Gallagher Security Corp.

Interim Condensed Consolidated Financial Statements

For the Six Months Ended December 31, 2020

(Expressed in United States dollars)

700 - 1620 Dickson Avenue, Kelowna, B.C. V1Y 9Y2, Canada

NOTICE TO READER

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

The Company's independent auditors have not performed a review of these condensed interim financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity’s auditor.

Gallagher Security Corp.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in U.S. dollars)

	Notes	As at December 31, 2020 $	As at June 30, 2020 $
ASSETS			
Current			
Cash		**10,409**	8,045
Amounts receivable		**20,007**	13,805
		30,417	21,850
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6, 10	**107,062**	160,038
Promissory notes payable	4	**40,036**	-
Derivative liability – warrants	3,5	**41,672**	41,672
		188,770	201,710
SHAREHOLDERS' DEFICIENCY			
Share capital	6	**18,895,418**	18,895,418
Reserves	5	**2,648,620**	2,648,620
Accumulated deficit		**(21,702,391)**	(21,723,898)
		(158,353)	(179,860)
		30,417	21,850

Corporate information and going concern (Note 1)
Subsequent events (Note 11)

Approved on behalf of the Board of Directors:

/s/ Jamie Bannerman
Director

/s/ Devinder Randhawa
Director

Gallagher Security Corp.
CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in U.S. dollars)

	Notes	**For the three months ended December 31, 2020 $**	For the three months ended December, 2019 $	**For the six months ended December 31, 2020 $**	For the six months ended December, 2019 $
EXPENSES					
Consulting and management fees	6	**37,177**	39,792	**74,577**	73,859
Extinguishment of historical payables	10	**(125,422)**	-	**(125,422)**	(2,563)
Foreign exchange on translation		**1,536**	-	**4,037**	-
General and administration		**6,788**	9,615	**7,646**	11,139
Professional fees		**8,983**	36,708	**12,414**	40,569
Regulatory and filing		**1,326**	3,450	**4,348**	6,269
Travel		**891**	719	**891**	809
NET INCOME (LOSS) AND COMPREHENSIVE LOSS		**68,721**	(90,284)	**21,507**	(130,802)
Basic and diluted earnings (loss) per common share from continuing operations		**(0.00)**	(0.01)	**0.00)**	(0.01)
Weighted average number of common shares outstanding		**17,251,315**	9,431,518	**17,251,315**	8,913,072

The accompanying notes are integral to these interim financial statements

Gallagher Security Corp.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in U.S. dollars)

	Notes	**For the six months ended December 31, 2020 $**	For the six months ended December 31, 2019 $
OPERATING ACTIVITIES			
Net income (loss) for the period		**21,507**	(130,082)
Non-cash items:			
Extinguishment of historical trade payables		**(125,422)**	-
Changes in non-cash working capital items:			
Amounts receivable		**(6,201)**	(4,727)
Accounts payable and accrued liabilities		**72,445**	113,650
		(37,671)	(21,159)
FINANCING ACTIVITIES			
Proceeds from promissory notes payable		**40,036**	-
CHANGE IN CASH		**2,365**	(21,159)
CASH, BEGINNING OF THE PERIOD		**8,045**	25,280
CASH, END OF THE PERIOD		**10,410**	4,121

The accompanying notes are integral to these interim financial statements

Gallagher Security Corp.
STATEMENTS OF CHANGES IN DEFICIENCY
(Expressed in U.S. dollars)

	Share Capital			Reserves				
	Number of Common Shares	Number of Convertible Common Shares	Amount $	Own Shares $	Share-based Payments $	Accumulated Deficit $	Non-controlling Interest $	Total Deficiency $
As at June 30, 2019	**7,597,018**	**3,858,817**	**18,595,617**	**-**	**2,632,088**	**(21,535,769)**	**-**	**(308,064)**
Debt settlements	1,834,200	-	69,439	-	-	-	-	69,439
Net loss for the period	-	-	-	-	-	(130,082)	-	(130,082)
As at December 31, 2019	**9,431,218**	**3,858,817**	**18,665,056**	**-**	**2,632,088**	**(21,665,851)**	**-**	**(368,707)**
As at June 30, 2020	**17,251,315**	**3,858,817**	**18,895,418**	**-**	**2,648,620**	**(21,723,898)**	**-**	**(179,860)**
Cancellation of convertible Shares (Note 5)	-	(3,858,817)	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	21,507	-	21,507
As at December 31, 2020	**17,251,315**	**-**	**18,895,418**	**-**	**2,648,620**	**(21,701,391)**	**-**	**(158,353)**

The accompanying notes are integral to these financial statements

1. CORPORATE INFORMATION AND GOING CONCERN

Gallagher Security Corp. (the "Company"), formerly Hilltop Cybersecurity Inc., is a company incorporated on June 30, 2005 under the Business Corporation Act of British Columbia, Canada. The registered office of the Company is 700-595 Howe Street, Vancouver, British Columbia, V6C 2T5. The records office of the Company and the principal office of operations is 700-1620 Dickson Avenue, Kelowna, British Columbia, V1Y 9Y2. The Company's shares are publicly listed on the Canadian Securities Exchange ("CSE") under the symbol "GLL" and on the OTCQB Venture Market ("OTCQB") under the symbol "CYBXF". The Company changed its name to Gallagher Security Corp. on June 20, 2019.

On December 19, 2017, the Company entered into a definitive agreement (the "Agreement") with Hill Top Security, Inc. ("HTSI"). On February 14, 2018, the Company acquired 25% of HTSI which constituted a fundamental change of the Company within the policies of the CSE. On June 12, 2018, the Company acquired a further 24% of HTSI through the issuance of 420,000 common shares and 4,913,616 convertible common shares. During the period from June 12, 2018 to September 30, 2018, the Company was a technology company engaged primarily in the development of cybersecurity and cryptocurrency software. Effective October 1, 2018, the Company determined that HTSI was essentially inactive and that it no longer had control over HTSI. Accordingly, the Company wrote off its investment in HTSI and accounted for the reversal of the reverse take-over transaction as a discontinuance of operations. See Notes 4 and 11. The Company is now in the process of searching for a new business opportunity.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet all of its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The Company has incurred losses since its inception and has an accumulated deficit of $21,701,391 at December 31, 2020. The Company has a need for financing for working capital and to continue the development of its business. The ability of the Company to continue as a going concern is dependent upon the continued financial support of its shareholders, other investors and lenders and the identification and development of a viable business opportunity. These factors indicate the existence of a material uncertainty that raises significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. BASIS OF PREPARATION AND MEASUREMENT

a) Statement of compliance with International Financial Reporting Standards

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of February 16, 2021, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2020, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending June 30, 2021 could result in restatement of these unaudited condensed consolidated interim financial statements.

2. BASIS OF PREPARATION AND MEASUREMENT (continued)

b) Basis of measurement

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these financial statements is cost, net realizable value, fair value or recoverable amount. These financial statements, except for the statement of cash flows, are based on the accrual basis.

c) Presentation and functional currency

The functional currency of the Company is the United States dollar and, unless otherwise specified, all dollar amounts in these financial statements are expressed in United States dollars. The functional currency is the currency of the primary economic environment in which the Company operates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

Significant accounting judgments, estimates and assumptions – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout these financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Critical judgments

Going concern of operations

Management has made the determination that the Company will continue as a going concern for the next year.

Discontinued operations

Accounting for the unwinding of the reverse take-over transaction required judgment in determining the date on which HTSI become inactive, the exclusive licence for certain of HTSI’s assets became impaired and HTSI no longer had any value to the Company.

Judgment was also required in determining that the Company is not liable, either directly or indirectly, for any outstanding liabilities of HTSI.

Significant estimates and assumptions

Warrants / Derivative liability

Management has made significant assumptions in the application of the Black-Scholes option-pricing model when calculating the fair value of the derivative liability - warrants.

Cash and cash equivalents – The Company considers deposits with banks or highly liquid short-term interest-bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents. The Company did not have any cash equivalents at December 31, 2020 and June 30, 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes - The Company accounts for and measures deferred tax assets and liabilities in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively-enacted tax rates expected to apply to taxable income in the years in which those

temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, no net asset is recognized. Accordingly, the Company's accounting policy for deferred income taxes currently has no effect on the financial statements of any of the fiscal periods presented.

Derivative liability - The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for. This accounting treatment requires that the carrying amounts of embedded derivatives be marked-to-market at each statement of financial position date and carried at fair value. In the event that the fair value is recorded as a liability, the change in fair value during the period is recorded in the statement of comprehensive loss as either income or expense. Upon conversion, exercise or modification to the terms of a derivative instrument, the instrument is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of financial instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the statement of financial position as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months of the statement of financial position date.

Management must determine whether an instrument (or an embedded feature) is indexed to the Company's own shares. An entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own shares, including evaluating the instrument's contingent exercise and settlement provisions. This exercise affects the accounting for (i) certain freestanding warrants that contain exercise price adjustment features and (ii) convertible notes containing full-ratchet and anti-dilution protections (iii) certain free-standing warrants that contain contingently puttable cash settlement.

Share capital - Common shares issued for non-monetary consideration are recorded at their fair market value on the date of share issuance. Costs incurred to issue shares are deducted from share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions - The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Earnings (loss) per share - The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share are calculated in a manner similar to that used to calculate basic earnings (loss) per share except that the weighted average shares outstanding are increased to include the additional shares resulting from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. Diluted loss per share does not adjust the loss attributed to common shareholders or the weighted average number of common shares outstanding when the effect of such adjustments is anti-dilutive.

Provisions - Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation.

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

Financial instruments - Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument.

At initial recognition, financial assets are measured at fair value and classified as subsequently measured at amortized cost, fair value through other comprehensive income (“FVTOCI”) or fair value through profit or loss (“FVTPL”). At initial recognition, financial liabilities are measured at fair value and classified as, subject to certain exceptions, subsequently measured at amortized cost. For financial assets and financial liabilities not at FVTPL, fair value is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the statement of comprehensive loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is measured at FVTPL unless it is measured at amortized cost or FVTOCI. However, an irrevocable election can be made at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value through other comprehensive income.

The Company's financial instruments are classified and subsequently measured as follows:

Account	Classification
Cash	Amortized cost
Amounts receivable (excluding GST/sales tax receivable)	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Promissory notes payable	Amortized cost
Derivative instruments	Fair value through profit or loss

Impairment

The Company recognizes an allowance using the expected credit loss ("ECL") model on financial assets classified as subsequently measured at amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all amounts recoverable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as subsequently measured at amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of comprehensive loss.

Recently adopted accounting standards

<u>Effective for annual periods beginning on January 1, 2019</u>

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 of 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.

New accounting pronouncements

IFRS 3 "Business Combinations"

Narrow-scope amendments to IFRS 3 were issued in October 2018 and apply to annual reporting periods beginning on or after January 1, 2020. The amendments clarify the definition of a business, provide guidance in determining whether an acquisition is a business or a combination of a group of assets, emphasize that the output of a business is to provide goods and services to customers and provide supplementary guidance.

IAS 1 "Presentation of Financial Statements"

An amendment to IAS 1 was issued in January 2020 and applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period.

(Expressed in U.S. dollars unless otherwise noted)

4. PROMISSORY NOTES PAYABLE

The following is a summary of promissory notes payable:

	December 31, 2020	June 30, 2020
	$	$
Promissory notes:		
Promissory note (vi)	19,448	-

The Company entered into various promissory notes ("PNs") as follows:

i. On September 27, 2018, a PN in the amount of $22,911 ($30,000 CDN). This PN is unsecured, non-interest bearing and without a maturity date. This note was repaid through the issuance of Units on August 21, 2019 (Notes 6).

ii. On November 14, 2019, a PN in the amount of $18,640 ($25,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020 (Note 6).

iii. On January 7, 2020, a PN in the amount of $29,824 ($40,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020 (Note 6).

iv. On April 7, 2020, a PN in the amount of $7,456 ($10,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020 (Note 6).

v. On June 6, 2020, a PN in the amount of $3,728 ($5,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020, retroactively allocated against the PN in settlement (Note 6).

vi. On July 31, 2020, September 2, 2020, October 26, 2020 unsecured PNs in the amounts of $16,000 CDN $10,000 CDN, and $25,000 CDN (total $40,036 USD), respectively were advanced to the Company bearing an interest of 5% per annum with no maturity date.

vii. This convertible PN is a compound financial instrument with the carrying amount at inception being allocated between the fair values of the liability and equity components. The fair value of the equity component was determined to be negligible and, accordingly, the entire carrying amount was allocated to the liability component.

5. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited voting common shares without par value.
Unlimited voting convertible common shares without par value.
Unlimited non-voting preferred shares with a par value of $1 CDN each (none issued).

Each convertible common share is convertible at the option of the holder into one common share of the Company without the payment of additional consideration by giving written notice to the Company that the holder elects to convert all or any number of the convertible common shares.

The non-voting preferred shares are redeemable at $1,000 per share. Preferred shares are redeemable in whole or in part upon 21 days' written notice from either the Company or the holder. Upon redemption, the holder is entitled to receive the redemption amount plus any declared and unpaid dividends.

Common shares are entitled to receive dividends as declared by the directors in their sole discretion from time to time, convertible common shares are not entitled to receive dividends and preferred shares are entitled to non-cumulative dividends at the discretion of the directors and at a rate to be determined by the directors at the time of issuance of the preferred shares, as a percentage of the redemption amount thereof, per annum.

b) Issued and Outstanding - Common Shares

Pursuant to an agreement entered into on June 12, 2018 under National Policy 46-201 *Escrow for Initial Public Offerings* as an emerging issuer, 300,000 common shares were deposited into escrow. As at December 31, 2020, 90,000 common shares were being held in escrow and will be released in instalments of 45,000 every six months with an expected tranche release December 12, 2020 and the final tranche being released June 12, 2021.

For the period ended December 31, 2020

There were no share capital issuances.

For the year ended June 30, 2020

On August 21, 2019, the Company entered into a Debt Settlement Agreement with a company controlled by the CEO of the Company to settle $68,389 ($91,725 CDN) by issuing 1,834,500 Units at a deemed price of $0.05 CDN per unit. Each unit comprises one common share and one share purchase warrant exercisable at $0.05 CDN per share for two years from the date of issue.

On March 12, 2020, the Company entered into a Debt Settlement Agreement with a company controlled by the CEO of the Company to settle $114,268 ($153,262 CDN) by issuing 3,065,240 common shares at a deemed price of $0.05 CDN per share.

On June 4, 2020, the Company entered into a Debt Settlement Agreement with a company controlled by the CEO of the Company to settle $116,465 ($156,208 CDN) by issuing 3,124,160 common shares at a deemed price of $0.06 CDN per share.

On June 16, 2020, the Company entered into Debt Settlement Agreements with related officers and directors to settle $72,936 ($97,824 CDN) by issuing 1,630,397 common shares at a deemed price of $0.06 CDN per share.

(Expressed in U.S. dollars unless otherwise noted)

5. SHARE CAPITAL AND RESERVES (continued)

c) Issued and Outstanding – Convertible Common Shares

Pursuant to the Company's acquisition of 24% of HTSI on June 12, 2018, increasing the Company's stake in HTSI to 49%, the Company issued 4,913,666 convertible common shares valued at $10,810,064 to certain shareholders of HTSI.

On September 21, 2020, the Company and HTSI entered into a termination of license agreement (the "TLA") for the purpose of terminating the license agreement between the parties dated February 27, 2018. Pursuant to the TLA and effective September 21, 2020, the parties mutually agreed that:

- The license and all rights and obligations thereunder will terminate; and
- Following termination, the Company has no further rights to any software or other intellectual property of HTSI and HTSI has no further obligations, under the license.

On September 21, 2020, the Company, HTSI and three HTSI shareholders entered into a termination and release agreement (the "TRA") for the purpose of cancelling certain shares and terminating certain agreements. Pursuant to the TRA and effective September 21, 2020, the parties mutually agreed that:

- The 3,858,817 shares of the Company's convertible common shares held by HTSI pursuant to the acquisition agreement will be cancelled;
- The 2,795 common shares of HTSI held by the Company pursuant to the acquisition agreement will be cancelled;
- Upon cancellation of the Company's convertible common shares and HTSI's common shares, all associated rights and obligations will terminate and the Company will no longer be party to and bound by the shareholders' agreement by and between HTSI and its shareholders dated November 17, 2017;
- The acquisition agreement dated December 19, 2017 will terminate and its provisions will no longer be in force or effect; and
- The consulting agreements between the Company and the HTSI shareholders dated February 27, 2017 will terminate and their provisions will no longer be in force or effect.

d) Share Purchase Warrants

	Number of Warrants	Weighted Average Exercise Price
		$CDN
Warrants outstanding, June 30, 2019	**1,346,627**	**3.18**
Expired	(804,285)	3.68
Issued	1,834,500	0.05
Warrants outstanding, June 30, 2020	**2,376,842**	**0.36**
Warrants outstanding, December 31, 2020	**2,376,842**	**0.36**

(Expressed in U.S. dollars unless otherwise noted)

5. SHARE CAPITAL AND RESERVES (continued)

As at December 31, 2020, the Company had warrants outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Remaining Contractual Life (Years)
December 6, 2021	$1.40 CDN	442,342	1.18
January 2, 2022	$1.40 CDN	100,000	1.26
August 21, 2021	$0.05 CDN	1,834,500	0.89

When the Company undertakes a private placement, it may issue units comprised of common stock of the Company and warrants to acquire common stock of the Company. Warrants with a strike price denominated in the Company's functional currency (the US dollar) are considered to be indexed to the Company's stock and are classified as equity. Warrants with a strike price denominated in a currency other than the Company's functional currency are considered not to be indexed to the Company's stock and are classified as a derivative liability. Warrants classified as a derivative liability are initially measured at fair value with changes in fair value recorded in profit or loss in each reporting period.

At December 31, 2020, and June 30, 2019 the carrying amount of the derivative liability was as follows:

	December 31, 2020 $	June 30, 2020 $
Derivative liability – beginning of year	14,327	14,327
Issuance of warrants with a $CDN strike price – fair value	72,257	72,257
Unrealized gain on revaluation of warrants	(44,891)	(44,891)
Realized gain on expiration of warrants	(21)	(21)
Derivative liability – end of year	41,672	41,672
Current portion	(41,672)	(41,672)
Long-term portion	-	-

The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to calculate the fair value of the derivative liability:

	December 31, 2020	June 30, 2020
Volatility	150.87% - 170.91%	150.87% - 170.91%
Expected life	1.14 – 2.00 years	1.14 – 2.00 years
Risk-free interest rate	0.25% - 1.40%	0.25% - 1.40%
Dividend yield	0%	0%

e) Stock Options

The Company has a stock option plan that provides for the issuance of stock options to its officers, directors, employees and consultants. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual.

(Expressed in U.S. dollars unless otherwise noted)

6. SHARE CAPITAL AND RESERVES (continued)

The exercise price of stock options is determined by the Board of Directors of the Company at the time of grant and may not be less than the closing market price of the Company's shares on the day immediately prior to the award date, less any discount which may be permitted by the exchange on which the Company is listed. Options have a maximum term of five years. Upon exercise of any stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

	Number of Options	Weighted Average Exercise Price
		$CDN
Options outstanding, June 30, 2019	**182,500**	**4.11**
Cancelled	(127,500)	4.89
Options outstanding, June 30, 2020	**55,000**	**2.30**
Options outstanding, December 31	**55,000**	**2.30**

As at December 31, 2020, the Company had options outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Exercisable	Weighted Average Remaining Contractual Life (Years)
August 30, 2023	$2.30 CDN	55,000	55,000	2.92

On August 30, 2018, the Company granted 336,488 stock options to various officers, directors and consultants. The options are exercisable at $2.30 CDN per share, expire on August 30, 2023 and vest immediately. The weighted-average fair value of $2.25 CDN per stock option was determined using the Black-Scholes valuation model and the following assumptions: share price on grant date of $2.30 CDN, expected life of stock option of five years, volatility of 205.16%, annual rate of dividends of 0.00% and a risk-free rate of 2.21%.

(Expressed in U.S. dollars unless otherwise noted)

6. RELATED PARTY TRANSACTIONS

The Company has identified its directors, officers and companies controlled by them as its key management personnel.

Amounts paid to key management personnel and/or entities over which they have control during the periods ended December 31 are as follows:

	2020 $	2019 $
Key management personnel compensation	58,876	64,348

Related party transactions were recorded at the exchange amount, which is the consideration determined and agreed to by the related parties.

Balances Payable

At December 31, 2020, the Company owed the following balances to related parties and/or entities over which they have control:

- $58,957 (2020 - $8,996) in management fees and reimbursable expenses to a private company controlled by the Company's CEO and $569 in interest owed from various promissory notes (Note 4(vi), and
- $12,364 (2020 - $Nil) in consulting fees to a director of the Company.

Debt Settlements

During the year ended June 30, 2020, the Company issued 9,654,297 Company common shares to settle $372,058 (CDN$499,019) of balances payable to related parties. See Notes 5 and 6.

7. TAX LOSSES

At June 30, 2020, the Company had accumulated non-capital losses for Canadian income tax purposes totalling approximately $4,576,000 (CDN $6,232,000). The losses expire as follows:

	CDN $
2026	33,000
2027	165,000
2028	138,000
2029	70,000
2030	138,000
2031	341,000
2032	218,000
2033	250,000
2034	235,000
2035	251,000
2036	191,000
2037	193,000
2038	2,557,000
2039	1,164,000
2040	288,000
	6,232,000

8. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of components of shareholders' equity. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

General Objectives, Policies, and Processes

The Board of Directors of the Company has overall responsibility for the determination of the Company’s risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to senior management. The overall objective of the Board of Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Company’s competitiveness and flexibility. Further details regarding these policies are set out below.

Market Risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. The Company is not currently exposed to foreign currency risk, interest rate risk or commodity price risk.

Credit Risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The financial instruments that are potentially subject to credit risk are cash and amounts receivable (excluding GST). The carrying amounts of these financial assets represent their maximum credit exposure. Cash is maintained with a financial institution of reputable credit and may be redeemed upon demand.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company’s policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

(Expressed in U.S. dollars unless otherwise noted)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Determination of Fair Value
IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's derivative liability – warrants is the only financial instruments on the statement of financial position measured at fair value. There were no transfers between Level 1, 2 or 3 during the years ended December 31, 2020 and June 30, 2020.

The following table summarizes the carrying value of financial liabilities which are measured at fair value as at December 31, 2020 and June 30, 2019:

	December 31, 2020		
	Level 1	Level 2	Level 3
	$	$	$
Derivative liability - warrants	-	-	41,672

	As at June 30, 2020		
	Level 1	Level 2	Level 3
	$	$	$
Derivative liability - warrants	-	-	41,672

10. ACCOUNTS PAYABLE

During the period ended December 31, 2020, the Company wrote off historical trade payables deemed to be past the statute of limitations for collectability. A gain of $125,422 was recognized on the Company's records.