



Liberty  
**Defense**  
Holdings

## **Liberty Defense Holdings, Ltd.**

Interim Condensed Consolidated Financial Statements

**Three and Six Months Ended June 30, 2019**

(unaudited, expressed in U.S. dollars, except where indicated)

# Liberty Defense Holdings, Inc.

## Interim Condensed Consolidated Statement of Financial Position

(unaudited, expressed in U.S. dollars, except where indicated)

|   | June 30,<br>2019        | December 31,<br>2018    |
|---|-------------------------|-------------------------|
| <b>Assets</b>                                     |                         |                         |
| <b>Current assets</b>                             |                         |                         |
| Cash and cash equivalents                         | 3,896,657               | 3,664,397               |
| Receivables & prepaids (note 4)                   | 863,936                 | 252,119                 |
| Deferred financing fees                           | -                       | 74,977                  |
|   | <u>4,760,593</u>        | <u>3,991,493</u>        |
| <b>Property &amp; equipment (note 5)</b>          | 495,526                 | 64,551                  |
| <b>Intangible asset</b>                           | 115,143                 | 115,143                 |
| <b>Total assets</b>                               | <u><b>5,371,262</b></u> | <u><b>4,171,187</b></u> |
| <b>Liabilities</b>                                |                         |                         |
| <b>Current liabilities</b>                        |                         |                         |
| Accounts payable and accrued liabilities (note 6) | 574,676                 | 437,210                 |
| Lease liabilities (note 7)                        | 128,586                 | -                       |
|   | <u>703,262</u>          | <u>437,210</u>          |
| <b>Non-current lease liabilities (note 7)</b>     | 304,632                 | -                       |
| <b>Total liabilities</b>                          | <u><b>1,007,894</b></u> | <u><b>437,210</b></u>   |
| <b>Shareholders' equity</b>                       |                         |                         |
| Common shares (note 8)                            | 10,347,843              | 4,277,990               |
| Contributed surplus                               | 3,851,329               | 2,462,334               |
| Accumulated other comprehensive income ("AOCI")   | (46,975)                | (227,955)               |
| Deficit   | (9,788,829)             | (2,778,392)             |
| <b>Total equity</b>                               | <u><b>4,363,368</b></u> | <u><b>3,733,977</b></u> |
| <b>Total liabilities and equity</b>               | <u><b>5,371,262</b></u> | <u><b>4,171,187</b></u> |

### Nature of operations and going concern (note 1)

"William E Riker"

Director

"Damian Towns"

Director

The accompanying notes are an integral part of these consolidated financial statements.

# Liberty Defense Holdings, Inc.

## Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

(unaudited, expressed in U.S. dollars, except where indicated)

|  | Three months ended |                | Six months ended |                |
|--|--------------------|----------------|------------------|----------------|
|  | June 30, 2019      | June 30, 2018  | June 30, 2019    | June 30, 2018  |
| <b>Expenses</b>  |                    |                |                  |                |
| <b>Brand &amp; Market Awareness</b>                              |                    |                |                  |                |
| Marketing  | 351,366            | -              | 499,709          | -              |
| Legal fees   | -                  | 11,001         | -                | 11,001         |
| Salaries & consulting Fees                                       | 21,495             | 64,348         | 44,889           | 64,348         |
| Stock-based compensation   | 134,488            | -              | 134,488          | -              |
| Travel and miscellaneous   | 34,625             | -              | 78,925           | -              |
|  | <b>541,974</b>     | <b>75,349</b>  | <b>758,011</b>   | <b>75,349</b>  |
| <b>Research and Development</b>                                  |                    |                |                  |                |
| Depreciation   | 31,821             | -              | 61,925           | -              |
| Legal fees   | 31,651             | 25,255         | 39,610           | 25,255         |
| Other costs  | 50,540             | -              | 88,728           | -              |
| Salaries & consulting Fees                                       | 701,019            | 87,213         | 1,198,574        | 87,213         |
| Stock-based compensation   | 221,598            | -              | 221,598          | -              |
| Technology costs   | 505,140            | -              | 820,191          | -              |
| Travel and miscellaneous   | 14,211             | -              | 30,565           | -              |
|  | <b>1,555,980</b>   | <b>112,468</b> | <b>2,461,191</b> | <b>112,468</b> |
| <b>General and Administrative</b>                                |                    |                |                  |                |
| Depreciation   | 8,050              | -              | 8,620            | -              |
| Foreign exchange loss  | 1,657              | 234            | 3,418            | 234            |
| Interest on investment   | (15,433)           | -              | (15,433)         | -              |
| Legal fees   | 59,502             | 19,366         | 79,133           | 19,366         |
| Marketing and investor relations                                 | 403,096            | 59,000         | 545,481          | 59,000         |
| Other costs  | 33,174             | 541            | 64,343           | 541            |
| RTO transaction costs (note 3)                                   | 2,069,000          | -              | 2,227,946        | -              |
| Salaries & Consulting Fees                                       | 150,414            | 51,357         | 450,174          | 51,357         |
| Stock-based Compensation   | 350,549            | -              | 350,549          | -              |
| Travel and miscellaneous   | 31,806             | 20,735         | 43,791           | 20,735         |
|  | <b>3,091,815</b>   | <b>151,233</b> | <b>3,758,022</b> | <b>151,233</b> |
| <b>Loss for the period</b>                                       | <b>5,189,769</b>   | <b>339,050</b> | <b>6,977,224</b> | <b>339,050</b> |
| <b>Other comprehensive income</b>                                |                    |                |                  |                |
| <b>Items that may be reclassified subsequently to net income</b> |                    |                |                  |                |
| Foreign currency translation adjustment                          | (80,817)           | 3,701          | (180,980)        | 3,701          |
| <b>Loss and comprehensive loss for the period</b>                | <b>5,108,952</b>   | <b>342,751</b> | <b>6,796,244</b> | <b>342,751</b> |
| <b>Basic and diluted loss per share (\$ per share)</b>           | <b>0.08</b>        | <b>0.02</b>    | <b>0.12</b>      | <b>0.02</b>    |
| <b>Weighted average shares outstanding (000's)</b>               | <b>66,107</b>      | <b>15,000</b>  | <b>59,497</b>    | <b>15,000</b>  |

The accompanying notes are an integral part of these consolidated financial statements.

# Liberty Defense Holdings, Inc.

## Interim Condensed Consolidated Statement of Shareholders' Equity

(unaudited, expressed in U.S. dollars, except where indicated)

|  | Common shares    |         | Contributed surplus | AOCI  | Deficit   | Total     |
|--|------------------|---------|---------------------|-------|-----------|-----------|
|  | Number of Shares | Amount  |                     |       |           |           |
| <b>Balance at April 30, 2018 (Inception)</b> | -                | \$ -    | \$-                 | \$-   | \$-       | \$-       |
| Issue of seed financing                      | 15,000,000       | 461,346 | 280,437             | -     | -         | 741,783   |
| Foreign currency translation adjustment      | -                | -       | -                   | 3,701 | -         | 3,701     |
| Loss for the period                          | -                | -       | -                   | -     | (339,050) | (339,050) |
| <b>Balance at June 30, 2018</b>              | 15,000,000       | 461,346 | 280,437             | 3,701 | (339,050) | 406,434   |

|  | Common shares    |             | Contributed surplus | AOCI        | Deficit       | Total       |
|--|------------------|-------------|---------------------|-------------|---------------|-------------|
|  | Number of Shares | Amount      |                     |             |               |             |
| <b>Balance at January 1, 2019</b>            | 51,311,525       | \$4,277,990 | \$2,462,334         | (\$227,955) | (\$2,778,392) | \$3,733,977 |
| Lease accounting adjustment (note 2)         | -                | -           | -                   | -           | (\$33,213)    | (33,213)    |
| Restating opening balance at January 1, 2019 | 51,311,525       | 4,277,990   | 2,462,334           | (227,955)   | (2,811,605)   | 3,700,764   |
| Issue of subscription receipts – QT (note 9) | -                | -           | 4,539,921           | -           | -             | 4,539,921   |
| Issue of shares – QT                         | 8,826,630        | 3,396,515   | (3,396,515)         | -           | -             | -           |
| Issue of advisor shares (note 8)             | 1,800,000        | 457,803     | (457,803)           | -           | -             | -           |
| Issue of shares – RTO (note 3)               | 4,611,566        | 2,215,535   | -                   | -           | -             | 2,215,535   |
| Share based compensation (note 9)            | -                | -           | 703,392             | -           | -             | 703,392     |
| Foreign currency translation adjustment      | -                | -           | -                   | 180,980     | -             | 180,980     |
| Loss for the period                          | -                | -           | -                   | -           | (6,977,224)   | (6,977,224) |
| <b>Balance at June 30, 2019</b>              | 66,549,721       | 10,347,843  | 3,851,329           | (46,975)    | (9,788,829)   | 4,363,368   |

# Liberty Defense Holdings, Inc.

## Interim Condensed Consolidated Statement of Cash Flows

(Expressed in U.S. dollars, except where indicated)

|   | Three months ended |                  | Six months ended   |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | June 30,<br>2019   | June 30,<br>2018 | June 30,<br>2019   | June 30,<br>2018 |
| <b>Cash flows from operating activities</b>                   |                    |                  |                    |                  |
| Loss for the period   | (5,189,770)        | (339,050)        | (6,977,224)        | (339,050)        |
| Items not affecting cash                                      |                    |                  |                    |                  |
| Depreciation  | 39,871             | -                | 70,545             | -                |
| Interest expense  | 9,210              | -                | 17,173             | -                |
| RTO transaction costs   | 2,215,534          | -                | 2,215,534          | -                |
| Stock based compensation                                      | 706,635            | -                | 706,635            | -                |
|   | <u>(2,218,520)</u> | <u>(339,050)</u> | <u>(3,967,337)</u> | <u>(339,050)</u> |
| Change in non-cash operating working capital                  |                    |                  |                    |                  |
| Increase in receivables and prepaid expenses                  | (43,786)           | (674)            | (611,817)          | (674)            |
| Increase in accounts payable and accrued liabilities          | (161,627)          | 257,811          | 212,361            | 257,811          |
|   | <u>(2,423,933)</u> | <u>(81,913)</u>  | <u>(4,366,793)</u> | <u>(81,913)</u>  |
| <b>Cash flows from financing activities</b>                   |                    |                  |                    |                  |
| Share issuances (net of issuance costs) (note 8)              | 4,811,088          | 741,783          | 4,536,679          | 741,783          |
| Principal elements of lease repayment (note 7)                | (27,638)           | -                | (50,675)           | -                |
| Interest elements of lease repayment (note 7)                 | (9,211)            | -                | (17,174)           | -                |
|   | <u>4,774,239</u>   | <u>741,783</u>   | <u>4,468,830</u>   | <u>741,783</u>   |
| <b>Cash flows from investing activities</b>                   |                    |                  |                    |                  |
| Payments for property & equipment                             | (35,648)           | -                | (50,757)           | -                |
|   | <u>(35,648)</u>    | <u>-</u>         | <u>(50,757)</u>    | <u>-</u>         |
| <b>Exchange rate differences on cash and cash equivalents</b> | 80,820             | 3,701            | 180,980            | 3,701            |
| <b>Increase in cash and cash equivalents</b>                  | 2,395,478          | 663,571          | 232,260            | 663,571          |
| <b>Cash and cash equivalents - beginning of period</b>        | 1,501,179          | -                | 3,664,397          | -                |
| <b>Cash and cash equivalents - end of period</b>              | <u>3,896,657</u>   | <u>663,571</u>   | <u>3,896,657</u>   | <u>663,571</u>   |

The accompanying notes are an integral part of these consolidated financial statements.

# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in U.S. dollars, except where indicated)

### 1 Nature of operations

Liberty Defense Holdings Ltd. (the “Company” or “Liberty”), is a public company (TSXV: SCAN, Frankfurt: L2D, OTC: LDDFF), that was incorporated under the Business Corporation Act of Ontario on June 8, 2012. The Company undertook a reverse takeover (“RTO”) transaction with Liberty Defense Holdings Inc. (“LPC”) on April 3, 2019 and subsequently renamed itself from Gulfstream Acquisition 1 Corp., to Liberty. The Company, through its wholly owned subsidiary Liberty Defense Technologies Inc. (“LDT”), is principally engaged in the commercialization of an active 3D imaging technology system, HEXWAVE, to detect threats. The Company’s corporate office is located at Suite 1030, 200 Granville St, Vancouver, British Columbia, Canada, V6C 1S4 and its registered and records office is located at 5300 Commerce Court West, 199 Bay Street, Toronto, ON M5L 1B9.

#### Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. For the six-month period ended June 30, 2019, the Company reported a \$6,977,224 loss (\$2,227,946 relating to RTO costs) and cash outflows from operating activities of \$4,366,793.

As at June 30, 2019, the Company had a positive working capital of \$4,057,331. Notwithstanding, in order to fully commercialize HEXWAVE the Company will require additional funds to achieve its development timeline and bring HEXWAVE to market. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. The Company has certain committed development milestones over the next twelve months and based on the Company’s current forecasted operational and development spend, the Company will require additional funds to meet these milestones. These conditions cast significant doubt on the validity of the going concern assumption.

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

### 2 Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements are compliant with IAS 34 and do not include all the information required for full annual financial statements.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new and amended standards as set out below.

#### Adoption in Accounting Policies – IFRS 16 Lease Accounting

##### *Accounting policy*

Since inception, the Company has entered into multiple office lease contracts for fixed periods of three to five years. From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. The assets and liabilities that arise from leases are initially measured on a present value basis. Lease liabilities include the present value of the following payments:

- Fixed payments, less any lease incentives receivable
- Variable lease payments that are based on an index or a rate, initially measured using an index or rate as at the commencement date
- Amounts expected to be payable by the Company under residual value guarantees

Lease payments are discounted using the incremental borrowing rate which is what the Company would have to pay to borrow funds necessary to obtain an asset of similar value to the right-to-use asset in a similar economic environmental with similar terms, security and conditions.

# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in U.S. dollars, except where indicated)

### 2 Basis of preparation (continued)

Some office leases contain variable lease payments including common area maintenance, utilities, and property taxes. These variable costs however are not based on an index or rate that can be measured on the commencement date and are therefore expensed as incurred.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statement of loss. Short-term leases are leases with a lease term of 12 months or less.

#### *Adjustments recognized on adoption*

The Company has adopted IFRS 16 retrospectively from January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to its office lease which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. This liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 9.2%.

The associated right-of-use asset for the office lease was measured on a retrospective basis as if the new rules had always been applied.

|  |          |
|--|----------|
| Operating lease commitments disclosed as at 31 December 2018                                   | 408,729  |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | (56,360) |
| Lease liability recognised as at 1 January 2019  | 352,369  |
| Of which are:  |          |
| Current lease liabilities  | 96,352   |
| Non-current lease liabilities  | 256,017  |
|  | 352,369  |

The company recognized a right-of-use asset relating to its office lease as at January 1, 2019 amounting to \$319,157. On January 1, 2019, the company recorded the following retrospective adjustment in relation to the adoption of IFRS 16.

|   |           |
|---|-----------|
| <b>Retrospective Adjustment</b>               |           |
| Retained earnings (Debit)                     | 33,213    |
| Right-of-use asset (Debit)                    | 319,156   |
| Current finance lease obligation (Credit)     | (96,352)  |
| Non-current finance lease obligation (Credit) | (256,017) |
| Total   | -         |

# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in U.S. dollars, except where indicated)

### 3 Reverse takeover of Gulfstream

In April 2019, with the completion of the RTO with LPC, all the issued and outstanding securities of LPC were acquired in exchange for equity in the Company. For accounting purposes, LPC has been treated as the accounting parent company (legal subsidiary) and Gulfstream has been treated as the accounting subsidiary (legal parent) in these financial statements. The acquisition by LPC of Gulfstream is considered to be an asset acquisition. Accordingly, the RTO transaction is treated as a share based payment transaction under IFRS 2. The RTO transaction constituted a “Qualifying Transaction” under the policies of the TSX Venture Exchange. The RTO transaction included the following:

- A share consolidation of 2.5:1 to reduce the issued shares to 3,444,404
- The issuance of 1,167,163 common shares as a finders fee.

In conjunction with the RTO, a brokered private placement of subscription receipts (the “Subscription Receipts”) raised gross proceeds of CA\$7 million at an issue price of CA\$0.80 per Subscription Receipt (the “QT Financing”). The Subscription Receipts closed on March 7, 2019 and on April 3, 2019 was converted into 8,826,630 units of Liberty. On April 3, 2019 a portion of the subscription receipts relating to the value of the shares was recorded as part of common shares. Each Liberty unit (note 9) is comprised of one common share and one common share purchase warrant exercisable into one common share at a price of CA\$1.10 per warrant for a period of 24 months from April 3, 2019. Liberty has the option to accelerate the expiry date of the warrants if the daily volume weighted average price of the common shares is greater than CA\$2.00 per share for the preceding ten consecutive trading days.

|  | <b>June 30, 2019</b> |
|--|----------------------|
| Purchase price:  |                      |
| Fair value of shares retained by Gulfstream shareholders | 1,653,840            |
| Transaction costs  | 191,040              |
| Finders fee  | 560,417              |
| Total purchase price                                     | 2,405,297            |
| Net assets acquired:                                     |                      |
| Current assets   | 192,039              |
| Current liabilities                                      | (14,688)             |
| Net Identifiable assets                                  | 177,351              |
| Reverse acquisition costs                                | 2,227,946            |

### 4 Receivables & prepaids

As of June 30, 2019, the Company had \$ 130,375 (December 31, 2018: \$42,420) in receivables and \$733,561 (December 31, 2018: \$209,699) in prepaids.



# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in U.S. dollars, except where indicated)

### 5 Property & equipment

| \$                              | Leasehold Improvements | Equipment | Right of Use Asset | Total   |
|---------------------------------|------------------------|-----------|--------------------|---------|
| <b>Cost</b>                     |                        |           |                    |         |
| At April 30, 2018               | -                      | -         | -                  | -       |
| Additions                       | 12,058                 | 61,095    | -                  | 73,153  |
| At December 31, 2018            | 12,058                 | 61,095    | -                  | 73,153  |
| Opening adjustments             | -                      | -         | 344,353            | 344,353 |
| Additions                       | 10,000                 | 24,538    | 150,941            | 185,479 |
| Disposals                       | -                      | (3,579)   | -                  | (3,579) |
| At June 30, 2019                | 22,058                 | 82,054    | 495,294            | 599,406 |
| <b>Accumulated Depreciation</b> |                        |           |                    |         |
| At April 30, 2018               | -                      | -         | -                  | -       |
| Depreciation for the period     | 1,764                  | 6,838     | -                  | 8,602   |
| At December 31, 2018            | 1,764                  | 6,838     | -                  | 8,602   |
| Opening adjustments             | -                      | -         | 25,197             | 25,197  |
| Depreciation for the period     | 2,705                  | 10,185    | 57,816             | 70,706  |
| Disposals                       | -                      | (625)     | -                  | (625)   |
| At June 30, 2019                | 4,469                  | 16,398    | 83,013             | 103,880 |
| <b>Net Book Value</b>           |                        |           |                    |         |
| At April 30, 2018               | -                      | -         | -                  | -       |
| At December 31, 2018            | 10,294                 | 54,257    | -                  | 64,551  |
| At June 30, 2019                | 17,589                 | 65,656    | 412,281            | 495,526 |

On January 1, 2019 upon adoption of IFRS 16 (note 2) the Company recognized a finance lease for its office lease Atlanta.

### 6 Accounts payable and accrued liabilities

As of June 30, 2019, the Company had \$356,523 (December 31, 2018: \$345,830) in accounts payables and \$218,153 (December 31, 2018: \$91,380) in accruals.

# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in U.S. dollars, except where indicated)

### 7 Leases

Right of use asset disclosures are presented in note 5.

| <b>Lease liability</b>   |             |
|--|-------------|
| <b>\$</b>  | <b>2019</b> |
| Maturity analysis - contractual undiscounted cash flows                            |             |
| Less than one year   | 158,425     |
| One to five years  | 329,469     |
| Total undiscounted lease liabilities at June 30, 2019                              | 487,894     |
| Lease liabilities included in the statement of financial position at June 30, 2019 | 433,218     |
| Current  | 128,586     |
| Non-current  | 304,632     |
| <b>Amounts recognized in profit or loss</b>  |             |
| Interest on lease liabilities  | 17,174      |
| <b>Amounts recognized in the statement of cash flows</b>                           |             |
| Total cash outflow for leases  | 50,675      |

The company incurred variable lease payments relating to its lease amounting to \$3,637.

### 8 Common shares

#### Authorized

The Company has an unlimited number of authorized common shares without par value.

#### Issued

The issued and outstanding share capital for the period ended June 30 2019 was 66,549,721.

Prior to December 31, 2018, agreements with a number of advisors required the issuance of shares and/or warrants for services to be performed. In January 31, 2019, 1,800,000 common shares with a fair value of \$457,803 (750,000 which have been valued on the same basis as the CA\$0.05 Unit offering as well as 1,050,000 valued based on the CA\$0.80 Unit offering exercisable at CA\$0.80) were issued.

8,826,630 subscription receipts were issued upon completion of the RTO. On April 3, 2019, these subscription receipts converted into units of Liberty and were split between common shares (\$4,240,578) and contributed surplus (\$1,022,330). In conjunctions with the RTO a share consolidation of 2.5:1 occurred (note 3) reducing the issued and outstanding shares to 3,444,404 with a fair value of \$1,654,795 and a finders fee of 1,167,163 shares were issued with a fair value \$560,740.

### 9 Stock options and warrants

#### Options

In April 2019, 4,725,000 stock options were issued with an exercise price of CA\$0.80 to various employees, consultants, and directors with a fair value of \$703,393.

# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in U.S. dollars, except where indicated)

### 9 Stock options and warrants (continued)

|                         |                   | June 30, 2019                        |
|-------------------------|-------------------|--------------------------------------|
|                         | Number of options | Weighted average exercise price CA\$ |
| Outstanding – January 1 | -                 | -                                    |
| Issued                  | 4,725,000         | 0.80                                 |
| Outstanding – June 30   | <b>4,725,000</b>  | <b>0.80</b>                          |

The options issued in the period were priced based on the Black-Scholes option pricing model using the following assumptions to estimate the fair value of warrants granted and can be summarized as follows:

#### Options

|                         |                   |
|-------------------------|-------------------|
| Risk-free interest rate | 1.60% to 1.62%    |
| Expected life           | 2.5 to 3.70 years |
| Expected volatility     | 79%               |
| Expected dividend       | 0%                |
| Forfeiture rate         | 0%                |

#### Warrants

The Company has issued warrants for both common shares and units (comprising one common share and one further common share warrant). As of June 30, 2019, the Company had 19,733,055 common share warrants and 796,022 unit warrants for a total of 20,529,077 dilutive securities.

As of June 30, 2019, the Company had the following warrants for common shares outstanding:

#### Warrants – common shares

|                            |                    | June 30, 2019                        |
|----------------------------|--------------------|--------------------------------------|
|                            | Number of warrants | Weighted average exercise price CA\$ |
| Outstanding – January 1    | 8,956,425          | 1.10                                 |
| Issued - Board of advisors | 1,950,000          | 0.80                                 |
| Issued – QT financing      | 8,826,630          | 1.10                                 |
| Exercised                  | -                  | -                                    |
| Outstanding – June 30      | <b>19,733,055</b>  | <b>1.07</b>                          |

Prior to December 31, 2018 agreements with a number of advisors required the issuance of 1,950,000 warrants with a fair value of \$166,687 which was recorded in contributed surplus. In January 2019, these warrants were issued and are exercisable into one common share at an exercise price of CA\$0.80 for a period of three years.

Upon completion of the QT financing, a further 8,826,630 warrants at CA\$1.10 for a period of two years were issued subject to an accelerated exercise clause whereby if the daily volume-weighted average trading price for any 10 consecutive trading days is greater than CA\$2.00 per share, the Company may provide written notice to accelerate the expiry date of the warrants to 30 days after providing such notice.

# Liberty Defense Holdings, Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in U.S. dollars, except where indicated)

### 9 Stock options and warrants (continued)

As of June 30, 2019, the Company had the following warrants for units outstanding:

#### Warrants – units

|                         |                    | June 30, 2019                        |
|-------------------------|--------------------|--------------------------------------|
|                         | Number of warrants | Weighted average exercise price CA\$ |
| Outstanding – January 1 | 292,087            | 0.80                                 |
| Issued                  | 503,935            | 0.80                                 |
| Exercised               | -                  | -                                    |
| Outstanding – June 30   | <b>796,022</b>     | <b>0.80</b>                          |

In conjunction with the QT financing (note 3) 503,935 Broker Unit warrants were issued. Each broker unit warrant entitles the holder to acquire one unit of the Company representing one common share and a further share purchase warrant for CA\$0.80 for a period of 2 years from March 7, 2019. Each share purchase warrant is exercisable at CA\$1.10 per common share for a period of 2 years, subject to an accelerated exercise clause whereby if the daily volume-weighted average trading price for any 10 consecutive trading days is greater than CA \$2.00 per share, the Company may provide written notice to accelerate the expiry date of the warrants to 30 days after providing such notice.

The warrants issued in the period were priced based on the Black-Scholes option pricing model using the following assumptions to estimate the fair value of warrants granted and can be summarized as follows:

#### Warrants

|                         |                 |
|-------------------------|-----------------|
| Risk-free interest rate | 1.55% to 2.24%  |
| Expected life           | 1 to 1.75 years |
| Expected volatility     | 79 to 110%      |
| Expected dividend       | 0%              |

### 10 Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers.

|                                       | Three months ending |                | Six months ending |                |
|---------------------------------------|---------------------|----------------|-------------------|----------------|
| \$                                    | June 30, 2019       | June 30, 2018  | June 30, 2019     | June 30, 2018  |
| Short-term employee benefits          | 351,460             | 167,602        | 544,381           | 167,602        |
| Share-based payments                  | 253,424             | -              | 253,424           | -              |
| <b>Total key management personnel</b> | <b>604,884</b>      | <b>167,602</b> | <b>797,805</b>    | <b>167,602</b> |

During the period, a total of \$19,690 was expensed and or accrued relating to Makena Management Group Ltd., a company whose principal was a director of LPC.

# **Liberty Defense Holdings, Inc.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

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(Expressed in U.S. dollars, except where indicated)

### **11 Financial instruments**

As at June 30, 2019, the Company's financial instruments comprise of cash and cash equivalents, receivables, and accounts payable and accrued liabilities, none of which are valued at fair value. The fair values of receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.