Gallagher Security Corp.

Financial Statements

June 30, 2021 and 2020

(Expressed in United States dollars)

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

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CHARTERED PROFESSIONAL ACCOUNTANTS

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Independent Auditor's Report

To the Shareholders of Gallagher Security Corp.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gallagher Security Corp. (the "Company"), which comprise the statements of financial position as at June 30, 2021 and 2020, and the statements of comprehensive loss, changes in deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Company as at June 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has incurred losses since inception, has an accumulated deficit of $22,665,836 and is dependent on the identification of a viable business opportunity and its ability to secure financing from shareholders, investors and lenders. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis", but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Keith Macdonald.

De Visser Gray LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC, Canada
October 29, 2021

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

	Notes	As at June 30, 2021 $	As at June 30, 2020 $
ASSETS			
Current			
Cash		**183,032**	8,045
Amounts receivable		**16,130**	13,805
Loans receivable	4	**1**	-
		199,163	21,850
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6, 10	**206,349**	160,038
Derivative liability – warrants	3, 5	**990,328**	41,672
		1,196,677	201,710
SHAREHOLDERS' DEFICIENCY			
Share capital	5	**18,910,260**	18,895,418
Subscriptions receivable	5	**(60,495)**	-
Reserves	5	**2,818,557**	2,648,620
Accumulated deficit		**(22,665,836)**	(21,723,898)
		(997,514)	(179,860)
		199,163	21,850

Corporate information and going concern (Note 1)

Approved on behalf of the Board of Directors:

/s/ Jamie Bannerman
Director

/s/ Devinder Randhawa
Director

The accompanying notes are integral to these financial statements.

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

	Notes	For the year ended June 30, 2021 $	For the year ended June 30, 2020 $
EXPENSES			
Consulting and management fees	6	**196,436**	149,908
Foreign exchange on translation		**21,219**	(5,039)
General and administration		**7,396**	5,757
Interest expense	6	**2,559**	-
Investor relations and business development		**23,761**	6,624
Professional fees		**28,651**	30,722
Regulatory and filing		**36,152**	27,740
Salaries and wages		**3,337**	-
Share-based payments	5, 6	**169,937**	16,532
Travel		**12,437**	797
LOSS FROM CONTINUING OPERATIONS BEFORE OTHER ITEMS		**(501,885)**	(233,041)
OTHER ITEMS			
Change in fair value of derivative liability	3, 5	**34,524**	44,912
Interest income	4	**645**	-
Write-down of loans receivable	4	**(600,644)**	-
Write-off of accounts payable	10	**125,422**	-
NET LOSS AND COMPREHENSIVE LOSS		**(941,938)**	(188,129)
Basic and diluted loss per common share		**(0.05)**	(0.02)
Weighted average number of common shares outstanding		**19,641,797**	10,404,853

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

	Notes	For the year ended June 30, 2021 $	For the year ended June 30, 2020 $
OPERATING ACTIVITIES			
Net loss for the year		**(941,938)**	(188,129)
Non-cash items:			
Share-based payments		**169,937**	16,532
Change in fair value of derivative liability	5	**(34,524)**	(44,912)
Interest income accrued	4	**(645)**	-
Write-down of loans receivable	4	**600,644**	-
Write-off of accounts payable	10	**(125,422)**	-
Realized foreign exchange loss on repayment of promissory notes		**5,790**	-
Changes in non-cash working capital items:			
Amounts receivable		**(2,325)**	(8,340)
Accounts payable and accrued liabilities		**171,733**	147,966
		(156,750)	(76,883)
INVESTING ACTIVITIES			
Proceeds for loans receivable	4	**(600,000)**	-
FINANCING ACTIVITIES			
Proceeds from private placements		**988,085**	-
Share issue costs		**(50,558)**	-
Proceeds from promissory notes payable	6	**116,822**	59,648
Repayment of promissory notes principal payable	6	**(122,612)**	-
		931,737	59,648
CHANGE IN CASH		**174,987**	(17,235)
CASH, BEGINNING OF THE YEAR		**8,045**	25,280
CASH, END OF THE YEAR		**183,032**	8,045
SUPPLEMENTARY DISCLOSURE OF NON-CASH ACTIVITIES			
Shares issued to settle accounts payable		**-**	289,499
Shares issued to settle promissory notes payable		**-**	82,559
Derivative liability – warrants issued	5	**983,180**	72,257

The accompanying notes are integral to these 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 $	Subscriptions receivable $	Share-based Payments $	Accumulated Deficit $	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 (Note 5)	9,654,297	-	372,058	-	-	-	372,058
Share-based payments	-	-	-	-	16,532	-	16,532
Warrants classified as a derivative liability (Note 5)	-	-	(72,257)	-	-	-	(72,257)
Net loss for the year	-	-	-	-	-	(188,129)	(188,129)
As at June 30, 2020	**17,251,315**	**3,858,817**	**18,895,418**	**-**	**2,648,620**	**(21,723,898)**	**(179,860)**
As at June 30, 2020	**17,251,315**	**3,858,817**	**18,895,418**	**-**	**2,648,620**	**(21,723,898)**	**(179,860)**
Private placements (Note 5)	10,400,000	-	1,048,580	(60,495)	-	-	988,085
Warrants classified as a derivative liability (Note 5)	-	-	(983,180)	-	-	-	(983,180)
Share issue costs	-	-	(50,558)	-	-	-	(50,558)
Cancellation of convertible shares (Note 5)	-	(3,858,817)	-	-	-	-	-
Share-based payments	-	-	-	-	169,937	-	169,937
Net loss for the year	-	-	-	-	-	(941,938)	(941,938)
As at June 30, 2021	**27,651,315**	**-**	**18,910,260**	**(60,495)**	**2,818,557**	**(22,665,836)**	**(997,514)**

The accompanying notes are integral to these financial statements

1. CORPORATE INFORMATION AND GOING CONCERN

Gallagher Security Corp. (the "Company") 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 "MYCLF".

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 $22,665,836 at June 30, 2021. 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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved and authorized for issue by the Board of Directors on October 29, 2021.

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 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.

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 June 30, 2021 and June 30, 2020.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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; (ii) convertible notes containing full-ratchet and anti-dilution protections; and (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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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
Loans 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New, amended and future accounting standards and interpretations – The IFRs pronouncements listed below become effective subsequent to June 30, 2021.

a) IAS 1 - *Presentation of Financial Statements* has been amended to:

- clarify the criterion for a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period; and
- amend the definition of material to "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

b) IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* has been amended to amend the definition of material to reflect the changes outlined above under IAS 1.

4. LOANS RECEIVABLE

On February 17, 2021, the Company entered into a Letter of Intent with MyCelium Warehouse Ltd. ("MyCelium"), pursuant to which the Company may acquire up to 100% of the issued and outstanding securities of MyCelium by executing a definitive agreement which contemplates the following:

a) Making the following payments to MyCelium to acquire an initial 50% of the issued and outstanding common shares of MyCelium:
   i. $200,000 cash for 20% equity of MyCelium (paid);
   ii. $200,000 cash for a further 20% equity of MyCelium (paid); and
   iii. $200,000 cash for a further 10% equity of MyCelium (paid)

b) If the Company completes the initial $600,000 in payments and acquires an initial 50% of the issued and outstanding securities of MyCelium, then the Company may acquire the remaining 50% of the common shares of MyCelium by issuing common shares of the Company on a pro rata basis to the shareholders of MyCelium based on an exchange ratio of one (1) common share of the Company for each common share of MyCelium that is not already owned by the Company.

Of the $600,000 advanced, $250,000 bears interest of 1% per annum, is unsecured, and has a maturity date of July 4, 2021 and $350,000 bears no interest, is unsecured and has no fixed terms of repayment.

As at June 30, 2021, the Company had advanced $600,000 to MyCelium and had not received a share certificate representing 50% of the outstanding common shares of MyCelium. In addition, MyCelium had spent the $600,000 and does not have the ability to repay the advances if the proposed transaction does not complete. Accordingly, as at June 30, 2021, the Company wrote down the advances to a nominal amount of $1 and wrote off the $645 in accrued interest due to the uncertainty of being able to recover the advances.

5. SHARE CAPITAL AND RESERVES

a) Authorized

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

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, 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

For the year ended June 30, 2021

On March 26, 2021, the Company closed the first tranche of a private placement by issuing 4,406,000 Units at a price of $0.125 CDN per Unit for gross proceeds of $444,235 ($550,750 CDN). Each Unit is comprised of one common share and one-half of one share purchase warrant exercisable for two years at a price of $0.20 per share. $39,276 of the proceeds were allocated to share capital and $404,959 was allocated to the Unit share purchase warrants as a derivative liability.

On April 16, 2021, the Company closed the second tranche of a private placement by issuing 5,994,000 Units at a price of $0.125 CDN per Unit for gross proceeds of $604,345 ($749,250 CDN). Each Unit is comprised of one common share and one-half of one share purchase warrant exercisable for two years at a price of $0.20 per share. Finder's fees of $6,453 ($8,000 CDN) and share issue costs of $44,105 ($54,680 CDN) were paid on this closing. $26,124 of the proceeds were allocated to share capital and $578,221 was allocated to the Unit share purchase warrants as a derivative liability.

In relation to second tranche of the private placement, $60,495 ($75,000 CDN) was receivable as at June 30, 2021 and subsequently received in July 2021.

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**
Issued	**5,200,000**	**0.20**
Warrants outstanding, June 30, 2021	**7,576,842**	**0.25**

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

5. SHARE CAPITAL AND RESERVES (continued)

As at June 30, 2021, the Company had warrants outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Remaining Contractual Life (Years)
August 21, 2021	$0.05 CDN	1,834,500	0.14
December 6, 2021	$1.40 CDN	442,342	0.44
January 2, 2022	$1.40 CDN	100,000	0.51
March 26, 2023	$0.20 CDN	2,203,000	1.74
April 16, 2023	$0.20 CDN	2,997,000	1.79

As at June 30, 2021, the weighted average remaining life of warrants outstanding was 1.28 years (2020 – 1.21 years).

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 June 30, 2021 and 2020, the carrying amount of the derivative liability was as follows:

	June 30, 2021 $	June 30, 2020 $
Derivative liability – beginning of year	41,672	14,327
Issuance of warrants with a $CDN strike price – fair value	983,180	72,257
Unrealized gain on revaluation of warrants	(34,524)	(44,891)
Realized gain on expiration of warrants	-	(21)
Derivative liability – end of year	990,328	41,672
Current portion	(990,328)	(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:

	June 30, 2021	June 30, 2020
Volatility	144.32% – 264.68%	150.87% – 170.91%
Expected life	0.14 – 2.00 years	1.14 – 2.00 years
Risk-free interest rate	0.23% – 0.44%	0.25% – 1.40%
Dividend yield	0%	0%

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

5. SHARE CAPITAL AND RESERVES (continued)

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.

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 reserves 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**
Granted	**1,400,000**	**0.13**
Options outstanding, June 30, 2021	**1,455,000**	**0.21**

As at June 30, 2021, the Company had options outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Exercisable	Weighted Average Remaining Contractual Life (Years)
January 13, 2023	$0.13 CDN	1,400,000	1,400,000	1.54
August 30, 2023	$2.30 CDN	55,000	55,000	2.17

As at June 30, 2021, the weighted average remaining life of options outstanding was 1.56 years (2020 – 3.17 years).

On January 13, 2021, the Company granted 1,400,000 stock options to various officers, directors and consultants. The options are exercisable at $0.13 CDN per share, expire on January 13, 2023 and vest immediately.

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

5. SHARE CAPITAL AND RESERVES (continued)

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

	June 30, 2021	June 30, 2020
Volatility	276.20%	-
Expected life	2.00 years	-
Risk-free interest rate	0.16%	-
Dividend yield	0%	-

6. RELATED PARTY TRANSACTIONS

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

Amounts paid or accrued to key management personnel and/or entities over which they have control during the years ended June are as follows:

	2021 **$**	**2020** **$**
Key management personnel compensation	161,995	140,546
Stock-based compensation	24,277	16,532
	186,272	157,078

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

Balances Payable

As at June 30, 2021, the Company owed the following balances to related parties and/or entities over which they have control:

- $114,873 ($142,522 CDN) (2020 - $8,996 [$12,245 CDN]) in management fees and reimbursable expenses to a private company controlled by the Company's CEO.
- $29,621 ($36,750 CDN) (2020 - $Nil) in consulting fees to a director of the Company.
- $31,736 ($39,375 CDN) (2020 - $Nil) in consulting fees to the CFO of the Company.

Transactions

During the year ended June 30, 2021, the Company paid or accrued the following fees to related parties:

- $93,684 ($120,000 CDN) (2020 - $82,016 [$110,000 CDN]) in management fees to a company controlled by the Company's CEO.
- $39,035 ($50,000 CDN) (2020 - $22,368 [$30,000 CDN]) in consulting fees to a director of the Company.
- $29,276 ($37,500 CDN) (2020 - $24,978 [$33,500 CDN]) in consulting fees to a company controlled by the Company's CFO.
- $nil (2020 - $11,184 [$15,000 CDN]) in consulting fees to a former director of the Company.

6. RELATED PARTY TRANSACTIONS (continued)

Promissory Notes

The Company entered into various promissory notes ("PNs") with a private company controlled by the Company's CEO as follows:

a) 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 (see Note 5).

b) 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 (see Note 5).

c) 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 (see Note 5).

d) 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 (see Note 5).

e) 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 (see Note 5).

f) On July 31, 2020, September 2, 2020, October 26, 2020 and January 12, 2021, unsecured PNs in the amounts of $11,936 ($16,000 CDN), $7,653 ($10,000 CDN), $18,773 ($25,000 CDN), and $78,460 ($100,000 CDN) (total $116,822 [$151,000 CDN]), respectively were advanced to the Company bearing interest between 1% to 5% per annum with no maturity date. On May 4, 2021, the Company repaid the principal balance of $122,612 ($151,000 CDN) and $2,540 ($3,271 CDN) in accrued interest.

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.

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

7. INCOME TAXES

The tax effects of temporary differences between amounts recorded in the Company's accounts and the corresponding amounts as computed for income tax purposes give rise to deferred tax assets as follows:

	2021 $	2020 $
Non-capital loss/net operating loss carryforwards	1,744,000	1,683,000
Capital loss carryforwards	110,000	136,000
Other	42,000	31,000
Total unrecognized deferred tax assets	1,896,000	1,850,000

The reconciliation of income tax expense for the year is as follows:

	2021 $	2020 $
Net loss for the year	(941,938)	(188,129)
Expected income tax recovery at 27%	(254,300)	(50,800)
Effect of deductible and non-deductible expenses	196,900	(7,300)
Deferred tax assets not recognized	57,400	58,100
Income tax expense for the year	-	-

At June 30, 2021, the Company had accumulated non-capital losses for Canadian income tax purposes totalling approximately $5,211,000 ($6,459,000 CDN), expiring from 2026 to 2041.

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.

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

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 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, amounts receivable (excluding GST) and loans receivable. 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. See Note 4 for loans receivable.

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.

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 period ended June 30, 2021 and June 30, 2020.

The following table summarizes the carrying value of financial liabilities which are measured at fair value as at June 30, 2021 and June 30, 2020:

	June 30, 2021		
	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Derivative liability - warrants	-	-	990,328

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

10. WRITE-OFF OF ACCOUNTS PAYABLE

During the year ended June 30, 2021, the Company wrote off $125,422 of historical trade payables deemed to be past the statute of limitations for collectability.