449,090 of new revenue to the quarter.

Gross margin for the Company's fourth quarter ended August 31, 2018, was 54% and compared to 54% during the same quarter of the prior year.

## Balance Sheet as of August 31, 2018

Gatekeeper has a solid balance sheet with over \$4.1 million in cash and no long term debt. In addition, it has working capital of \$6.42 million and a very impressive current ratio of 8.35.

Amounts in \$000's	08/31/18	08/31/17
Cash and Cash Eq.	4,167	6,312
Accounts Receivable	1,679	1,145
Inventories	898	1,014
Total Current Assets	7,302	8,666
Property & equipment	444	205
<b>Total Assets</b>	<b>7,894</b>	<b>8,871</b>
Accounts Payable	872	565
Total Current Liabilities	874	826
<b>Total Liabilities</b>	<b>874</b>	<b>826</b>
Total Stockholder Equity	7,020	8,045
<b>Selected balance sheet data for August 31, 2018 and August 31, 2017. Source: Company Filing</b>		

As part of the Company's corporate finance strategy, Gatekeeper successfully raised \$4,256,000 from over-subscribed private placements during fiscal 2017. The Company will continue to assess its capital needs, but believes its current working capital is sufficient. The need for additional capital in the form of equity is not required unless there is a defined event or combination of events that require additional financing. On June 12, 2018, the Company also 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.

## OUTLOOK & VALUATION

Gatekeeper's core business of providing high-definition safety and surveillance solutions is

growing at a solid pace. Thanks to these tools, its clients are armed with the right tools to detect, analyze, and respond to safety and security threats anytime; and to reduce losses arising through false liability claims.

With more than 100,000 video devices now installed across the spectrum of product lines, Gatekeeper is an established market leader. Moreover, the Company remains at the forefront thanks to continued technological developments that make its systems better and more effective.

Within the school bus market, Gatekeeper is already working with 3000 clients, ranging from smaller school bus operators through to large contractors that operate fleets of thousands of buses. With an estimated market of 550,000 yellow school buses just in the United States, the potential for further growth is enormous.

With its technology established providing high quality video surveillance for school bus operators, Gatekeeper made the strategic decision to expand into the public transportation market. The Company also chose to create a US-based subsidiary to pursue the larger market opportunity beyond its home base in Canada. These initiatives have already contributed successful results for Gatekeeper with its advanced technology systems that are rapidly becoming accepted as essential equipment for a very large market sector. The longer term sales growth implications are exceptional.

The agreements with SEPTA have positioned Gatekeeper as a reputable and reliable supplier of critical safety technology with documented benefits providing passenger safety and lower costs related to litigation expenses. The rollout of Gatekeeper video monitoring and passenger safety products across most of the fleet of trains and buses for SEPTA will serve to showcase the appeal and effectiveness of this technology system.

Furthermore, SEPTA is a valuable partner to have with an almost constant demand for new installations or upgrades. For example, due to a 2017 SEPTA train crash near the 69th Street Station in Delaware County, SEPTA is obligated by the National Transportation

Safety Board (NTSB) to install Crash/Fire Worthy Hard Drives on its entire fleet of trains. Products which could be perfectly delivered by... Gatekeeper.

As the contracts with SEPTA are fulfilled and installations are completed, ongoing monitoring and service arrangements are expected to increase revenues for Gatekeeper. The boost to the top line will appear immediately in quarterly financial statements and a rapid growth profile for the Company will support a premium market valuation. Meanwhile, the expectation for further growth in this large market, in addition to the strong performance established in the school bus transportation sector, will position this story as a rising star with a higher share price objective.

In addition, the litigation market should become a giant growth drivers for Gatekeeper. The Company has marketed its school bus stop-arm violations solution to school boards and law enforcement districts under a recurring revenue sharing model. The average citation is between \$250 USD and \$500 USD.

Gatekeeper's stop-arm enforcement application is currently installed and in pilots on school buses in several school districts. The Company anticipates recurring revenue streams from its stop-arm business to grow substantially over the coming years.

Moreover, the increasing demand for Video Content Analytics (VCA) and Video Surveillance as a Service (VSaaS), incorporation of artificial intelligence in video surveillance systems, increasing demand for intelligent transportation systems in smart cities, and integration of surveillance with technologies have been identified as the key opportunities expected to significantly accelerate Gatekeeper's growth.

With a clean balance sheet and attractive growth potential for years to come, Gatekeeper is a fundamentally solid Company in the tech industry. When the Company's cash is subtracted from its current market cap, the entire business is valued by the market at a little over \$4 million, or about half of its annual revenue.

## Valuation

Given the still emerging nature of Gatekeeper's earnings, a multiple-based valuation is challenging. Instead, we apply a Discounted Cash Flow (DCF) model.

Based on 87.6 million shares outstanding, the intrinsic value of Gatekeeper's shares derived from our model is \$0.28.

**Consequently, reiterate our buy recommendation for Gatekeeper Systems with a price target of \$0.28, which is 211% above today's stock price.**

## SHARE DATA & OWNERSHIP

As of August 31, 2018, Gatekeeper had approximately 87.6 million common shares outstanding. In addition, the Company had 10.64 million warrants outstanding with an exercise price of \$0.30.

Finally, Gatekeeper has about 7.62 million stock options outstanding with a weighted average exercise price of \$0.18. Each stock option entitles its holder to purchase one common share of the Company.

## MANAGEMENT

### ▣ DOUG DYMENT - PRESIDENT AND CEO

Douglas Dymont, founded Gatekeeper Systems Inc. in 1997, but is recognized as playing a leading role in the video security industry since 1992. At that time, Mr. Dymont developed and sold a school bus video system to Silent Witness Enterprises Ltd. This product led the company into the global security market, where they secured top market space, and generated \$35 to \$40 million in revenue. At Silent Witness Enterprises, Mr. Dymont was a key player on the business development team responsible for the

expansion of its security cameras through OEMs with large multi-national companies and security distributors. Mr. Dymont's focus on improving safety in the fleet environment, coupled with his more than 20 years of experience leading sales, business development, operations, and research and development teams, has enabled him to grow Gatekeeper into the foremost provider of digital video security solutions.

### ▣ GORDON CLISSOLD, FCPA, FCGA - CFO

Gordon Clissold, FCPA, FCGA, brings more than 20 years' experience as an operational and financial manager within a diverse set of industries, including manufacturing, wholesale distribution, and technology. His professional experience includes organizational leadership, strategic planning, corporate finance, financial modelling, ERP and financial systems implementation, internal control development, and due diligence for mergers and acquisitions.

### ▣ DOUGLAS FRASER - VP PRODUCT MANAGEMENT

Douglas Fraser was appointed VP Product Management/Programs at Gatekeeper in 2005, and despite a brief absence, has been an integral part of the organization in developing innovative products. He brings with him over 20 years of experience in project and product management, operations, business development, channel management and sales. Mr. Fraser has managed senior-level relationships with Fortune 500 companies across the globe. Before rejoining Gatekeeper, he served as the Senior Global Product Manager at Honeywell Inc., where he headed their video system product. While there, he achieved net sales in excess of \$50 million. Mr. Fraser earned his MBA from the Ivey School of Business, University of Western Ontario, and also holds a Masters of Electrical Engineering from the University of Alberta.

## ANNUAL INCOME STATEMENT FY 2015 – FY 2018

All numbers in thousands

PERIOD ENDING	FY 2015	FY 2016	FY 2017	FY 2018
<b>Total Revenue</b>	<b>5,944</b>	<b>9,900</b>	<b>7,605</b>	<b>7,851</b>
Cost of Sales	3,251	4,848	3,753	3,662
<b>Gross Profit</b>	<b>2,693</b>	<b>5,051</b>	<b>3,852</b>	<b>4,189</b>
<b>Operating Expenses</b>				
General and Administrative	1,596	1,743	1,534	2,136
Selling and Marketing	1,509	1,663	1,628	2,334
R&D	635	837	787	1,114
Total Operating Expenses	3,740	4,243	3,949	5,584
<b>Operating Income (Loss)</b>	<b>(1,047)</b>	<b>808</b>	<b>(98)</b>	<b>(1,395)</b>
<b>Income from Continuing Operations</b>				
Interest Income (Expense)	1	1	13	32
Foreign Exchange	126	50	(162)	132
<b>Net Income (Loss)</b>	<b>(921)</b>	<b>696</b>	<b>(332)</b>	<b>(1,323)</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$(921)</b>	<b>\$696</b>	<b>\$(332)</b>	<b>\$(1,323)</b>

**Annual Income Statement FY 2015 – FY 2018. Source: Company Filings**

# GATEKEEPER

## TSX Venture: GSI

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