

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)

Consolidated Financial Statements

June 30, 2019 and 2018

(Expressed in United States dollars)

Consolidated Statements of Financial Position
Consolidated Statements of Comprehensive Loss
Consolidated Statements of Cash Flows
Consolidated Statements of Changes in Deficiency
Notes to Consolidated Financial Statements

Independent Auditor's Report

To the Shareholders of Gallagher Security Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gallagher Security Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Company as at June 30, 2019 and 2018, 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 Consolidated 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 consolidated 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 consolidated financial statements, which indicates that the Company has incurred losses since inception, has an accumulated deficit of \$21,535,769 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 consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.



CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC, Canada

October 31, 2019

Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)
STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars)

	Notes	2019	2018
		\$	\$
ASSETS			
Current			
Cash		25,280	564,319
Amounts receivable		5,465	103,498
Prepaid expenses and deposits		-	82,555
		30,745	750,372
Equipment	5,6	-	29,773
Patent	5,7	-	21,712
		30,745	801,857
LIABILITIES			
Current			
Accounts payable and accrued liabilities	5,10	301,571	380,056
Accrued interest payable	5,8	-	3,441
Promissory notes payable	5,8	22,911	80,000
Wages payable		-	64,548
Derivative liability – warrants	3,9	14,327	350,310
		338,809	878,355
SHAREHOLDERS' DEFICIENCY			
Share capital	9	18,595,617	11,904,789
Reserves	9	2,632,088	35,734
Non-controlling interest		-	81,956
Accumulated deficit		(21,535,769)	(12,098,977)
		(308,064)	(76,498)
		30,745	801,857

Corporate information and going concern (Note 1)
Events subsequent to the reporting period (Note 15)

Approved on behalf of the Board of Directors:

/s/ Jamie Bannerman
Director

/s/ Devinder Randhawa
Director

The accompanying notes are integral to these consolidated financial statements

Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars)

	Notes	2019 \$	2018 \$
EXPENSES			
Consulting fees	10	124,386	7,698
Foreign exchange on translation		(378)	7,785
Investor relations and business development		68,616	511
Office and overhead		5,016	2,032
Professional fees		52,053	1,846
Public listing expense	4	-	10,401,676
Regulatory and filing		30,879	513
Research and development		80,437	-
Share-based payments	9,10	1,119,635	67,111
Travel		3,055	-
		<u>1,483,699</u>	<u>10,489,172</u>
LOSS FROM CONTINUING OPERATIONS BEFORE OTHER ITEM OTHER ITEM		(1,483,699)	(10,489,172)
Change in fair value of derivative liability	3,9	635,688	469,072
NET LOSS AND COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS		(848,011)	(10,020,100)
NET LOSS AND COMPREHENSIVE LOSS FROM DISCONTINUED OPERATIONS	5, 16	(3,796,964)	(1,873,813)
NET LOSS AND COMPREHENSIVE LOSS		(4,644,975)	(11,893,913)
NET LOSS AND COMPREHENSIVE LOSS ATTRIBUTED TO:			
Shareholders of parent company		(4,644,975)	(11,849,952)
Non-controlling interest		-	(43,961)
		<u>(4,644,975)</u>	<u>(11,893,913)</u>
Basic and diluted loss per common share from continuing operations		(0.12)	(33.83)
Basic and diluted loss per common share from discontinued operations		(0.52)	(6.33)
Weighted average number of common shares outstanding		<u>7,353,368</u>	<u>296,174</u>

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Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(Expressed in U.S. dollars)

	Notes	2019 \$	2018 \$
OPERATING ACTIVITIES			
Net loss for the year		(4,644,975)	(11,893,913)
Items not involving cash:			
Depreciation		-	4,696
Public listing expense		-	10,527,593
Share-based payments		1,119,635	67,111
Gain on disposal of equipment		-	(10,405)
Change in fair value of derivative liability		(635,688)	(469,072)
Loss from discontinued operations		3,205,258	-
Changes in non-cash working capital items:			
Amounts receivable		30,135	(66,004)
Due from Amerifactors		-	21,576
Prepaid expenses and deposits		(25,941)	(77,590)
Deferred finance charge		-	658
Accounts payable and accrued liabilities		131,200	140,649
Accrued interest payable		-	(4,164)
Wages payable		99,788	42,428
		(720,588)	(1,716,437)
INVESTING ACTIVITIES			
Advances to HTSI		(244,879)	-
Cash acquired on acquisition		-	216,227
Advance payments acquired on acquisition		-	2,107,910
Patent costs		-	(16,259)
Purchase of equipment		-	(31,846)
Proceeds from disposal of equipment		-	20,172
		(244,879)	2,296,204
FINANCING ACTIVITIES			
Proceeds from promissory note payable		22,911	-
Repayment of promissory notes payable		-	(110,000)
Repayment of finance contract payable		-	(19,573)
Proceeds from share issuance		403,517	100,000
		426,428	(29,573)
CHANGE IN CASH		(539,039)	550,194
CASH, BEGINNING OF THE YEAR		564,319	14,125
CASH, END OF THE YEAR		25,280	564,319
SUPPLEMENTARY DISCLOSURE OF NON-CASH ACTIVITIES			
Amounts receivable acquired on acquisition		-	37,494
Accounts payable acquired on acquisition		-	209,861
Derivative liability – warrants acquired on acquisition		-	819,382

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Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY
(Expressed in U.S. dollars)

	Share Capital			Reserves			Non-controlling Interest	Total Deficiency
	Number of Common Shares (i)	Number of Convertible Common Shares	Amount \$	Own Shares \$	Share-based Payments \$	Accumulated Deficit \$		
As at June 30, 2017	2,844	-	70,725	(31,377)	-	(249,025)	-	(209,677)
Private placement	250	-	100,000	-	-	-	-	100,000
Elimination of issued share capital of Hill Top Security, Inc.	(3,094)	-	-	-	-	-	-	-
Establishment of the issued share capital of Hilltop Cybersecurity Inc.	5,585,591	-	-	-	-	-	-	-
Recapitalization on the issuance of shares at acquisition	420,000	4,913,616	11,734,064	-	-	-	125,917	11,859,981
Share cancellation	(5,714)	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	67,111	-	-	67,111
Net loss for the year	-	-	-	-	-	(11,849,952)	(43,961)	(11,893,913)
As at June 30, 2018	5,999,877	4,913,616	11,904,789	(31,377)	67,111	(12,098,977)	81,956	(76,498)
Adjustment on discontinuance of operations (Note 16)	-	-	6,587,016	31,377	1,445,342	(4,791,817)	(81,956)	3,189,962
As at June 30, 2018, as adjusted	5,999,877	4,913,616	18,491,805	-	1,512,453	(16,890,794)	-	3,113,464
Shares issued in private placement	542,342	-	403,517	-	-	-	-	403,517
Private placement warrants classified as derivative liabilities	-	-	(299,705)	-	-	-	-	(299,705)
Share conversion	1,054,799	(1,054,799)	-	-	-	-	-	-
Share-based payments	-	-	-	-	1,119,635	-	-	1,119,635
Net loss for the year	-	-	-	-	-	(4,644,975)	-	(4,644,975)
As at June 30, 2019	7,597,018	3,858,817	18,595,617	-	2,632,088	(21,535,769)	-	(308,064)

(i) The above presentation reflects the issued share capital of Hill Top Security, Inc. until the completion of the reverse takeover transaction on June 12, 2018, at which point it is adjusted to reflect the share capital of the Company. See Note 4.

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Gallagher Security Corp.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

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 4,913,666 convertible common shares (Notes 4 and 9). During the period from June 12, 2018 to September 30, 2018, the Company was a technology company engaged primarily in the development of cyber security 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. The Company is now in the process of searching for a new business opportunity. See Notes 5 and 16.

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 \$21,535,769 at June 30, 2019. 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 revenue and 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 consolidated 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 31, 2019.

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.

Basis of consolidation – The financial statements for the year ended June 30, 2019 include the expense accounts of the Company for the year ended June 30, 2019, the expense accounts of HTSI for the period ended September 30, 2018 and the asset and liability accounts of the Company as at June 30, 2019.

The consolidated financial statements for the year ended June 30, 2018 include the accounts of the Company and its subsidiary HTSI as at and for the year ended June 30, 2018. For the year ended June 30, 2018, all transactions between the Company and its subsidiary are eliminated on consolidation. The Company owned a 49% interest in HTSI and had an exclusive license for certain of HTSI's assets. Due to this license, the Company's 49% interest represented a controlling interest in HTSI, while other shareholders hold a 51% non-controlling interest in HTSI as at June 30, 2018.

See Notes 5 and 16.

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.

Intangible assets

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new

Gallagher Security Corp.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

information becomes available. If, after an intangible asset is capitalized, information becomes available suggesting that the recovery of the value of the asset is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

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, 2019 and June 30, 2018.

Equipment - Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the declining balance method as follows:

Furniture and fixtures	20%
Equipment	20%
Vehicle	30%

In the year of acquisition, one-half of the above rates is used.

Intangible assets - Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive loss when the asset is derecognized.

The Company's patent was to be amortized over the shorter of the legal life of the patent or its estimated useful economic life.

Long-lived assets and impairment - The Company evaluates, on an ongoing basis, the carrying value of equipment, patent and other assets for indications of impairment at each statement of financial position date. If indications of impairment exist, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
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The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 amount 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.

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AS AT JUNE 30, 2019 AND 2018
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Revenue recognition – Revenue is recognized at the point in time when the customer obtains control of the product and/or service. Control is achieved when a product is delivered to or the service is performed for the customer, the Company has a present right to payment for the product and/or service, significant risks and rewards of ownership have transferred to the customer according to contract terms and there is no unfulfilled obligation that could affect the customer’s acceptance of the product and/or service. As at June 30, 2019, the Company had no sources of revenue.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
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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
Deposits	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.

Recent Accounting Pronouncements - The new IFRS pronouncements listed below became effective on January 1, 2018 and were adopted by the Company during the current year.

(i) **Financial Instruments**

IFRS 9, Financial Instruments ("IFRS 9") addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39.

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than income/loss from operations, unless this creates an accounting mismatch.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The new hedge accounting model in IFRS 9 aligns hedge accounting with risk management activities undertaken by an entity. Components of both financial and non-financial items are now eligible for hedge accounting, as long as the risk component can be identified and measured. The hedge accounting model includes eligibility criteria that must be met, but these criteria are based on an economic assessment of the strength of the hedging relationship.

There has been no change in the carrying value of the Company's financial instruments or to previously reported figures as a result of the adoption of IFRS 9.

(ii) Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") introduces a single principles-based, five-step model for the recognition of revenue when control of goods is transferred to, or a service is performed for, the customer. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

There have been no adjustments to the Company's financial statements as a result of the adoption of IFRS 15.

New IFRS pronouncements that have been issued but are not yet effective at the date of these consolidated financial statements are listed below. The Company plans to apply the new standards or interpretations in the annual period for which they are first required.

(i) Leases

The IASB issued IFRS 16, Leases ("IFRS 16"), which eliminates the classification of leases as either operating or finance leases for a lessee. IFRS 16 is effective from January 1, 2019. Under IFRS 16, all leases will be recorded on the statement of financial position. The only exemptions to this will be for leases that are 12 months or less in duration or for leases of low-value assets. The requirement to record all leases on the statement of financial position under IFRS 16 will increase "right-of-use" assets and lease liabilities on an entity's financial statements. IFRS 16 will also change the nature of expenses relating to leases, as the straight-line lease expense previously recognized for operating leases will be replaced with depreciation expense for right-of-use assets and finance expense for lease liabilities. IFRS 16 includes an overall disclosure objective and requires a company to disclose (a) information about right-of-use assets and expenses and cash flows related to leases, (b) a maturity analysis of lease liabilities and (c) any additional company-specific information that is relevant to satisfying the disclosure objective.

The Company will apply IFRS 16 as at July 1, 2019.

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

4. REVERSE TAKE-OVER TRANSACTION

On February 14, 2018, the Company completed an acquisition pursuant to the December 19, 2017 agreement among the Company, HTSI and the shareholders of HTSI, whereby the Company acquired 25% of the common shares of HTSI for an aggregate cash payment of USD\$660,000, constituting a “fundamental change” of the Company within the meaning of the policies of the CSE. On June 12, 2018, the Company acquired a further 24% of HTSI through the issuance of 4,913,666 convertible common shares to certain shareholders of HTSI, issuing 420,000 common shares to certain consultants, and investing a further \$1,500,000 into HTSI. The fair value of the consideration for the transaction is as follows:

4,913,666 convertible common shares issued by the Company to acquire a further 24% of HTSI.	\$	10,810,064
Issuance of 420,000 common shares to consultants.		924,000
	\$	11,734,064

The identifiable net assets acquired in the transactions are as follows:

Cash	\$	216,227
Advanced payments to HTSI from the Company		2,107,910
Amounts receivable		37,494
Accounts payable		(209,861)
Derivative liability – warrants		(819,382)
Net assets acquired		1,332,388
51% NCI in HTSI’s assets		(125,917)
Attributed to public listing expense		10,527,593
Consideration paid	\$	11,734,064

As a result of this transaction, the shareholders of HTSI obtained de facto control over the combined entity. Accordingly, for accounting purposes, the acquisition is considered to be a reverse acquisition, with HTSI identified as the purchaser and the Company as the entity being acquired.

For financial statement presentation purposes, the historical and continuing entity is considered to be HTSI, while the continuity of issued share capital remains that of the Company, the legal parent company.

5. DISCONTINUED OPERATIONS

During the year ended June 30, 2018, the Company acquired a 49% interest in HTSI and obtained an exclusive license for certain of HTSI’s assets. Due to this license, the Company’s 49% interest represented a controlling interest in HTSI, while other shareholders held a 51% non-controlling interest in HTSI. As a result of this transaction, the shareholders of HTSI obtained de facto control over the combined entity and, accordingly, the transaction was accounted for as a reverse take-over (“RTO”) transaction (see Note 4).

Effective October 1, 2018, the Company determined that HTSI had virtually ceased its business operations and the company was essentially inactive. Substantially all of the Company’s assets and operations were located in the United States. Based on these factors, management determined that the license was impaired, the carrying value of HTSI’s remaining assets would not be recovered and that the investment in and advances to HTSI would not be recovered. Accordingly, the Company made the decision to write-off HTSI resulting in an aggregate loss from discontinued operations of \$3,796,964. To provide the information necessary to evaluate the financial effects of discontinued operations on the financial position, results of operations and cash flows of the Company for the year ended June 30, 2019 (as at and for the period ended September 30, 2018) and for the year ended June 30, 2018, the following information has been presented:

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

	2019	2018
	\$	\$
<i>Assets:</i>		
Cash	17,606	377,703
Amounts receivable	67,898	65,626
Prepaid expenses and deposits	108,496	82,555
Equipment	27,468	29,773
Patent	21,712	21,712
	<u>243,180</u>	<u>577,369</u>
<i>Liabilities:</i>		
Accounts payable and accrued liabilities	(209,685)	(179,044)
Accrued interest payable	(3,441)	(3,441)
Promissory notes payable	(80,000)	(80,000)
Wages payable	(164,336)	(64,548)
	<u>(457,462)</u>	<u>(327,033)</u>
Net assets (liabilities)	<u>(214,282)</u>	<u>250,336</u>
Revenues	-	119,199
Expenses	(576,405)	(2,003,417)
Gain on disposal of equipment	-	10,405
	<u>(576,405)</u>	<u>(1,873,813)</u>
Adjustment to opening shareholders' deficiency, net	(3,189,962)	-
Elimination of HTSI's net liabilities	214,282	-
Write-off of balance due from HTSI	(244,879)	-
Net loss from discontinued operations	<u>(3,796,964)</u>	<u>(1,873,813)</u>
Cash provided by (used in) operating activities	(360,097)	421,084
Cash used in investing activities	-	(27,933)
Cash used in financing activities	-	(29,573)
Change in cash	<u>(360,097)</u>	<u>363,578</u>

See Note 16.

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

6. EQUIPMENT

The following is a summary of equipment as at June 30, 2019 and June 30, 2018:

	Furniture \$	Equipment \$	Vehicle \$	Total \$
Cost				
As at June 30, 2017	2,996	-	38,288	41,284
Additions	-	31,846	-	31,846
Disposition	-	-	(38,288)	(38,288)
As at June 30, 2018	2,996	31,846	-	34,842
Discontinued operations	(2,996)	(31,846)	-	(34,842)
As at June 30, 2019	-	-	-	-
Accumulated Depreciation				
As at June 30, 2017	1,768	-	27,126	28,894
Depreciation	369	2,932	1,395	4,696
Disposition	-	-	(28,521)	(28,521)
As at June 30, 2018	2,137	2,932	-	5,069
Depreciation	859	1,446	-	2,305
Discontinued operations	(2,996)	(4,378)	-	(7,374)
As at June 30, 2019	-	-	-	-
Carrying Amounts				
As at June 30, 2018	859	28,914	-	29,773
As at June 30, 2019	-	-	-	-

During the year ended June 30, 2018, the Company sold a pickup truck for proceeds of \$20,172, resulting in a gain on disposal of \$10,405.

7. PATENT

On July 13, 2016, HTSI filed a provisional U.S. patent application entitled “Incident Management and Response System (“IMRS”). On July 12, 2017, HTSI filed a U.S. patent application titled “Computerized System and Method for Providing Cybersecurity Detection and Response Functionality”, at which time the IMRS expired. During the year ended June 30, 2019, \$Nil (2018 - \$16,259) was incurred in connection with the patent application process.

	June 30, 2019			
	Gross Carrying Amount \$	Additions \$	Discontinued Operations \$	Net Carrying Amount \$
U.S. patent	21,712	-	(21,712)	-

	June 30, 2018			
	Gross Carrying Amount \$	Additions \$	Accumulated Amortization \$	Net Carrying Amount \$
U.S. patent	5,453	16,259	-	21,712

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

8. PROMISSORY NOTES PAYABLE

The following is a summary of promissory notes payable as at June 30, 2019 and June 30, 2018:

	June 30, 2019	June 30, 2018
	\$	\$
Promissory notes:		
Promissory note 3 (i)(iii)	80,000	80,000
Promissory note 3 (ii)	22,911	-
Discontinued operations	(80,000)	-
	22,911	80,000
Less current portion (v):	(22,911)	(80,000)
	-	-

The Company entered into promissory notes (“PNs”) as follows:

- i. On January 25, 2017, a convertible PN in the amount of \$80,000. This PN is unsecured, bears interest at 10% per annum, payable at maturity or on conversion, and matures on September 1, 2018 unless sooner converted. The PN remained unpaid and was not converted.
- ii. 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 subsequent to year end (Note 15).
- iii. 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.

Interest of \$Nil (2018 - \$3,441) is included in “Interest – long term debt” in the statement of comprehensive loss for the year ended June 30, 2019.

9. 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

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

directors at the time of issuance of the preferred shares, as a percentage of the redemption amount thereof, per annum.

On June 20, 2019, the Company rolled back its shares on a 10:1 basis. Accordingly, all share and exercise or conversion price figures in these consolidated financial statements are stated on a post consolidation basis and the figures provided for comparative purposes have also been stated on a post consolidation basis.

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 June 30, 2019, 180,000 common shares were being held in escrow and will be released in instalments of 45,000 every six months.

For the year ended June 30, 2019

On January 2, 2019, the Company converted 1,054,799 convertible shares into common shares of the Company.

On January 2, 2019, the Company closed the second and final tranche of its private placement by issuing 100,000 Units at a price of \$1.00 CDN per Unit. Each Unit comprises one common share and one share purchase warrant exercisable at \$1.40 CDN per share for three years from the date of issue.

On December 6, 2018, the Company closed the first tranche of its private placement by issuing 442,342 Units at a price of \$1.00 CDN per Unit. Each Unit comprises one common share and one share purchase warrant exercisable at \$1.40 CDN per share for three years from date of issue.

For the year ended June 30, 2018

Prior to the reverse take-over transaction, the Company:

- Issued 394,000 shares from related share warrant and option exercises for gross proceeds of \$284,000 CDN.
- Issued 1,333,333 shares at \$1.50 per share for gross proceeds of \$2,000,000 CDN.
- Issued 714,285 Units at \$3.50 CDN per Unit for gross proceeds of \$2,500,000 CDN. Each Unit comprises one common share and one share purchase warrant exercisable for two years at \$4.00 per share.
- Issued 100,000 Units at \$6.00 CDN per Unit for gross proceeds of \$600,000 CDN. Each Unit comprises one common share and one share purchase warrant exercisable for 18 months at \$7.00 per share.
- HTSI issued 250 common shares for gross proceeds of \$100,000.

On June 12, 2018, the Company issued 420,000 common shares at \$2.90 CDN per share to various consultants on closing of the Agreement (Note 1 and 4).

On June 12, 2018, the Company cancelled 5,714 common shares previously unpaid for.

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. See Note 4.

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

As at June 30, 2019, 3,858,817 shares had not been converted.

d) Share Purchase Warrants

	Number of Warrants	Weighted Average Exercise Price
		\$CDN
Warrants outstanding, June 30, 2017	380,000	0.70
Issued	814,285	4.40
Exercised	(390,000)	0.80
Warrants outstanding, June 30, 2018	804,285	4.40
Exercised	-	-
Issued	542,342	1.40
Warrants outstanding, June 30, 2019	1,346,627	3.18

As at June 30, 2019, the Company had warrants outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Remaining Contractual Life (Years)
August 13, 2019	\$7.00 CDN	100,000	0.12
November 30, 2019	\$4.00 CDN	427,730	0.42
February 13, 2020	\$4.00 CDN	276,555	0.62
December 6, 2021	\$1.40 CDN	442,342	2.44
January 2, 2022	\$1.40 CDN	100,000	2.51

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 liability. Warrants classified as a liability are initially measured at fair value with changes in fair value recorded in profit or loss in each reporting period.

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 contributed surplus is recorded as an increase to share capital.

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

	Number of Options	Weighted Average Exercise Price
		\$CDN
Options outstanding, June 30, 2017	-	-
Granted	549,159	5.60
Exercised	(4,000)	4.50
Options outstanding, June 30, 2018	545,159	5.60
Granted	336,488	2.30
Cancelled	(699,147)	4.43
Options outstanding, June 30, 2019	182,500	4.11

As at June 30, 2019, the Company had options outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Exercisable	Weighted Average Remaining Contractual Life (Years)
July 17, 2019*	\$4.50 CDN	107,500	107,500	0.03
February 26, 2020*	\$7.00 CDN	20,000	-	0.77
August 30, 2023	\$2.30 CDN	55,000	55,000	0.69

*Expired or cancelled subsequent to June 30, 2019.

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%.

On February 26, 2018, the Company granted 249,159 stock options to various officers, directors and consultants. The options are exercisable at \$7.00 CDN per share, expire on February 26, 2020, and follow a vesting schedule whereby 10% of the options vest immediately and the remaining options vest in equal portions on the dates that are three, six, nine, twelve, fifteen and eighteen months after grant date. The weighted average fair value of \$5.68 per stock option was determined using the Black-Scholes option pricing model using the following assumptions: share price on grant date of \$6.90 CDN, expected life of stock option of 2 years, volatility of 190.51%, annual rate of dividends of 0.00% and a risk free rate of 1.78%.

On July 17, 2017, the Company granted 300,000 stock options to various officers, directors and consultants. The options are exercisable at \$4.50 CDN per share, expire on July 17, 2019, and follow a vesting schedule whereby 10% of the options vest immediately and the remaining options vest in equal portions on the dates that are three, six, nine, twelve, fifteen and eighteen months after grant date. The weighted average fair value of \$3.555 CDN per stock option was determined using the Black-Scholes option pricing model using the following assumptions: share price on grant date of \$4.00 CDN, expected life of stock option of 2 years, volatility of 228.42%, annual rate of dividends of 0.00% and a risk free rate of 1.22%.

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

10. RELATED PARTY TRANSACTIONS

The Company has identified its directors, officers and companies controlled by them as its key management personnel. During the years ended June 30, 2019 and 2018, the Company had the following related party transactions:

Amounts paid to key management personnel and/or entities over which they have control during the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Consulting fees	27,493	22,515
Share-based payments	597,472	34,046
Wages and benefits	117,433	746,158
Total key management personnel	742,398	802,719

Revenue

The Company earned \$Nil during the year ended June 30, 2019 (2018 - \$100,000) for work performed for a public company that a former director of the Company is also former Chief Executive Officer (CEO) of.

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

Balances Payable

At June 30, 2019, the Company owed the following balances to related parties and/or entities over which they have control:

- \$143,329 (2018 - \$Nil) in consulting fees to a company controlled by the Company's CEO;
- \$13,708 (2018 - \$Nil) in consulting fees to a company controlled by the Company's CFO;
- \$5,692 (2018 - \$Nil) in reimbursable expenses to the Company's CEO;
- \$Nil (2018 - \$165,435) in consulting fees and advances to the Company's (now former) CEO, this balance being assigned from a Company controlled by a director of the Company to the former CEO during the year ended June 30, 2018; and
- \$Nil (2018 - \$3,172) in reimbursable expenses to the Company's former Chief Operating Officer.

11. 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:

	2019	2018
	\$	\$
Non-capital loss/net operating loss carryforwards	1,084,000	1,572,000
Capital loss carryforwards	136,000	136,000
Other	34,000	27,000
Total unrecognized deferred tax assets	1,254,000	1,735,000

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

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

	2019	2018
	\$	\$
Net loss for the year	(4,644,975)	(11,893,913)
Expected income tax recovery at 27%/26.57%	(1,254,100)	(3,161,300)
Effect of deductible and non-deductible expenses	999,700	2,684,700
Deferred tax assets not recognized	254,400	476,600
Income tax expense for the year	-	-

At June 30, 2019, the Company had accumulated non-capital losses for Canadian income tax purposes totalling approximately \$4,013,000 (CDN \$5,252,000). 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	190,000
2037	193,000
2038	2,557,000
2039	473,000
	<u>5,252,000</u>

12. REVENUE

On September 21, 2017, the Company received \$100,000 as an initial instalment on a work contract from a public company that a director of the Company is CEO of.

13. 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.

14. 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.

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 June 30, 2019 and 2018.

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

The following table summarizes the carrying value of financial assets and liabilities as at June 30, 2019 and 2018:

	June 30,	June 30,
	2019	2018
	\$	\$
Fair value through profit or loss		
Derivative liability - warrants	14,327	350,310
Amortized cost		
Cash	25,280	564,319
Amounts receivable	-	65,627
Accounts payable and accrued liabilities	301,571	380,056
Accrued interest payable	-	3,441
Promissory notes payable	22,911	80,000
Wages payable	-	64,458

15. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On August 21, 2019, the Company entered into a Debt Settlement Agreement with a company controlled by the CEO of the Company to settle \$70,050 (\$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.

See Note 8.

16. COMPARATIVE FIGURES

For the year ended June 30, 2018, the Company's investment in HTSI was accounted for utilizing principles applicable to a RTO because the Company's 2018 acquisition of 49% of the outstanding common shares of HTSI and the obtaining of an exclusive license for certain of its assets resulted in the shareholders of HTSI obtaining de facto control over the combined. Accordingly, the dollar values associated with the consolidated deficit and equity accounts at the beginning of the current year were the historical figures of HTSI adjusted for share capital transactions and consolidated losses subsequent to the date of the RTO. These opening figures have been restated as follows:

	\$
<i>Deficit:</i>	
Deficit (consolidated), June 30, 2018, as previously stated	12,098,977
Less: HTSI's deficit, June 30, 2018	(2,078,877)
Add: Gallagher's deficit, date of RTO in 2018	6,870,694
Deficit, June 30, 2018, as restated	16,890,794
<i>Share capital:</i>	
Share capital, June 30, 2018, as previously stated	11,904,789
Less: HTSI's share capital, date of RTO in 2018	(170,725)
Add: Gallagher's share capital, date of RTO in 2018	6,757,741
Share capital, June 30, 2018, as restated	18,491,805

Gallagher Security Corp.
(formerly Hilltop Cybersecurity Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019 AND 2018
(Expressed in U.S. dollars unless otherwise noted)

Own shares:

Own shares, June 30, 2018, as previously stated	(31,377)
Add: HTSI's own shares, date of RTO in 2018	<u>31,377</u>
Own shares, June 30, 2018, as restated	<u>-</u>

Share-based payment:

Share-based payment, June 30, 2018, as previously stated	67,111
Less: HTSI's share-based payment, date of RTO in 2018	-
Add: Gallagher's share-based payment, date of RTO in 2018	<u>1,445,342</u>
Share capital, June 30, 2018, as restated	<u>1,512,453</u>

Non-controlling interest:

Non-controlling interest (consolidated), June 30, 2018, as previously stated	81,956
Less: non-controlling interest	<u>(81,956)</u>
Non-controlling interest, as restated	<u>-</u>

See Note 5.