

**Gallagher Security Corp.**  
**(formerly Hilltop Cybersecurity Inc.)**

**Interim Condensed Consolidated Financial Statements**

**For the Nine Months Ended March 31, 2020**

**(Expressed in United States dollars)**

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

### **NOTICE TO READER**

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

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

**Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Expressed in U.S. dollars)

	Notes	As at March 31, 2020 \$	As at June 30, 2019 \$
<b>ASSETS</b>			
Current			
Cash		2,727	25,280
Amounts receivable		12,179	5,465
Prepaid expenses and deposits		-	-
		<b>14,906</b>	30,745
Equipment	5,6	-	-
Patent	5,7	-	-
		<b>14,906</b>	30,745
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	5,10	232,831	301,571
Promissory notes payable	5,8	48,964	22,911
Derivative liability – warrants	3,9	14,327	14,327
		<b>296,122</b>	338,809
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	9	18,780,507	18,595,617
Reserves	9	2,632,088	2,632,088
Accumulated deficit		(21,693,811)	(21,535,769)
		<b>(281,216)</b>	(308,064)
		<b>14,906</b>	30,745

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 interim consolidated financial statements

**Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in U.S. dollars)

	Notes	For the three months ended March 31, 2020 \$	For the three months ended March 31, 2019 \$	For the nine months ended March 31, 2019 \$	For the nine months ended March 31, 2019 \$
<b>EXPENSES</b>					
Consulting fees	10	<b>38,048</b>	65,933	<b>111,911</b>	101,596
Foreign exchange on translation		-	(13,565)	<b>(3,661)</b>	19,045
Investor relations and business development		-	6,507	-	43,207
Office and overhead		<b>602</b>	2,653	<b>11,741</b>	39,575
Professional fees (recovery)		<b>(11,501)</b>	22,199	<b>29,068</b>	11,202
Regulatory and filing (recovery)		<b>1,909</b>	(2,796)	<b>8,178</b>	4,429
Share-based payments	9,10	-	-	-	470,470
Travel (recovery)		<b>(1,098)</b>	-	<b>805</b>	-
		<b>27,960</b>	80,931	<b>158,042</b>	689,524
<b>NET LOSS AND COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS</b>					
		<b>(27,960)</b>	(80,931)	<b>(158,042)</b>	(689,524)
<b>NET LOSS AND COMPREHENSIVE LOSS FROM DISCONTINUED OPERATIONS</b>					
	5	-	-	-	(999,668)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>					
		<b>(27,960)</b>	(80,931)	<b>(158,042)</b>	(1,689,192)
Basic and diluted loss per common share from continuing operations					
		<b>(0.00)</b>	(0.00)	<b>(0.02)</b>	(0.28)
Basic and diluted loss per common share from discontinued operations					
		<b>(0.00)</b>	(0.00)	<b>(0.02)</b>	(0.28)
Weighted average number of common shares outstanding					
		<b>10,374,669</b>	7,571,356	<b>9,396,728</b>	6,556,416

The accompanying notes are integral to these interim consolidated financial statements

**Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. dollars)

	Notes	For the nine months ended March 31, 2020 \$	For the nine months ended March 31, 2019 \$
<b>OPERATING ACTIVITIES</b>			
<b>Net loss for the year</b>		<b>(158,042)</b>	(1,689,192)
Items not involving cash:			
Share-based payments		-	483,582
Change in fair value of derivative liability		-	2,125
Changes in non-cash working capital items:			
Prepaid expense		-	(57,840)
Amounts receivable		<b>(6,714)</b>	60,296
Accounts payable and accrued liabilities		<b>116,150</b>	225,275
		<b>(48,606)</b>	(975,754)
<b>FINANCING ACTIVITIES</b>			
Proceeds from promissory note payable		<b>26,053</b>	23,100
Gross proceeds from exercise of warrants		-	417,604
		<b>26,053</b>	440,704
<b>CHANGE IN CASH</b>		<b>(22,553)</b>	(535,050)
<b>CASH, BEGINNING OF THE PERIOD</b>		<b>25,280</b>	564,319
<b>CASH, END OF THE PERIOD</b>		<b>2,727</b>	29,269

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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 \$		
<b>As at June 30, 2018</b>	<b>5,999,877</b>	<b>4,913,616</b>	<b>11,904,789</b>	<b>(31,377)</b>	<b>67,111</b>	<b>(12,098,977)</b>	<b>81,956</b>	<b>(76,498)</b>
Adjustment on discontinuance of operations	-	-	6,587,016	31,377	1,445,342	(4,791,817)	(81,956)	3,189,962
<b>As at June 30, 2018, as adjusted</b>	<b>5,999,877</b>	<b>4,913,616</b>	<b>18,491,805</b>	<b>-</b>	<b>1,512,453</b>	<b>(16,890,794)</b>	<b>-</b>	<b>3,113,464</b>
Share-based payments	-	-	-	-	483,582	-	-	483,582
Private placement	542,342	-	417,604	-	-	-	-	417,604
Share conversion	1,054,799	(1,054,799)	-	-	-	-	-	-
Net loss for the year	-	-	-	-	-	(1,689,192)	-	(1,689,192)
<b>As at March 31, 2019</b>	<b>7,597,018</b>	<b>3,858,817</b>	<b>18,909,409</b>	<b>-</b>	<b>1,996,035</b>	<b>(18,579,986)</b>	<b>-</b>	<b>2,325,458</b>
<b>As at June 30, 2019</b>	<b>7,597,018</b>	<b>3,858,817</b>	<b>18,595,617</b>	<b>-</b>	<b>2,632,088</b>	<b>(21,535,769)</b>	<b>-</b>	<b>(308,064)</b>
Debt settlements	4,899,740	-	184,890	-	-	-	-	184,890
Net loss for the year	-	-	-	-	-	(158,042)	-	(158,042)
<b>As at March 31, 2020</b>	<b>12,496,758</b>	<b>3,858,817</b>	<b>18,780,507</b>	<b>-</b>	<b>2,632,088</b>	<b>(21,693,811)</b>	<b>-</b>	<b>(281,216)</b>

The accompanying notes are integral to these interim consolidated financial statements

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**Gallagher Security Corp.****(formerly Hilltop Cybersecurity Inc.)****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****AS AT MARCH 31, 2020 AND 2019**(Expressed in U.S. dollars unless otherwise noted)

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**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.

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 \$21,693,811 at March 31, 2020. The Company has a need for financing for working capital and to continue the development of its business. The ability of the Company to continue as a going concern is dependent upon the continued financial support of its shareholders, other investors and lenders and the identification and development of a viable business opportunity. These factors indicate the existence of a material uncertainty that raises significant doubt about the Company’s ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported 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**

The Company applies International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of May 11, 2020, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2019, except as noted below. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending June 30, 2020 could result in restatement of these unaudited condensed consolidated interim financial statements.

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. 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 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.

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**Gallagher Security Corp.****(formerly Hilltop Cybersecurity Inc.)****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****AS AT MARCH 31, 2020 AND 2019**(Expressed in U.S. dollars unless otherwise noted)

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**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
	\$	<u>11,734,064</u>

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		<u>(819,382)</u>
Net assets acquired		1,332,388
51% NCI in HTSI’s assets		(125,917)
Attributed to public listing expense		<u>10,527,593</u>
Consideration paid	\$	<u>11,734,064</u>

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:

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT MARCH 31, 2020 AND 2019**  
(Expressed in U.S. dollars unless otherwise noted)

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<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>
<b>Net assets (liabilities)</b>	<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)	-
<b>Net loss from discontinued operations</b>	<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)
<b>Change in cash</b>	<u>(360,097)</u>	<u>363,578</u>

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**6. EQUIPMENT**

The following is a summary of equipment:

	Furniture \$	Equipment \$	Vehicle \$	Total \$
<b>Cost</b>				
As at June 30, 2018	2,996	31,846	-	34,842
Discontinued operations	(2,996)	(31,846)	-	(34,842)
As at June 30, 2019	-	-	-	-
As at March 31, 2020	-	-	-	-
<b>Accumulated Depreciation</b>				
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	-	-	-	-
As at March 31, 2020	-	-	-	-
<b>Carrying Amounts</b>				
As at June 30, 2018	859	28,914	-	29,773
As at June 30, 2019	-	-	-	-
As at March 31, 2020	-	-	-	-

**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.

<b>March 31, 2020</b>				
	Gross Carrying Amount \$	Additions \$	Discontinued Operations \$	Net Carrying Amount \$
U.S. patent	-	-	-	-
<b>June 30, 2019</b>				
	Gross Carrying Amount \$	Additions \$	Accumulated Amortization \$	Net Carrying Amount \$
U.S. patent	21,712	-	(21,712)	-

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**8. PROMISSORY NOTES PAYABLE**

The following is a summary of promissory notes payable:

	<b>March 31, 2020</b>	<b>June 30, 2019</b>
	\$	\$
Promissory notes:		
Promissory note 3 (i)(iii)	-	80,000
Promissory note 3 (ii)	-	22,911
Promissory note 3 (iv)	48,964	22,911
Discontinued operations	-	(80,000)
	-	22,911
Less current portion (v):	-	(22,911)
	-	-

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 9).
- 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.
- iv. On November 14, 2019, a PN in the amount of 18,926 (\$25,000 CDN). This PN is unsecured, non-interest bearing and without a maturity date. In addition, a PN in the amount of \$30,038 (\$40,000 CDN) was loaned to the Company on January 7, 2020 from the same lender with the same terms as the previous loan.
- v. 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 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 period ended March 31, 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 \$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.

On March 12, 2020, the Company entered into a Debt Settlement Agreement with a company controlled by the CEO of the Company to settle \$115,451 (\$153,262 CDN) by issuing 3,065,240 common shares at a deemed price of \$0.05 CDN per share.

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*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.

Issued and Outstanding – Convertible Common Shares

As at March 31, 2020, 3,858,817 shares had not been converted.

d) Share Purchase Warrants

	Number of Warrants	Weighted Average Exercise Price
		\$CDN
<b>Warrants outstanding, June 30, 2018</b>	<b>804,285</b>	<b>4.40</b>
Exercised	-	-
Issued	542,342	1.40
<b>Warrants outstanding, June 30, 2019</b>	<b>1,346,627</b>	<b>3.18</b>
Expired	(804,286)	3.68
Issued	1,834,500	0.05
<b>Warrants outstanding, March 31, 2020</b>	<b>2,376,842</b>	<b>0.36</b>

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

Expiry Date	Exercise Price	Outstanding	Remaining Contractual Life (Years)
December 6, 2021	\$1.40 CDN	442,342	1.68
January 2, 2022	\$1.40 CDN	100,000	1.76
August 21, 2021	\$0.05 CDN	1,834,500	1.39

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.

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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.

	Number of Options	Weighted Average Exercise Price \$CDN
<b>Options outstanding, June 30, 2018</b>	<b>545,159</b>	<b>5.60</b>
Granted	336,488	2.30
Cancelled	(699,147)	4.43
<b>Options outstanding, June 30, 2019</b>	<b>182,500</b>	<b>4.11</b>
Cancelled	(127,500)	-
<b>Options outstanding, March 31, 2020</b>	<b>55,000</b>	<b>2.30</b>

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

Expiry Date	Exercise Price	Outstanding	Exercisable	Weighted Average Remaining Contractual Life (Years)
August 30, 2023	\$2.30 CDN	55,000	55,000	3.42



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**10. RELATED PARTY TRANSACTIONS**

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

Amounts paid to key management personnel and/or entities over which they have control during the period ended March 31, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Consulting fees	102,448	15,000

**Balances Payable**

At March 31, 2020 the Company owed \$99,162 (2019 - \$161,445) in consulting fees and reimbursable expenses to a company controlled by the officers and directors of the Company.

**11. TAX LOSSES**

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:

	<b>CDN \$</b>
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
	<b>5,252,000</b>

**12. 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.

### **13. 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).

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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 March 31, 2020 and year ended June 30, 2019.

The following table summarizes the carrying value of financial assets and liabilities|:

	<b>March 31,</b>	<b>June 30,</b>
	<b>2020,</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Fair value through profit or loss</b>		
Derivative liability - warrants	14,327	14,327
<b>Amortized cost</b>		
Cash	2,727	25,280
Accounts payable and accrued liabilities	232,831	301,571
Promissory notes payable	48,964	22,911