

**Gallagher Security Corp.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2020**

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

Management's Discussion and Analysis  
For the Year Ended June 30, 2020

CSE: GLL OTC: BGGWF

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## **INTRODUCTION**

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Gallagher Security Corp. (formerly Hilltop Cybersecurity Inc.) (the "Company") prepared on October 28, 2020 constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended June 30, 2020. The Company changed its name to Gallagher Security Corp. on June 17, 2019. This discussion should be read in conjunction with the Company's audited year-end June 30, 2020 financial statements and accompanying notes to the financial statements.

This MD&A was written to comply with the requirements of National Instrument 51-102 Continuous Disclosure Obligations. The Company's consolidated financial statements have been prepared in accordance with and using accounting policies consistent 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).

Dollar amounts included are expressed in US dollars except where noted. Statements in this report that are not historically based fact are forward looking statements involving known and unknown risks and uncertainties which could cause actual results to vary considerably from these statements. Readers are cautioned not to place undue reliance on forward-looking statements. In the opinion of management all adjustments considered necessary for a fair presentation have been included. All amounts following are expressed in Canadian dollars unless otherwise stated.

Additional information regarding the Company and its activities is available on SEDAR at [www.sedar.com](http://www.sedar.com) or by requesting further information from the Company's head office located in Kelowna, British Columbia, Canada.

## **GENERAL OVERVIEW**

The Company was incorporated under the provincial laws of British Columbia, Canada, on June 30, 2005. The Company's common shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "GLL".

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

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

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

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

- The 3,858,817 shares of the Company's convertible common shares held by HTSI pursuant to the Agreement will be cancelled;
- The 2,795 common shares of HTSI held by the Company pursuant to the Agreement will be cancelled;

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

**Quarterly Highlights**

The Company continues to seek new business opportunities.

**Selected Annual Information**

<b>For the years ended June 30,</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
	\$	\$	\$
Net loss and comprehensive loss	(188,129)	(4,644,975)	(11,893,913)
Total assets	21,850	30,745	801,857
Total liabilities	201,710	338,809	878,355
Shareholders' deficiency	(179,860)	(308,064)	(76,498)
Basic and diluted loss per common share	(\$0.02)	(\$0.64)	(\$4.02)

**Summary of Quarterly Results**

	<b>Q4 2020</b>	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>	<b>Q2 2019</b>	<b>Q1 2019</b>
	\$	\$	\$	\$	\$	\$	\$	\$
Net (loss) income	(30,087)	(27,960)	(90,283)	(39,799)	(2,955,783)	(80,931)	(371,870)	(1,236,391)
Basic/Diluted (loss) income per share	(0.00)	(0.00)	(0.01)	(0.00)	(0.62)	(0.00)	(0.00)	(0.02)

**For the Three and Twelve Months Ended June 30, 2020**

The Company realized a net loss of \$30,087 and \$188,129 for the three and twelve months ended June 30, 2020, respectively compared to \$2,955,783 and \$4,644,975 net loss for the comparable periods. The overall decrease in net loss is attributed to scale down and eventual discontinuance of operations. Management expects to keep overhead expenses at a minimum level in comparison to prior periods while evaluating new business opportunities moving forward.

**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 June 30, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
	\$	\$
Consulting fees	140,546	27,493
Share-based payments	16,532	597,472
Wages and benefits	-	117,433
Total key management personnel	157,078	742,398

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**Related Party Balances Payable**

At June 30, 2020 the Company owed the following balances to related parties and/or entities over which they have control:

- \$8,996 (2019 - \$149,021) in management fees and reimbursable expenses to a private company controlled by the Company's CEO; and
- \$Nil (2019 - \$13,708) in consulting fees to a private company controlled by the Company's CFO.

**Related Party Debt Settlements**

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

**Outstanding Share Data**

As at the date of this document, the Company had 17,251,315, common shares issued and outstanding, 55,000 share purchase options issued and outstanding, and 2,376,842 share purchase warrants issued and outstanding.

For the year ended June 30, 2020

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

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

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

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

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.

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### **Liquidity and Capital Resources**

The Company was previously a technology company engaged primarily in the development of cyber security and cryptocurrency software. The Company expects to rely upon equity financing and related party loans to seek new business opportunities.

The accompanying consolidated financial statements for the period ended June 30, 2020 have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon successful completion of additional financing and upon its ability to attain profitable operations. There can be no assurances that this capital will be available in amounts or on terms acceptable to the Company, or at all. This creates material uncertainty which casts significant doubt about the Company's ability to continue as a going concern.

The Company is actively pursuing joint venture partners and has minimized its exploration activities and over-all operations in an effort to conserve cash.

The Company entered into various promissory notes ("PNs") during the years ended June 30, 2020 and June 30, 2019 as follows:

- 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 at a deemed price of \$0.05 CDN per unit on August 21, 2019. Each unit consists of one common share and one share purchase warrant exercisable at \$0.05 CDN per share for two years from the date of issue.
- On November 14, 2019, a PN in the amount of \$18,640 (\$25,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020.
- On January 7, 2020, a PN in the amount of \$29,824 (\$40,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020.
- On April 7, 2020, a PN in the amount of \$7,456 (\$10,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020.
- On June 5, 2020, a PN in the amount of \$3,728 (\$5,000 CDN). This PN is unsecured, bears interest of 5% per annum and has no maturity date. This note was repaid through the issuance of common shares on June 4, 2020, retroactively allocated against the PN in settlement.

### **Financial Instruments**

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.

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**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, 2020 and 2019.

**Critical Accounting Estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

A summary of the Company's significant accounting estimates is included in Note 3 of the audited consolidated financial statements for the year ended June 30, 2020.

### **Significant Accounting Policies**

A summary of the Company's significant accounting policies is included in Note 3 of the audited consolidated financial statements for the year ended June 30, 2020.

### **Risks and Uncertainties**

#### ***Regulatory Risks***

The activities of the Company will be subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals could have a material adverse effect on the business, results of operations and financial condition of the Company.

The business of the Company is subject to rapid regulatory changes. Failure to keep up with such changes may adversely affect the business of the Company. Failure to follow regulatory requirements will have a detrimental impact on the business. Changes in legislation cannot be predicted and could irreparably harm the business.

#### ***Reliance on Management and Key Personnel***

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The Company attempts to enhance its management and technical expertise by recruiting qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees as well as, engineering, and technical support resources could have a material adverse impact on the Company's financial condition and results of operation. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

#### ***Additional Financing***

The Company's future capital requirements depend on many factors, including its ability to market products successfully, cash flows from operations, locating and retaining talent, and competing market developments. Based on the Company's current financial situation, the Company may have difficulty continuing operations at the current level, or at all, if it does not raise additional financing in the near future.

#### ***Conflicts of Interest***

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

#### ***Going Concern Risk***

The financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing an equity or debt financing or in achieving profitability.

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The financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

**Disclosure of Internal Controls**

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited consolidated financial statements; and (ii) the audited consolidated financial statements fairly present all material respects the financial condition, results of the operations and cash flows of the Company, as of the date of and for the periods presented by the audited consolidated financial statements.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings (NI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of: (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and IFRS. The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**ADDITIONAL INFORMATION**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).