



Consolidated Financial Statements

(Expressed in Canadian Dollars)
(Unaudited)

Nine Month Period Ended

May 31, 2020 and 2019

**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 condensed interim consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements. The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

CellStop Systems Inc.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	May 31, 2020	August 31, 2019
	(\$)	(\$)
ASSETS		
Current assets		
Cash	26,921	1,144
GST receivable	26,183	18,742
	53,104	19,886
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (Note 6 and 9)	344,289	411,896
Notes payable (Note 7)	46,831	131,100
	391,120	542,996
Notes payable (Note 7)	-	115,925
	391,120	658,921
Shareholders' deficiency		
Share capital (Note 8)	8,157,277	7,917,277
Deficit	(8,495,294)	(8,556,312)
	(338,017)	(639,035)
	53,104	19,886

Nature of operations and going concern (Note 1)

Commitments (Note 10)

These consolidated financial statements were authorized for issue by the Board of Directors on July 28, 2020. They are signed on behalf of the Board of Directors by:

"Michelle Gahagan"

Director

"Michael Curtis"

Director

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

CellStop Systems Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three Month Period Ended May 31, 2020 (\$)	Three Month Period Ended May 31, 2019 (\$)	Nine Month Period Ended May 31, 2020 (\$)	Nine Month Period Ended May 31, 2019 (\$)
EXPENSES				
Interest expense (Note 7)	1,105	4,213	6,863	12,237
Office and miscellaneous	272	18	6,423	79
Professional fees	-	2,500	4,790	7,712
Rent (Note 10)	25,490	23,100	73,230	66,500
Transfer agent and filing fees	3,390	2,268	17,135	17,109
Loss from operations	(30,257)	(32,099)	(108,441)	(103,637)
Write-off of liabilities (Note 7)	5,404	-	169,459	-
Income (loss) and comprehensive income (loss)	(24,853)	(32,099)	61,018	(103,637)
Basic and diluted earnings (loss) per common	(0.00)	(0.01)	0.01	(0.02)
Weighted average common shares outstanding	9,597,097	5,005,793	6,547,399	5,005,793

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

CellStop Systems Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Shares	Amount (\$)	Deficit (\$)	Total Shareholders' Deficiency (\$)
Balance at August 31, 2018	5,005,793	7,917,277	(8,422,361)	(505,084)
Loss and comprehensive loss	-	-	(103,637)	(103,637)
Balance at May 31, 2019	5,005,793	7,917,277	(8,525,998)	(608,721)
Loss and comprehensive loss	-	-	(30,314)	(30,314)
Balance at August 31, 2019	5,005,793	7,917,277	(8,556,312)	(639,035)
Shares issued pursuant to a private placement	4,800,000	240,000	-	240,000
Loss and comprehensive loss	-	-	61,018	61,018
Balance at May 31, 2020	9,805,793	8,157,277	(8,495,294)	(338,017)

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

CellStop Systems Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

	Nine Month Period Ended May 31, 2020 (\$)	Nine Month Period Ended May 31, 2019 (\$)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	61,018	(103,637)
Items not affecting cash:		
Accrued interest	8,286	12,237
Write-off of loan	(80,000)	-
Changes in non-cash working capital items:		
GST receivable	(7,441)	(4,768)
Accounts payable and accrued liabilities	(75,893)	7,158
	(94,029)	(89,010)
FINANCING ACTIVITIES		
Issuance of common shares for cash	240,000	-
Repayment of notes payable	(136,200)	(20,000)
Proceeds from notes payable	16,006	112,100
	119,806	92,100
Change in cash during the period	25,777	3,090
Cash, beginning of period	1,144	2,562
Cash, end of period	26,921	5,652

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

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

1. NATURE OF OPERATIONS AND GOING CONCERN

CellStop Systems Inc. (the "Company") was incorporated on April 29, 1982, under the laws of the Province of British Columbia. The Company currently has no active operations and is analyzing project opportunities. The address of the Company's head office and registered office is 1558 West Hastings Street, Vancouver, British Columbia, V6G 3J4, Canada.

The Company is a publicly traded company and the Company's listing on the TSX Venture Exchange ("TSX-V") was transferred to the NEX board of the Exchange effective July 2, 2010 due to the Company's lack of operations. The NEX board allows the Company's shares to continue trading while it analyzes project opportunities to resume active business. The Company is subject to restrictions on share issuances and certain types of payments as set out in NEX policies.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. Currently, the Company has no active operations and no source of operating cash flows. The Company incurred a loss from operations of \$108,441 for the nine-month period ended May 31, 2020, and, as of that date, had accumulated losses of \$8,495,294 since inception. Despite having no source of income, the Company reported net income and comprehensive income of \$61,018 for the nine-month period ended May 31, 2020 due to the write-off of certain liabilities related to a proposed transaction that has since been terminated.

The Company has relied mainly upon the issuance of share capital and notes payable to finance its activities. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue to rely upon the issuance of share capital to finance its future activities but there can be no assurance that such financing will be available to the Company. Inability to secure future financing would have a material adverse effect on the Company's business, results of operations, and financial condition.

These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Failure to continue as a going concern may require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION**Statement of compliance**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations committee. They do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements, and, therefore, should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended August 31, 2019, prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved by the Audit Committee and Board of Directors of the Company on July 28, 2020.

Basis of presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis, using the accrual basis of accounting, except for cash flow information.

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

2. BASIS OF PRESENTATION (continued)**Basis of Consolidation**

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned inactive subsidiary, US incorporated Palm Coast Solutions Inc. (collectively the "Company"). All significant intercompany transactions and balances have been eliminated. A company is consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date on which control is lost by the Company. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company has control. As at August 31, 2019, it was determined that the Company had lost control of its subsidiary (Note 5).

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES**(a) Significant Accounting Judgments, Estimates and Assumptions**

In the application of the Company's accounting policies which are described in below, management is required to make judgements, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, revenue and expenses and are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and management's assessment of current events and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in these consolidated financial statements include:

Deferred income taxes

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(b) Foreign Currency Translation

The Company's functional and reporting currency is the Canadian dollar.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

(c) Financial Instruments**(i) Classification and measurement**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company classifies its financial instruments in the following categories: at amortized cost, at fair value through other comprehensive income (loss) ("FVTOCI"), or at fair value through profit ("FVTPL").

Financial Assets

The Company determines the classification of financial assets at initial recognition. The classification of financial instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets at amortized cost

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the financial assets are impaired, determined by reference to external credit ratings and other relevant indicators, the financial assets are measured at the present value of estimated future cash flows. Any changes to the carrying amount of the financial asset, including impairment losses, are recognized through profit or loss. There are no assets classified in this category.

Financial assets at FVTOCI

Financial assets carried at FVTOCI are financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and selling financial assets, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to deficit. The Company does not have any financial assets classified as FVTOCI.

Financial assets at FVTPL

By default, all other financial assets are measured subsequently at FVTPL. Assets at FVTPL include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred.

Financial Liabilities

The Company classifies its financial liabilities into the following categories: at amortized cost or at FVTPL.

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Share Capital**

The Company records proceeds from the share issuances, net of commissions and issuance costs, as share capital. The Company engages in equity financing transactions to obtain the funds necessary to continue operations. The equity financings may involve the issuance of common shares or units. Warrants that are part of units are assigned a value based on the residual value, if any, and included in the reserves.

(e) Share-Based Payments

The Company has a stock option plan for its directors, officers and employees. Under this plan, stock options are not issued at less than their fair market value.

The Company recognizes compensation cost for options and other share-based compensatory awards under the fair value method. Compensation cost is measured using the Black-Scholes option pricing model at the date of the grant and is expensed over the vesting period of the equity instrument awarded, with the offsetting amounts credited to share-based payment reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payment reserve amount is transferred to share capital. For the years presented, the Company had no stock options outstanding.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(g) Loss Per Share

Basic loss per share is calculated using the weighted average number of shares issued and outstanding during the period. Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of share purchase options and warrants is anti-dilutive.

(h) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity.

(i) Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(j) Deferred Income Tax

Deferred income taxes are calculated based on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) Deferred Income Tax (continued)**

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

4. ACCOUNTING STANDARDS ADOPTED AND ISSUEDAdoption of New or Amended Accounting Standards

IFRS 9, Financial Instruments: Classification and Measurement - The Company adopted all of the requirements of IFRS 9 for the annual period beginning on September 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Financial assets:		
Cash	FVTPL	FVTPL
Financial liabilities:		
Accounts payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost

IFRS 15, Revenue from Contracts with Customers - IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It has replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has adopted the amendments to IFRS 15 in its financial statements for the annual period beginning on September 1, 2018 with no resulting adjustments.

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

4. ACCOUNTING STANDARDS ADOPTED AND ISSUED (continued)

IFRS 16, Leases - IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company has determined there is no identifiable asset pertaining to its cost sharing arrangement agreement (Note 10) and therefore adoption of IFRS 16 will have no impact on the financial statements other than increased disclosure.

5. DISCONTINUED OPERATIONS

During the year ended August 31, 2019, the Company determined it had lost control of Palm Coast Solutions Inc. as described in Note 2 through a series of events including but not limited to the loss of control to internal financial and corporate information of the subsidiary. The operations of the subsidiary were reported as discontinued in 2019 accordingly.

As a result of this loss of control, the Company derecognized the assets and liabilities of the subsidiary. Any resulting gain or loss is recognized in profit or loss.

	(\$)
Assets of subsidiary derecognized	-
Liabilities of subsidiary derecognized	2,208
Gain on loss of control of subsidiaries	(2,208)

During the years ended August 31, 2019 and 2018, there was no net income or loss from discontinued operations.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2020	August 31, 2019
	(\$)	(\$)
Trade payables	30,242	112,025
Related party payables (Note 9)	260,358	243,380
Accrued interest (Note 7)	53,689	50,618
Accrued liabilities	-	5,873
Total	344,289	411,896

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

7. NOTES PAYABLE

	May 31, 2020	August 31, 2019
	(\$)	(\$)
Unsecured loan bearing interest at 10% per annum with various due dates (i)	43,531	163,725
Unsecured loan bearing interest at 10% per annum, due on or before December 31, 2019 (ii)	-	80,000
Unsecured loan bearing interest at 10% per annum, due on April 29, 2021 (iii)	3,300	3,300
Total	46,831	247,025
Less current portion	(46,831)	(131,100)
Long-term portion	-	115,925

- i) During the nine-month period ended May 31, 2020, the Company issued a total of \$16,006 (August 31, 2019 - \$32,100) to a creditor in unsecured notes payable which bear interest at 10% per annum, compounded annually, and are payable quarterly in cash. All loans have a maturity date of three years from issuance.

During the nine-month period ended May 31, 2020, the Company repaid a total of \$136,200 in unsecured notes payable.

- ii) During the year ended August 31, 2019, the Company received an unsecured loan of \$80,000 from a creditor to be used to pay expenses which were incurred pursuant to a proposed corporate transaction between the creditor and the Company. The loan bears interest at 10% per annum and matures on or before December 31, 2019, unless the creditor determines not to proceed with the proposed corporate transaction with the Company, in which case the loan and any accrued interest will be forgiven by the creditor.

During the nine month-period ended May 31, 2020, the \$80,000 unsecured loan and \$3,792 in accrued interest was written off as the creditor determined not to proceed with the proposed corporate transaction as noted above. In addition, a total of \$85,667 in trade payables was written off relating to professional fees incurred in connection with the proposed transaction that has since been terminated.

- iii) During the year ended August 31, 2019, the Company entered into an extension agreement with the creditor to extend the maturity of its existing \$3,300 notes payable for two years from April 29, 2019 to April 29, 2021.

Repayments of notes payable is as follows:

	(\$)
2021	3,300
2022	27,525
2023	16,006
	46,831

During the nine-month period ended May 31, 2020, the Company incurred \$6,863 (2019 - \$12,237) of interest expense.

8. SHARE CAPITAL**a) Authorized share capital**

An unlimited number of common shares without par value.

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

8. SHARE CAPITAL (continued)**b) Issued share capital**

During the nine-month period ended May 31, 2020, the Company completed a non-brokered private placement through the issuance of 4,800,000 units at \$0.05, raising gross proceeds of \$240,000. Each unit consists of one common share and one-half of one common share purchase warrant exercisable at \$0.10 for a period of 12 months from the date of issue.

c) Stock options

The Company has an option plan (the "Plan") in compliance with the TSX-V's policies. The number of common shares reserved and authorized for issuance pursuant to options granted under the Plan is 1,001,159, representing 20% of the number of issued and outstanding shares. However, since the Corporation is currently listed on the NEX, the maximum number of options is limited to 500,579, representing 10% of the total number of issued and outstanding common shares in the Company. The exercise price of each stock option shall not be less than the market price of the Company's stock at the date of grant. Vesting terms are at the discretion of the directors. During the periods presented, there was no stock option activity. As at May 31, 2020 and August 31, 2019, there were no stock options outstanding.

d) Share purchase warrants

A continuity schedule of outstanding share purchase warrants is as follows:

	Number Outstanding	Weighted Average Exercise Price (\$)
Balance – September 30, 2019	-	-
Granted	2,400,000	\$0.10
Balance – May 31, 2020	2,400,000	\$0.10

During the nine months ended May 31, 2020, 2,400,000 share purchase warrants were granted pursuant to a non-brokered private placement which closed on March 5, 2020. The warrants are exercisable at \$0.10 for a period of 12 months from the date of issue.

As at May 31, 2020, the Company had 2,400,000 warrants outstanding as outlined below:

Expiry Date	Warrants Outstanding	Exercise Price (\$)	Weighted Average Remaining Life (years)
March 5, 2021	2,400,000	0.10	0.76
	2,400,000	0.10	0.76

9. RELATED PARTY TRANSACTIONS

The Company defines key management personnel as officers and directors of the Company and/or entities controlled by them. The following summarizes the Company's related party transactions during the nine-month period ended May 31, 2020 and 2019:

CELLSTOP SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

9. RELATED PARTY TRANSACTIONS (continued)Key Management Compensation

	2020	2019
	(\$)	(\$)
Consulting fees paid or accrued to a corporation controlled by the Chief Financial Officer ("CFO") of the Company.	-	-
Total	-	-

Other Related Party Transactions

	2020	2019
	(\$)	(\$)
Office sharing and occupancy costs paid or accrued to a corporation that shares management in common with the Company (Note 10).	73,230	66,500
	73,230	66,500

- i) As at May 31, 2020, a total of \$13,400 (August 31, 2019 - \$13,400), was included in accounts payable and accrued liabilities owing to a corporation controlled by the CFO of the Company for management fees.
- ii) As at May 31, 2020, a total of \$246,958 (August 31, 2019 - \$229,980) was included in accounts payable and accrued liabilities owing to a corporation that shares management in common with the Company for office sharing and occupancy costs. The amounts are non-interest bearing, unsecured with no formal terms of repayment.
- iii) During the periods presented, key management personnel did not charge any fees for services in an effort to conserve resources while exploring potential projects for reactivation.

10. COMMITMENTS

The Company entered into a cost sharing arrangement agreement for the provision of office space and various administrative services. Under the terms of the agreement, the Company will pay \$7,000 plus GST per month effective December 1, 2017, increasing to \$7,700 per month effective February 1, 2019, and further increasing to \$8,470 per month on February 1, 2020 until the expiration of the underlying head lease on July 31, 2021.

<u>Fiscal Year</u>	<u>Amount</u>
	(\$)
2020	25,410
2021	93,170
	<u>118,580</u>

CELLSTOP SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT*Fair Values and Classification*

The Company's financial instruments consist of cash, accounts payable and notes payable. Financial instruments are classified into one of the following categories: FVTPL, FVTOCI, or amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	May 31, 2020	August 31, 2019
		(\$)	(\$)
Cash	FVTPL	26,921	1,144
Accounts payable	Amortized cost	344,289	411,896
Notes payable	Amortized cost	46,831	247,025

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of cash is measured on the statement of financial position using level 1 of the fair value hierarchy. The fair values of accounts payable approximate their book values because of the short-term nature of these instruments.

The carrying amounts of the notes payable approximate fair value as the interest rates were negotiated between the Company and an arm's length third party.

Financial instrument risk exposure

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company manages this credit risk by ensuring that cash is placed with a major financial institution with strong investment grade ratings by a primary ratings agency.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company endeavors to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts which are available on demand. The Company is exposed to liquidity risk.

CELLSTOP SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

NINE MONTH PERIOD ENDED MAY 31, 2020 AND 2019

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk

The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates. The Company does not have any variable interest rate liabilities.

Foreign exchange risk

The Company is not exposed to significant foreign currency risk.

12. MANAGEMENT OF CAPITAL

The Company considers items included in shareholders' equity as capital. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue project opportunities for the benefit of its shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There can be no assurance that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company is not subject to any externally imposed capital requirements. The Company prepares annual expenditure budgets and updates these as required throughout the year which it uses as the primary tool for assessing its capital requirements.

There have been no changes to the Company's approach to capital management during the nine-month period ended May 31, 2020.