Liberty Defense Holdings, Ltd.

Consolidated Financial Statements

Year Ended December 31, 2021 and 2020

(Expressed in U.S. dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Liberty Defense Holdings, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Liberty Defense Holdings, Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $12,389,549 during the year ended December 31, 2021 and, cash outflows from operating activities of $7,206,513. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

April 26, 2022

Liberty Defense Holdings, Ltd.
Consolidated Statements of Financial Position
(Expressed in U.S. dollars)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 1,341,573	$ 57,047
Amounts receivable, prepaids and deposits (note 5)	205,312	50,907
Loan receivable from Liberty (note 10)	–	1,963,179
Lease receivable current portion (note 12)	20,159	–
	1,567,044	2,071,133
Non-current assets:		
Property & equipment (note 6)	768,771	–
Intangible assets (note 4 and 7)	4,135,452	–
Lease receivable (note 12)	28,675	–
Total assets	**$ 6,499,942**	**$ 2,071,133**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 756,991	$ 449,230
Working capital loans (note 8)	–	550,525
Paycheck protection program loan (note 9)	–	67,588
Convertible debentures (note 11)	–	1,531,309
CEBA loan (note 13)	27,986	–
Lease liabilities (note 12)	106,885	–
	891,862	2,598,652
Non-current liabilities:		
Non-current lease liabilities (note 12)	640,080	–
Battelle patent expense (note 18)	25,000	
Total liabilities	$ 1,556,942	$ 2,598,652
Shareholders' equity (deficiency)		
Share capital (note 14)	$ 18,284,177	$ 2,866,502
Equity reserves (note 15)	2,743,825	108,276
Accumulated other comprehensive (loss) income ("AOCI")	(133,410)	59,746
Deficit	(15,951,592)	(3,562,043)
Total shareholders' equity (deficiency)	4,943,000	(527,519)
Total liabilities and shareholders' equity (deficiency)	**$ 6,499,942**	**$ 2,071,133**

Nature of operations and going concern (note 1)
Subsequent events (note 24)

Approved by the Board of Directors on April 26, 2022, and signed on the Company's behalf by:

"William Frain"	*"Daryl Rebeck"*
Director	Director

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

Liberty Defense Holdings, Ltd.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in U.S. dollars)

	Year ended December 31, 2021	2020
Research and development:		
Consideration recovery for the DKL licensing agreement (note 7 (b))	$ –	$ (268,126)
Product development	398,930	–
Technology costs	513,057	67,449
Legal fees	159,791	–
Salaries & Consulting Fees (note 9 and 19)	3,148,134	–
Stock-based Compensation (note 15 and 19)	275,740	–
Office, rent and administration	72,139	–
Travel and miscellaneous	107,343	–
Depreciation (note 6)	130,252	–
Amortization (note 7 (a))	19,899	–
General expenses:		–
Consulting fees, salaries and benefits (note 9 and 19)	573,381	562,534
Depreciation (note 6)	13,670	–
Legal and professional fees	698,476	314,710
Stock based compensation (note 15 and 19)	2,627,300	76,392
Office, rent and administration	208,036	7,854
Regulatory and shareholder information	51,639	8,764
Travel, promotion and investor relations	772,425	61,720
RTO transaction related costs and listing expense (note 4)	2,546,491	–
	12,316,703	831,297
Other (income) expense:		
Interest income	(54,934)	(144,533)
Interest expense	48,030	100,407
Accretion expense (note 11 and 13)	41,819	96,006
Foreign exchange loss	37,931	166,127
	72,846	218,007
Total loss for the year	**$ (12,389,549)**	**$ (1,049,304)**
Other comprehensive (loss) income		
Items that may be reclassified subsequently to profit or (loss)		
Foreign currency translation adjustment	(193,156)	12,092
Total items that may be reclassified subsequently to profit or loss	(193,156)	12,092
Total loss and comprehensive loss for the year	**$ (12,582,705)**	**$ (1,037,212)**
Weighted average number of common shares outstanding		
Basic and diluted	49,242,082	15,426,020
Loss per share		
Basic and diluted loss per share (note 16)	$ (0.25)	$ (0.07)

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

Liberty Defense Holdings, Ltd.
Consolidated Statements of Changes in Shareholder' Equity (Deficiency)
(Expressed in U.S. dollars)

	Number of common shares*	Share capital	Obligation to issue shares	Equity reserves	AOCI	Deficit	Total
Balance as at December 31, 2019	**20,843,336**	**$ 3,105,995**	**$ 188,126**	**$ –**	**$ 47,654**	**$ (2,752,232)**	**$ 589,543**
DKL shares returned to treasury (note 14)	(1,500,000)	(230,982)	–	–	–	230,982	–
Common shares returned to treasury (note 14)	(5,662,500)	(8,511)	–	–	–	8,511	–
Obligation to issue shares	–	–	(188,126)	–	–	–	(188,126)
Fair value of finder's warrants	–	–	–	31,884	–	–	31,884
Stock based compensation (note 15)	–	–	–	76,392	–	–	76,392
Foreign currency translation adjustment	–	–	–	–	12,092	–	12,092
Loss for the year	–	–	–	–	–	(1,049,304)	(1,049,304)
Balance as at December 31, 2020	**13,680,836**	**$ 2,866,502**	**$ –**	**$ 108,276**	**$ 59,746**	**$ (3,562,043)**	**$ (527,519)**
Common shares retained by Liberty shareholders on RTO (note 4)	10,733,792	3,444,458	–	–	–	–	3,444,458
Convertible debentures converted into common shares (note 11)	5,825,467	1,495,507	–	–	–	–	1,495,507
Issue of subscription receipts and private placement, net of share issue cost (note 14)	31,510,000	10,190,334	–	–	–	–	10,190,334
Fair value of compensation brokers warrants (note 15)	–	(435,218)	–	435,218	–	–	–
Stock based compensation (note 14 & 15)	–	–	–	631,619	–	–	631,619
Warrants exercised (note 14)	50,000	19,885	–	–	–	–	19,885
Fair value of warrants allocated to share capital issued on exercise (note 14)	–	10,723	–	(10,723)	–	–	–
Fair value of performance shares allocated to share capital upon vesting (note 15 (d))	2,193,250	691,986	–	(691,986)	–	–	–
Stock based compensation on performance shares granted (note 15)	–	–	–	2,271,421	–	–	2,271,421
Foreign currency translation adjustment	–	–	–	–	(193,156)	–	(193,156)
Loss for the year	–	–	–	–	–	(12,389,549)	(12,389,549)
Balance as at December 31, 2021	**63,993,345**	**18,284,177**	**–**	**2,743,825**	**(133,410)**	**(15,951,592)**	**4,943,000**

*Number of common share information has been updated retroactively to reflect the share consolidation, please refer to note 1 and 14.

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

Liberty Defense Holdings, Ltd.
Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

	Year ended December 31, 2021	2020
Cash (used in) provided by:		
Operating activities:		
Loss and comprehensive loss for the year	$ (12,389,549)	$ (1,049,304)
Items not involving cash:		
Recovery of consideration for DKL licensing agreement	–	(188,126)
Lease Liabilities Interest (note 12)	16,912	–
Lease Receivable Interest (note 12)	(1,810)	–
Convertible debenture accretion expense (note 11)	38,988	96,006
Accretion expense CEBA loan (note 13)	2,831	–
Accrued interest on convertible debentures (note 11)	36,973	100,203
Accrued interest income on loan receivable from Liberty (note 4 and 10)	(60,920)	(142,926)
Depreciation	143,922	–
Amortization (note 7)	19,899	–
Government loans forgiven (note 9)	(67,588)	–
Acquisition of subsidiary acquired in RTO (note 1 and 4)	2,546,491	–
Derecognition right of use asset (note 6 and 12)	14,801	–
Stock based compensation (note 15)	2,903,040	76,392
Changes in non-cash working capital:		
Amounts receivable and prepaids	(99,107)	52,944
Accounts payable and accrued liabilities	(311,396)	(31,443)
Cash used in operating activities	(7,206,513)	(1,086,254)
Investing activities:		
Additions to intangible assets	(187,065)	–
Additions to property and equipment	(94,335)	–
RTO transaction costs, net of cash acquired	(290,428)	–
Cash used in investing activities	(571,828)	–
Financing activities:		
Proceeds from issuance of common shares, net of share issue costs (note 14)	10,190,334	–
Proceeds in connection to warrants exercised	19,885	–
Lease payments received	13,191	–
Fair value of warrants granted to brokers	–	–
Cash advanced to Liberty as part of the loan (note 10)	(179,747)	(1,820,253)
Convertible debentures issued, net of transaction costs (note 11)	–	1,273,837
Working capital loans repayment, net of proceeds received (note 8)	(512,611)	550,525
Proceeds from government loan (note 9)	–	67,588
Repayment of leases	(125,963)	–
Interest paid on convertible debentures (note 11)	(137,175)	–
Cash provided by financing activities	9,267,914	71,697
Effect of foreign exchange rate changes on cash	(205,047)	103,657
Increase (decrease) in cash	1,284,526	(910,900)
Cash, beginning of the year	57,047	967,947
Cash, end of the year	**$ 1,341,573**	**$ 57,047**

During the years ended December 31, 2021 and 2020, the Company paid $nil (2020 - $nil) in income taxes and $137,175 (2020 - $nil) in interest expenses.

Supplemental cash flow information		
Fair value of brokers and finder's warrants (note 15 (a))	$ 435,218	$ 31,884
Fair value of shares retained by Liberty shareholders (note 4)	3,444,458	–
Convertible debentures converted into common shares (note 15 (a))	1,495,507	–
Performance shares released from escrow (note 14 (a))	691,986	–
Reclassification from reserves upon warrant exercise	10,723	–
Intangible assets included in accounts payable and accrued liabilities	15,432	–
DKL shares returned to treasury (note 18)	–	230,932
Common shares returned to treasury (note 14)	–	8,511

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

1. Nature of operations and going concern

Liberty Defense Holdings, Ltd. ("Liberty" or the "Company"), is a public company (TSXV: SCAN, Frankfurt: L2D, OTCQB: LDDFF), that was incorporated under the Business Corporation Act of Ontario on June 8, 2012. The Company's registered and records office is located registered address is 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117. Vancouver, British Columbia, V6E 4N7, Canada.

The Company undertook a reverse takeover ("RTO") transaction with DrawDown Detection, Inc. ("DrawDown" or "DD") on March 17, 2021 (Note 4) in which Liberty acquired all of the issued and outstanding common shares of DrawDown on a post-DrawDown consolidation basis in exchange for common shares of Liberty on a one to one basis post-Liberty consolidation. As described, to undertake this transaction, Liberty completed a share consolidation on a 6.2 old shares to 1 new share basis and DrawDown also completed a share consolidation on a 2 old shares to 1 new share basis. Drawdown has been identified as the accounting acquirer and, accordingly, the Company is considered to be a continuation of Drawdown, and the net assets of the Company at the date of the reverse acquisition are deemed to have been acquired by Drawdown. These consolidated financial statements include the results of operations of the Company from March 17, 2021.

The Company is principally engaged in the development and future commercialization of an active 3D imaging technology system, HEXWAVE, to detect concealed threats.

Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred in a total loss during the year ended December 31, 2021, of $12,389,549 and cash outflows from operating activities of $7,206,513. In order to fully commercialize HEXWAVE, the Company will require additional funds to achieve its development timeline and bring HEXWAVE to market. 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. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. This material uncertainty casts significant doubt upon the Company's ability to continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

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 presentation

(a) Statement of compliance

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

These consolidated financial statements were approved for issuance by the Board of Directors on April 26, 2022.

(b) Basis of presentation

Certain amounts in prior years have been reclassified to conform to the current period presentation.

(c) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(d) Functional and presentation currency

The functional currency of the Company is the Canadian dollar, and the presentation currency of these consolidated financial statements is the U.S. dollar ("USD"); therefore, references to $ means USD and CAD$ are to Canadian dollars.

(e) Basis of consolidation

These consolidated financial statements include the financial statements of Liberty Defense Holdings, Ltd., and the entity controlled by the Company (its subsidiary), as follows:

Subsidiary	Place of Incorporation	Functional Currency	Beneficial Interest
Liberty Defense Technologies, Inc.	United States	USD	100%
DrawDown Detection, Inc.	Canada	CAD	100%
DrawDown Technologies, Inc.	United States	CAD	100%

Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. All intercompany balances and transactions have been eliminated upon consolidation.

(f) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to select accounting policies and make estimates and judgments that may have a significant impact on the condensed interim consolidated financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of presentation (continued)

(f) Critical accounting estimates and judgments (continued)

Business combination
Determination of whether a set of assets acquired, and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 - Business Combinations. Based on an assessment of the relevant facts and circumstances, the Company concluded that the reverse takeover (Note 4) met the criteria of an asset acquisition.

Treatment of research and development costs
Development costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Those criteria require that the product is technically, and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible.

Functional currency
The functional currency for the Company is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of the Company as the Canadian dollar (CAD$). Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsider the functional currency if there is a change in events and conditions that determined the primary economic environment.

Depreciation and amortization rates for property and equipment
Depreciation and amortization expenses are allocated based on estimated economic lives. Should the economic life, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statement of loss and comprehensive loss on a prospective basis.

Impairment of goodwill, intangible assets, and other long-lived assets
Significant estimates and judgments are required in testing goodwill, intangible assets, and other long-lived assets, including right-of-use assets, for impairment. Management uses estimates or exercises judgment in assessing indicators of impairment, defining a CGU, forecasting future cash flows, estimating replacement cost models, and in determining other key assumptions such as discount rates and earnings multipliers used for assessing fair value (less costs of disposal) or value in use.

Stock based compensation
The Company grants stock options to certain of its employees, directors, officers, and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. This number is reviewed annually, with any change in estimate recognized immediately in compensation expense with a corresponding adjustment to equity reserves.

Provisions
Provisions recognized in the financial statements involve estimates on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience, and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

2. Basis of presentation (continued)

(f) Critical accounting estimates and judgments (continued)

Lease
The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

Income taxes
The provision for income taxes and composition of income tax assets and liabilities requires management's judgment. The application of income tax legislation also requires judgment to interpret legislation and to apply those findings to the Company's transactions.

Deferred tax assets and liabilities
Management judgment and estimates are required in assessing whether deferred tax assets and deferred tax liabilities are recognized in the consolidated statements of financial position. Judgements are made as to whether future taxable profits will be available to recognize deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, prices, operating costs, and other capital management transactions. These judgments and estimates are subject to risk and uncertainty and changes in circumstances may alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the consolidated statements of financial position and the benefit of other tax losses and temporary differences not yet recognized.

Going concern of operations
These consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

Purchase price allocations
The consideration transferred and acquired assets and assumed liabilities are recognized at fair value on the date the Company effectively obtains control. The measurement of each acquisition is based on the information available on the acquisition date. The estimate of fair value of the consideration transferred and acquired intangible assets, property and equipment, other assets and the liabilities assumed are based on estimates and assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

3. Significant Accounting Policies

(a) Cash

Cash consists of cash on hand and demand deposits.

(b) Foreign currency transactions

The financial statements of entities with functional currencies other than U.S. dollars are translated into U.S. dollars for presentation purposes as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position
- Income and expenses and other comprehensive income are translated at exchange rates at the date of the transaction

3. Significant Accounting Policies (continued)

(b) Foreign currency transactions (continued)

- All resulting exchange differences are recognized in other comprehensive income (loss).

Transactions in currencies other than the functional currency of an entity are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Foreign currency translation differences arising on translation into the functional currency of an entity are recognized in the consolidated statement of loss and comprehensive loss.

(c) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation, and accumulated impairment losses, if any. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Property and equipment with an original cost of $5,000 or less is expensed on acquisition. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset	Life
Leasehold improvements	Straight line over the term of the lease
Equipment	Three to seven years

Depreciation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

If any, gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in profit or loss.

(d) Intangible assets

Intangible assets can be acquired by separate purchase, as part of a business combination, by government grant, by exchange of assets and by self-creation.

Research and development costs

Expenditure in research and development activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in the Consolidated Statement of Loss as an expense when incurred. No development cost has been deferred to date.

Expenditure in development activities where research results are used in planning and designing the production of new or substantially improved products and processes is recognized as an intangible asset if the product or process is technically and commercially feasible, if there is an intention and ability to complete the project and then use or sell it and expect economic benefits from the project, if the Company has sufficient resources to complete development and if it is able to measure reliably the cost during development. The recognized expenditure incurred includes not only the costs caused by its production and indirect costs that can be attributed to it and recognized by the market but also the cost of borrowing in relation to its acquisition.

On initial recognition, an intangible asset is measured at cost. After initial recognition, the Company monitors intangible assets according to the cost model, whereby their cost is decreased by any accumulated depreciation and any accumulated impairment losses.

3. Significant Accounting Policies (continued)

(d) Intangible assets (continued)

Amortization

Intangible assets are classified as those with finite useful lives and those with indefinite useful lives. The carrying amount of an intangible asset with a finite useful life is reduced by depreciation and impairments. Depreciation of intangible fixed assets begins to be calculated when the asset is available for use. The adequacy of the depreciation period and the depreciation method are reviewed at least at each financial year-end. Any adjustments necessary are accounted as a change in an accounting estimate.

Depreciation is calculated on a straight-line basis, beginning the following day in the month when the asset is available for use.

Intangible assets with indefinite useful life are tested for impairment at least on the balance sheet date. These assets are not subject to amortization. The useful life is reassessed to determine whether the assets need not be treated as having finite useful life, and the effect is accounted as a change in an accounting estimate.

(e) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(f) Impairment of non-financial assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

3. Significant Accounting Policies (continued)

(f) Impairment of non-financial assets (continued)

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

Intangible assets with indefinite useful lives, or intangible assets that are not yet available for use are tested for impairment annually as at December 31, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(g) Financial instruments

The Company recognizes financial assets and liabilities on its financial statements when it becomes a party to the contract creating the asset or liability.

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost.

On initial recognition, all financial assets and liabilities are recorded by the Company at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as FVTPL for which transaction costs are expensed in the period in which they are incurred. The classification of the Company's financial instruments is as follows:

Financial assets/liabilities	Classification IFRS 9
Cash	Amortized cost
Amounts receivable	Amortized cost
Loan receivable from Liberty	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Working capital loans	Amortized cost
Paycheck protection program loan	Amortized cost
Convertible debentures	Amortized cost
CEBA loan	Amortized cost

<u>Amortized cost</u>

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant Accounting Policies (continued)

(g) Financial instruments (continued)

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

Fair value through other comprehensive income ("FVTOCI")

Financial assets that meet the following conditions are measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not have any financial assets classified as FVTOCI.

By default, all other financial assets are measured subsequently at FVTPL.

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using effective interest method.

3. Significant Accounting Policies (continued)

(g) Financial instruments (continued)

Financial instruments designated as hedging instruments

The Company does not currently apply nor have a past practice of applying hedge accounting to financial instruments.

Impairment

The Company recognizes a loss allowance for expected credit losses on its financial assets. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

(h) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Investment tax credits

The Company is entitled to certain Canadian federal and provincial tax incentives for Scientific Research and Experimental Development ("SRED"), US federal tax incentives for increasing research activities, and US state research and development tax credits. None of these incentives have been received for the years presented. These ITCs are available to the Company to reduce actual income taxes payable. Any credits that are not used in the year in which they are earned are recorded as a deferred income tax asset when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management estimates the amount of ITCs based on eligible SRED expenditures for the year and assesses the probability of usage based upon forecast results.

ITCs that relate to the development of capitalized development assets are recorded as a reduction of the cost of the related asset. All other ITCs are recorded as a reduction of current period research and development expenses. Management uses judgment in allocating ITCs between capitalized and non-capitalized development projects.

3. Significant Accounting Policies (continued)

(j) Share capital

Common shares are classified as equity. Transactions costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effect.

(k) Share-based payments

The Company grants restricted share units, deferred share units, and stock options to directors, officers, and consultants pursuant to a stock option plan described in Note 15. The Company uses the fair value method to account for all share-based awards granted, modified, or settled, and the Black-Scholes Option Pricing Model to determine the fair value of stock options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in contributed surplus will be transferred to share capital on the exercise of stock options. The amounts remain in contributed surplus for stock options which expire unexercised. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively. Options issued to non-employees are valued based on the fair value of the services provided unless the fair value of the services provided cannot be measured reliably, in which case, the fair value is measured by reference to the fair value of the equity instruments granted.

(l) Warrants issued in equity financial transactions

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants on exercise is recorded as equity. If warrants issued are subsequently cancelled or expire without being exercised, then the historical fair value of the equity reserve is transferred from reserve to share capital. If the warrants are exercised the related reserves are reclassified from reserves to share capital.

(m) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants on loss per share would be anti-dilutive.

3. Significant Accounting Policies (continued)

(n) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether it has the right to obtain substantially all of the economic benefits from and to direct the use of the identified asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option, or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of loss and comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases for which the Company is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

3. Significant Accounting Policies (continued)

(n) Leases (continued)

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Changes in accounting standards

Accounting standards adopted during the year

There were no new standards effective January 1, 2021 that impacted the Company's consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

The following standards and interpretations, which may be applicable to the Company has been issued but are not yet effective as of December 31, 2021:

Classification of liabilities as current or non-current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarified the guidance on whether a liability should be classified as either current or non-current. The amendments are as follows:

- Clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- Make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments to IAS 1 are currently not expected to have a significant impact on the Company's accounting policies or financial statements.

3. Significant Accounting Policies (continued)

(o) Changes in accounting standards (continued)

Amendment to IAS 16 – Property, Plant and Equipment ("IAS 16")

On May 14, 2020, the IASB amended IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The amendments to IAS 16 are currently not expected to have a significant impact on the Company's accounting policies or financial statements.

4. Reverse Takeover of DrawDown

On March 16, 2021, the Company acquired all of the issued and outstanding common shares of DrawDown on a post DrawDown consolidation basis in exchange for common shares of Liberty on a one to one basis post-Liberty consolidation. This transaction constituted a reverse takeover ("RTO") through the issuance of 19,506,303 common shares, including the 5,825,468 common shares issued as a result of the conversion of the DrawDown debenture, of the Company to the shareholders of DrawDown. As a result, the former shareholders of DrawDown acquired control of Liberty.

As required by the RTO transaction, Liberty completed a common share consolidation on a 6.2 old common shares to 1 new common share basis and DrawDown also completed a common share consolidation on a 2 old common shares to 1 new common share basis. All references to common shares have been affected by this share consolidation.

In connection with the RTO transaction, each outstanding share purchase warrant and stock option of DrawDown will automatically become exercisable for post-Liberty consolidation common shares, subject to all necessary adjustments to reflect the terms of the RTO transaction and subject to the terms governing the warrants and stock options, as applicable resulting in the issuance of 437,500 stock options and 208,286 share purchase warrants.

The RTO transaction was accounted with the net assets acquired of Liberty recorded at fair value at the date of acquisition. Furthermore, for accounting purposes, DrawDown was treated as the accounting parent company (legal subsidiary) and Liberty will be treated as the accounting subsidiary (legal parent). As DrawDown was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying value.

The total consideration and transaction costs of $5,946,971 have been allocated as follows:

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

4. Reverse Takeover of DrawDown (continued)

		Amount
Assets acquired and liabilities assumed:		
Cash	$	8,239
Receivables & prepaids		55,298
Property and equipment		240,749
Intangible assets		183,682
HEXWAVE technology		3,769,172
Accounts payable and accrued liabilities		(655,056)
Lease obligation		(201,604)
Net assets acquired	**$**	**3,400,480**
Consideration and transaction costs:		
Fair value of shares retained by Liberty shareholders		3,444,458
Pre-existing liability settlement (Note 10)		2,203,846
Transaction related costs		298,667
Total consideration and transaction costs	**$**	**5,946,971**
Listing expense	**$**	**2,546,491**

The consideration was measured at the fair value of the shares that DrawDown would have had to issue to the shareholders of Liberty, being 10,733,792 common shares, to give the shareholders of Liberty the same percentage equity interest in the combined entity that results from the RTO had it taken the legal form of Drawdown acquiring Liberty.

Additionally, upon closing of the RTO transaction Liberty granted a total of 8,773,000 capital market performance shares ("CMPS") and 2,000,000 operational performance shares ("OPS") to certain directors, officers, and consultants (Note 15 (d)). These securities are held in escrow until certain milestones are reached.

5. Amounts Receivables, Prepaids and Deposits

As of December 31, 2021, the Company had $48,935 (December 31, 2020 – $31,839) in amounts receivables and $156,377 (December 31, 2020 – $19,068) in prepaids and deposits.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

6. Property & Equipment

	Leasehold Improvements	Equipment	Right of Use Asset	Total
Cost				
At December 31, 2020 and 2019	$ -	$ -	$ -	$ -
Additions RTO transaction (note 4)	6,735	32,410	201,604	240,749
Additions (1)	-	94,335	655,578	749,913
Derecognition right of use asset	-	-	(84,870)	(84,870)
At December 31, 2021	$ 6,735	$ 126,745	$ 772,312	$ 905,792
Accumulated Depreciation				
At December 31, 2020 and 2019	$ -	$ -	$ -	$ -
Depreciation for the year	6,051	19,301	118,570	143,922
Derecognition right of use asset	-	-	(6,842)	(6,842)
At December 31, 2021	$ 6,051	$ 19,301	$ 111,728	$ 137,080
Foreign exchange movement				
At December 31, 2020 and 2019	$ -	$ -	$ -	$ -
At December 31, 2021	$ -	$ -	$ 60	$ 60
Net Book Value				
At December 31, 2020	$ -	$ -	$ -	$ -
At December 31, 2021	**$ 684**	**$ 107,444**	**$ 660,643**	**$ 768,772**

On July 2, 2021, the Company entered into a new office lease agreement for a period of seventy-six months whereby an initial right-of-use asset was recognized totaling $655,578, using a 7.63% implicit interest rate.

7. Intangible Assets

(a) MIT License Agreements

The Company, through its wholly owned subsidiary Liberty Defense Technologies Inc. ("LDT"), has entered into agreements with the Massachusetts Institute of Technology ("MIT") and MIT's Lincoln Laboratory ("MIT LL"), including an exclusive patent licence agreement between MIT and LDT dated September 10, 2018, as amended from time to time (the "Licence Agreement"), a technology transfer agreement between LDT and MIT LL, effective August 24, 2018 (the "Technology Transfer Agreement"), and a cooperative research and development agreement between LDT and MIT dated as of December 21, 2018 ("CRADA"), such agreements providing LDT with an exclusive licence for patents, design assets and MIT LL technical expertise related to active three-dimensional imaging technology that are the core technology behind the HEXWAVE product.

The obligations under the Technology Transfer Agreement and the CRADA have now been completed. Liberty may consider extending the CRADA (and therefore changing its scope) if it determines that additional MIT LL technical expertise related to active three-dimensional imaging technology is required. Pursuant to the License Agreement, LDT has been granted the exclusive rights to MIT's patent in "multistatic sparse array topology for FFT-based field imaging" (MIT Case No. l 8409L) (the "Patent"), which is being utilized in the development and application of the HEXWAVE product. The License Agreement is to be in effect until the expiration of the Patent, which is 14 years (December 2035). In granting LDT such patent rights, the Company shall pay MIT in addition to patent filling costs an annual maintenance fees as follows: 1) $20,000 for 2019 (paid); $50,000 for 2020 (paid); $60,000 for 2021 (paid); $100,000 for 2022; $200,000 for 2023 and $350,000 for 2024 and thereafter; and 2) a royalty of 5.7% of all future net sales of the Company. The Company shall also be required to achieve certain milestones.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

7. Intangible Assets (continued)

(a) MIT License Agreements (continued)

The continuity of the Company's intangible assets is as follows:

	MIT Licenses	HEXWAVE Technology	Total
Balance, December 31, 2019 and 2020	$ -	$ -	$ -
Additions RTO transaction (note 4)	183,682	3,769,172	3,952,854
Additions	202,497	-	202,497
Amortization	(19,899)	-	(19,899)
Balance, December 31, 2021	**$ 366,280**	**$ 3,769,172**	**$ 4,135,452**

Intangible assets included as MIT licenses include payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the RTO transaction (Note 4).

8. Working Capital Loans

During the year ended December 31, 2021, the Company received working capital loans in the amount of $394,384 (December 31, 2020 - $550,525). These loans were repaid in full during the year, were unsecured and non-interest bearing.

	Amounts
Balance, December 31, 2019	-
Additions	550,525
Balance December 31, 2020	**550,525**
Additions	394,384
Fees	7,976
Repayments	(914,971)
Foreign exchange movement	(37,914)
Balance December 31, 2021	-

9. Paycheck Protection Program Loan

The Company, through its wholly owned subsidiary DrawDown Technology Inc, filed for a Paycheck Protection Program Loan ("PPP Loan") under the Coronavirus Aid, Relief, and Economic Security Act and received $67,588 on May 10, 2020. The PPP Loan had a 1% fixed interest rate per annum and a deferment period of 6 months. During 2021, the Company submitted to the Small Business Administration the application to request for forgiveness on the Company's PPP Loan, which was fully approved. Additionally, on January 28, 2021, the Company obtained confirmation from the PPP Loan subscriber, Bank of America, that its PPP Loan is now considered paid in full, including any applicable interest. As a result, the balance owing in the amount of $67,588 was recorded as a recovery against employee salaries and benefits under general expenses.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

10. Loan Receivable from Liberty

Before the completion of the RTO (Note 4), the Company had a loan agreement with DrawDown which provided for a maximum financing of $2,000,000 with a minimum of 12 months funding bearing 12% interest per annum. As March 17, 2021 when the RTO transaction was completed, the outstanding balance under the loan agreement was $2,203,846 (December 31, 2020 – $1,963,179) which formed part of the consideration on the RTO, including interest receivable of $203,846 (December 31, 2020 - $142,926) (Note 4).

11. Convertible Debentures

In connection with the RTO, the Company issued convertible debentures through its wholly owned subsidiary DrawDown on March 5 and May 29, 2020, with a total face value of $1,371,098 (CAD$1,864,810). The instrument was unsecured, had a maturity of one year from its date of issuance and has an interest rate of 10% per annum payable at the end of the term or up on conversion. On March 17, 2021, the RTO was completed, and the debenture converted into DrawDown Units at CAD$0.32 per DrawDown Unit on a pre-share consolidation basis. Each DrawDown Unit was comprised of one common share and one-half of one DrawDown warrant on a pre-share consolidation basis. The shares issued upon conversion of the DrawDown Units were exchanged for Liberty shares on a one for one basis along with the warrants and finder's warrants with the same economic terms and conditions. These instruments were also affected by the share consolidation (Note 14 (i)).

During the year ended December 31, 2020, the Company issued a total of 416,572 finder's warrants at a price of CAD$0.20 per share for a period of 24 months with an estimated fair value of $31,884.

The continuity of the outstanding balance for the convertible debentures was as follows:

		Amount
Balance, December 31, 2019	$	-
Cash received		1,371,098
Finder's fee paid in cash		(92,108)
Legal fees		(5,153)
Fair value of finder's warrants		(31,884)
Accrued interest		100,203
Accretion expense		96,006
Foreign exchange movement		93,147
Balance December 31, 2020	$	1,531,309
Accrued interest		36,973
Accretion expense		38,988
Interest paid		(137,175)
Foreign exchange movement		25,412
Converted to common shares		(1,495,507)
Balance December 31, 2021	**$**	**-**

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

12. Leases

The Company lease liabilities for the years ended December 31, 2021 and 2020 are as follows:

		Right of use liability
Balance, December 31, 2020 and 2019	$	-
Additions RTO transaction (note 4)		201,604
Additions		655,578
Finance costs		16,912
Lease payments		(125,963)
Foreign exchange movement		(1,166)
Ending balance	$	746,965
Less current portion		106,885
Non-current lease liability	**$**	**640,080**

Minimum lease payments are as follows:

		December 31, 2021
Maturity analysis - contractual undiscounted cash flows		
One year or less	$	160,693
Two to five years		590,859
Six and thereafter		190,409
Total lease liabilities	$	941,961
Effect of discounting		(194,996)
Lease liabilities included in the statement of financial position	$	746,965
Current	$	106,885
Non-current	$	640,080

The Company lease receivable for the years ended December 31, 2021 and 2020 are as follows:

		Amount
Balance, December 31, 2020 and 2019	$	-
Additions		63,227
Accretion		1,810
Payments received		(13,191)
Currency translation adjustment		(3,012)
Balance, December 31, 2021	**$**	**48,834**
Current	$	20,159
Non-current	$	28,675

As a result of the completion of the RTO and under the new management's vision, the corporate office will now be located in Boston, MA. As a result, the Company subleased until the expiry of the headlease (April 2024) the office space located in Vancouver, BC., as it was not longer required. The Company fair valued the lease receivable by present valuing the expected lease receivable payments over the life of the lease. The Company used an interest rate of 5.55%, the interest rate implicit in the lease. Minimum undiscounted sublease payments receivable are: $22,362 during 2022 and $29,815 during 2023.

13. Canada Emergency Business Account Loan ("CEBA")

As a result of closing the RTO transaction (Note 4), the Company acquired a CAD$40,000 Canada Emergency Business Account loan ("CEBA") which was received by Liberty on May 5, 2020, and carries a 0% interest rate per annum, however, increases to a 5% interest rate per annum if the loan is not repaid in full on or before December 31, 2022 ("Term Period"). In the event that the loan is not repaid by the Term Period, it is extended from January 1, 2023, to December 31, 2025 ("Extension Period"). The Company used the loan to help fund payroll, rent, and utilities under the appropriate guidelines in the loan agreements. On December 31, 2020, the CEBA loan converted to a term facility and if the Company pays 75% of the aggregate amount advanced to the credit facility on or before the Term Period, the remaining 25% of the amount advanced will be forgiven.

The net present value of the CEBA Loan as of December 31, 2021, is $27,986 (December 31, 2020 – $nil) and is recorded as a non-current liability. The Company also recognized an accretion expense of $2,831 in connection to this loan during the year ended December 31, 2021 (year ended December 31, 2020 – $nil).

14. Share Capital

(a) Common share transactions for the year ended December 31, 2021

i) On March 17, 2021, Liberty completed a share consolidation equivalent to 6.2 old common shares to 1 new common share and DrawDown also completed a share consolidation of 2 old common shares for 1 new common share in connection to the completion of the RTO transaction (Note 1). All common shares and per share data presented in the Company's consolidated financial statements have been retroactively adjusted to reflect the share consolidation unless otherwise noted.

ii) On July 21, 2021, the Company issued 2,193,250 capital markets performance shares (Note 15 (d)) to certain employees and a consultant of the Company at a fair value of $691,986.

iii) On July 15, 2021, the Company issued 50,000 common shares for gross proceeds of $19,885 in connection with warrants exercised. The fair value of these warrants exercised was $10,723 and was transferred from the equity reserves and recorded against share capital.

iv) On June 17, 2021, the Company closed a brokered private placement of 14,260,000 units ("Units") at a price of $0.4052 (CAD$0.50) per Unit for gross proceeds of $5,777,490 (CAD$7,130,000). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant "). Each Warrant entitles the holder thereof to acquire one additional common share of the Company at a price of CAD$0.75 per Common Share within 24 months. The Company paid to the agent a cash commission of $448,464 (CAD$553,450) and issued to the agent 1,106,900 non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant entitles the Agent to acquire one common share of the Company at a price of CAD$0.50 per common share within 24 months with a fair value of $237,386. The Company also incurred $76,391 (CAD$94,380) in legal and filling fees.

v) As part of the RTO transaction on March 12, 2021, the Company closed a financing with a total of 17,250,000 subscription receipts for one Unit (the "March Unit") at a price of $0.3209 (CAD$0.40) per Unit for total proceeds of $5,535,499 (CAD$6,900,000). Each March Unit is comprised of one common share and one-half of one purchase warrant (each whole warrant, a "March Warrant"). Each whole purchase March Warrant entitles the holder thereof to purchase one common share at CAD$0.60 per common share for a period of two years. The Company issued 1,098,125 compensation warrants to the agents (the "Compensation March Warrants"). Each Compensation March Warrant entitles the agents to acquire one common share of the Company at a price of CAD$0.40 per common share within 24 months with a fair value of $197,832. The Company also incurred a cash commission and other filling and legal expenses of $597,800 (CAD$739,250).

14. Share Capital (continued)

(a) Common share transactions for the year ended December 31, 2021 (continued)

vi) A total of 10,733,792 common shares were issued upon completion of the RTO transaction on March 17, 2021, with a fair value of $3,444,458. Also, the convertible debentures issued in connection to the RTO transaction (Note 4 and 11) were converted into DrawDown Units and immediately exchanged for Liberty shares on a one for one basis along with the warrants and finder's warrants. Each DrawDown Unit is comprised of one common share and one-half of one purchase warrant (each whole warrant, a "CD Warrant"). Each whole purchase CD Warrant entitles the holder thereof to purchase one common share at CAD$0.50 per common share for a period of two years. A total of 5,825,467 common shares were issued with a fair value of $1,495,507 in connection with the convertible debentures.

Also, in the year end December 31, 2020, as part of the convertible debentures transaction, the Company issued a total of 208,286 finder's warrants at a price of CAD$0.40 per share for a period of 24 months with an estimated fair value of $31,884.

(b) Common share transactions for the year ended December 31, 2020

i) Pursuant to the February 6, 2020, amendment to the Licensing Agreement, DKL agreed to surrender back to the Company, 1,500,000 common shares that were issued to DKL on April 2, 2019, as part of the consideration for the Licensing Agreement with a stated value of $230,982 (CAD$300,000).

ii) On April 12, 2020, a total of 5,662,500 common shares were cancelled and returned to treasury. These shares were issued in connection to a private placement closed on March 5, 2019, where the Company issued 5,662,500 shares at CAD$0.0005 for gross proceeds of $8,511 (CAD$11,325).

iii) During the year ended December 31, 2020, DrawDown incurred $nil in share costs

15. Equity Reserves

(a) Share-based compensation

The Company maintains an Omnibus Equity Incentive Plan (the "Incentive Plan") which is comprised of stock options, restricted share units ("RSUs") and deferred share units ("DSUs"). The maximum number of common shares reserved for issuance, in the aggregate, under the Incentive Plan is 10% of the aggregate number of common shares issued and outstanding to be granted to directors, officers, employees, and consultants under certain restrictions.

Unless the Board decides, or the grant agreement specifies otherwise, the stock options will vest in two years with quarterly intervals following the date of such grant. The Board shall fix the exercise price of any stock option when such stock option is granted, which shall not be less than the closing price of the common shares on the Exchange on the day prior to the date of grant (the "Market Value"). A stock option shall be exercisable during a period established by the Board, which shall commence on the date of the grant and shall terminate no later than ten (10) years after the date of grant of the award or such shorter period as the Board may determine.

With respect to RSUs, the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of the grant.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

15. Equity Reserves (continued)

(a) Share-based compensation (continued)

With respect to PSUs, the specific provisions of the PSU plan, eligibility, vesting period, terms of the PSUs and the number of PSUs granted are to be determined by the Board of Directors at the time of the grant.

The fair value of the stock options granted were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	December 31, 2021	December 31, 2020
Risk-free interest rate	0.90%	1.34%
Expected dividend yield	Nil	Nil
Stock price volatility	73.18%	62.05%
Expected life (in years)	5 years	5 years
Weighed average fair value per option	CAD$0.34	CAD$0.20

The continuity of the number of stock options issued and outstanding, adjusted for the share consolidation is as follows:

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2019	-	CAD$ -
Granted	437,500	0.50
Outstanding, December 31, 2020	**437,500**	**CAD$ 0.50**
RTO transaction (note 4)	230,645	4.96
Cancelled	(93,548)	4.96
Granted	3,000,000	0.49
Outstanding, December 31, 2021	**3,574,597**	**CAD$ 0.67**

As at December 31, 2021, the number of stock options outstanding and exercisable, adjusted for the share consolidation was:

	Outstanding		Exercisable	
Expiry date	**Number of stock options**	**Exercise price**	**Remaining contractual life (years)**	**Number of stock options**
01-May-24	50,000	CAD$ 0.50	2.33	50,000
15-Jun-24	37,500	CAD$ 0.50	2.46	37,500
01-Jul-24	75,000	CAD$ 0.50	2.50	75,000
08-Jul-24	75,000	CAD$ 0.50	2.52	75,000
31-Jul-24	50,000	CAD$ 0.50	2.58	50,000
23-Aug-24	37,500	CAD$ 0.50	2.65	37,500
25-Sep-24	37,500	CAD$ 0.50	2.74	37,500
29-Sep-24	75,000	CAD$ 0.50	2.75	75,000
Apr 9 and Jul 2, 2024	137,097	CAD$ 4.96	2.50	137,097
07-Apr-26	2,195,000	CAD$ 0.50	4.27	548,750
10-Jun-26	100,000	CAD$ 0.50	4.44	25,000
28-Jul-26	240,000	CAD$ 0.50	4.58	30,000
01-Nov-26	465,000	CAD$ 0.46	4.84	-
	3,574,597			**1,178,347**

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

15. Equity Reserves (continued)

(a) Share-based compensation (continued)

Total stock-based compensation expense as a result of options granted and vested during the year ended December 31, 2021, was $519,914 (year ended December 31, 2020 – $76,392).

(b) Restricted share units

During the year ended December 31, 2021, the Company granted 1,000,000 RSUs to directors, officers and an employee; these instruments shall be settled with common shares of the Company, are restricted until April 7, 2026 and vest at 100% on April 7, 2024. The following table summarizes the movements in Liberty's outstanding RSUs:

	Number of equity settled restricted share units
Outstanding, December 31, 2019 and 2020	-
Granted	1,000,000
Outstanding, December 31, 2021	**1,000,000**

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2021 was CAD$580,000 (December 31, 2021: $nil) and will be recognized as an expense over the vesting period of the RSUs. The fair value of the equity settled RSUs as at the grant date was determined with reference to the market value of the common shares of the Company at the grant date.

Total stock-based compensation expense as a result of RSUs grants during the year ended December 31, 2021, was $111,705 (year ended December 31, 2020 – $nil).

(c) Share purchase warrants

As at December 31, 2021, the continuity of the number of share purchase warrants outstanding is as follows:

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2019	1,740,000	CAD$ 0.20
Issued	208,286	0.40
Cancelled	(1,740,000)	0.20
Outstanding, December 31, 2020	208,286	**CAD$ 0.40**
RTO transaction (note 4)	1,738,166	6.48
Issued	20,872,759	0.62
Cancelled	(1,423,650)	6.82
Exercised	(50,000)	0.50
Outstanding, December 31, 2021	21,345,561	**CAD$ 0.68**

During the year ended December 31, 2021, the Company issued share purchase warrants in connection to the following transactions:

i) As part of the completion of the RTO transaction (Note 1) and the concurrent financing, the Company on March 12, 2021, issued 2,912,734 share purchase warrants as a result of converting all outstanding convertible debentures. These instruments had an exercise price of CAD$0.40 and can be exercised within a period of 24 months.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

15. Equity Reserves (continued)

(c) Share purchase warrants (continued)

ii) As part of the RTO transaction (Note 1), the Company acquired 1,738,166 share purchase warrants with a weighted average exercise price of CAD$6.48. Subsequently, on April 3, 2021 a total of 1,423,650 with an exercise price of CAD$6.82 were cancelled without being exercised. Due to the short expiry period of these instruments and its high exercise price, management did not recognize any fair value associated to the share purchase warrants at the date of the acquisition.

The fair value of the compensation warrants was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	December 31, 2021	December 31, 2020
Risk-free interest rate	0.32%	0.59%
Expected dividend yield	Nil	Nil
Stock price volatility	98.33%	86.93%
Expected life (in years)	2 years	2 years
Fair value	CAD$0.25	CAD$0.20

The outstanding number of share purchase warrants is as follows:

		Outstanding	
Expiry date	Number of warrants	Exercise price	Remaining contractual life (years)
03-May-22 (note 24)	123,300	CAD$0.40	0.18
29-May-22	84,986	CAD$0.40	0.41
01-Sep-22 (note 24)	314,516	CAD$4.96	0.02
11-Mar-23	1,098,125	CAD$0.40	1.19
11-Mar-23	8,625,000	CAD$0.60	1.19
17-Mar-24	2,912,734	CAD$0.50	2.21
17-Jun-23	7,130,000	CAD$0.75	1.46
17-Jun-23	1,056,900	CAD$0.50	1.46
	21,345,561		

As at December 31, 2021, the continuity of the number of share purchase warrants units outstanding is as follows:

	Warrants units outstanding	Exercise Price
Outstanding, December 31, 2019 and 2020	-	-
RTO transaction	81,280	CAD$ 4.96
Expired	(81,280)	CAD$ 4.96
Outstanding, December 31, 2021	-	

(d) Performance Shares

On March 17, 2021, Liberty deposited into escrow, and held in escrow, Operational Performance Shares ("OPS") and Capital Market Performance Shares ("CMPS") for certain directors, officers, and consultants of the Company upon the Company achieving certain performance milestones. Once these milestones were achieved the shares would be released. These performance shares included 2,000,000 of OPS and 8,773,000 of CMPS. In order to fair value these performance shares, management has run a probability analysis to estimate the number of shares the Company would be issued and its vesting period. Therefore, the fair value of these performance shares are based on the probability analysis and the share market price at grant date of CAD$0.40 per share.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

15. Equity Reserves (continued)

(d) Performance Shares (continued)

As at December 31, 2021, none of the 2,000,000 OPS have been issued as neither of the two milestones have been met. The estimated vesting period of the OPS was set between March 2023 and September 2023. The estimated fair value of the OPS is CAD $800,000, with $183,368 (CAD$229,461) (December 31, 2020 - $nil) recognized as stock-based compensation in the consolidated statement of loss and comprehensive loss.

On July 21, 2021, the Company issued 2,193,150 from the total of 8,773,000 CMPS as the first established milestone was met. The Company set a total of four milestones with an equal number of CMPS to be issued when the Company achieves such milestones. The Company has estimated a probability of the number of CMPS it will issue in addition to an estimated vesting period between Jun 2021 and Sep 2022. The estimated fair value of the CMPS is CAD $3,509,200, with $2,088,053 (CAD$2,612,924) (December 31, 2020 - $nil) recognized as stock-based compensation in the consolidated statement of loss and comprehensive loss.

16. Loss Per Share

Basic loss per share amounts is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period, adjusted for the share consolidation.

		December 31, 2021		December 31, 2020
Loss attributable to common shareholders	$	(12,389,549)	$	(1,049,304)
Weighted average number of shares		49,242,082		15,426,020
Basic and diluted loss per share	$	(0.25)	$	(0.07)

The Company incurred net losses for the year ended December 31, 2021, and 2020, therefore all outstanding stock options and share purchase warrants, if any, have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

17. Contract Award

On October 20, 2021, the Company received a contract award for $500,000 from Transportation Security Administration's (TSA) as part of the TSA On-Person Screening Capability Program. The contract award is for the demonstration and evaluation of the Company's HEXWAVE technology and its expanded capabilities for screening Aviation Workers to enhance detection and throughput performance. In order for the Company to draw down the award, Liberty is required to have its HEXWAVE technology working at certain locations to collect and share data with TSA on identified threats to further develop algorithms to improve the recognition of threats with desire probability of detection. The Company is required to submit quarterly invoices as follows:

		Amounts
Year 2022		
Quarter 1 (invoice submitted on April 18, 2022)	$	72,741
Quarter 2		181,322
Quarter 3		20,287
Quarter 4		20,900
Year 2023		
Quarter 1		116,746
Quarter 2		85,450
Quarter 3		2,554
Total	**$**	**500,000**

17. Contract Award (continued)

On April 18, 2022, the Company submitted its first invoice and payment is expected to be received in the next 30 to 60 days. The contract award of $500,000 has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

18. Licensing Agreements

(a) DKL License Agreement

On October 11, 2018, the Company through its wholly owned subsidiary DrawDown Technologies, Inc ("DDT") entered into a license agreement ("the Licensing Agreement DKL") with DKL International, Inc ("DKL"), as amended on February 6, 2020, for the commercial development of DKL's passive detection techniques and products that detect smokeless gunpowder from a standoff distance (the "Detection Technology").

Pursuant to the last amendment to the Licensing Agreement DKL on February 6, 2020, DKL agreed to surrender back to DrawDown, 1,500,000 common shares in the capital of the Company with a fair value of $230,982 that were issued to DKL on April 2, 2019 as part of the consideration for the Licensing Agreement DKL. In addition to returning those shares, it was also agreed to cancel the cash portion of the consideration for an amount of $80,000 and the obligation to issue 500,000 common shares with an estimated value of $188,126 for a total of $268,126 recorded as a recovery in the statement of loss.

During the prior year ended December 31, 2020, DrawDown Detection agreed to pay a non-refundable license fee of $250,000 of which $18,500 was paid during the year 2020 and $175,000 paid in 2019. The remaining outstanding balance of $56,500 was recorded within accounts payable and accrued liabilities in the consolidated statement of financial position.

On March 23, 2021, DrawDown paid to DKL $70,000, which satisfied the payment of previously approved research and development costs of DKL for work performed until December 31, 2020.

On April 19, 2021, the Company gave notice of termination of the License Agreement DKL. Such notice of termination served as formal notice that the Licensing Agreement DKL was terminated in full effective six months following the date of this notice. Upon the effective date of the termination, the parties to the Licensing Agreement DKL will have no further rights and/or obligations pursuant thereto. In order to settle any and all outstanding amounts owed to DKL under the Licensing Agreement the Company paid $125,000 to DKL.

(b) Battelle Memorial License Agreement

On March 22, 2021, the Company, through its wholly owned subsidiary DrawDown Detection, Inc. has entered into an agreement ("Battelle License Agreement") with Battelle Memorial Institute ("Battelle"), which operates the Pacific Northwest National Laboratory, to license the millimeter wave-based, High-Definition Advanced Imaging Technology (HD-AIT) body scanner and shoe scanner technologies. The agreement, as amended from time to time, provides the Company with a three-year exclusive license for the certain patents which will convert to a non-exclusive license for the remaining life of the patents. The agreement also provides the Company with non-exclusive license for certain patents for life.

As consideration for the Battelle License Agreement, the Company paid $30,000 upon signing (paid) and $30,000 six months after (paid).

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

18. Licensing Agreements (continued)

(b) Battelle Memorial License Agreement (continued)

Under the Battelle License Agreement, the Company shall pay a five percent royalty on net sales and a twenty-five percent in all sublicensing revenues if permitted. The Company is also required to pay a minimum royalty amount as follows, unless the agreement is terminated:

		Amounts
Year 2021 (paid on March 25, 2022)	$	50,000
Year 2022		50,000
Year 2023		100,000
Year 2024 and each year thereafter		200,000

The Company is obligated to achieve certain milestones in the next twelve to thirty-six months and reimburse Battelle for ongoing patenting expenses, as well as past patenting expenses in the total amount of $50,000, which are payable as follows: 1) $25,000 due on or before February 28, 2022 (paid on March 25, 2022), and 2) $25,000 due on or before February 28, 2023. The outstanding balance of current royalties and patent expense reimbursements of $75,000 was recorded within accounts payable and accrued liabilities in the consolidated statement of financial position. The outstanding balance of long-term patent expense reimbursements of $25,000 has been accrued at year-end.

19. Related Party Transactions

The Company's related parties consist of the Company's directors, officers and companies associated with them including 1214852 B.C. LTD., a company where Omar Garcia, the Chief Financial Officer is a shareholder.

(a) Compensation of key management personnel:

Key management personnel include members of the Board, the Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, and Chief Operating Officer. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

		December 31, 2021		December 31, 2020
Short-term benefits	$	1,262,926	$	429,571
Share-based compensation		2,729,567		-
Consulting services (1)		475,687		126,752
	$	**4,468,180**	**$**	**556,323**

(1) Includes fees paid or payable to 1214852 B.C. LTD.

As of December 31, 2021, the Company had a balance payable of $235,040 to related parties (December 31, 2020 – $25,722). This payable balance includes accounts payable and accrued liabilities relating to consulting services from directors, officers or their related companies, included in compensation of key management personnel. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

During the year ended December 31, 2020, the Company received working capital loans (Note 8) of $276,069 (December 31, 2020 - $275,627) from directors and officers or their related parties. During the year ended December 31, 2021, all of these working capital loans were paid in full and the outstanding balance at December 31, 2021 is $nil, (December 31, 2020 - $275,627).

19. Related Party Transactions (continued)

(b) DKL International Inc

Howard Sidman a former member of the Board of Directors of DrawDown is also the founder and president of DKL. Included in accounts payable and accrued liabilities as of December 31, 2021 was $nil (December 31, 2020 - $56,500) payable to DKL (Note 7).

DrawDown also paid or accrued $nil for the year ended December 31, 2021 (December 31, 2020 - $49,829), to DKL in relation to research and development costs.

20. Financial Instruments

As of December 31, 2021, the Company's financial instruments comprise cash, amounts receivables, and accounts payable and accrued liabilities, none of which are valued at fair value. The fair values of amounts receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The carrying amount of the CEBA loan approximates fair value as it is discounted using a market rate of interest.

Fair value of financial instruments:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significant of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

· Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

· Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

· Level 3 – Inputs that are not based on observable market data.

The Company's activities expose it to financial risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk and currency risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash are held through large Canadian, international and foreign national financial institutions. The Company mitigates this risk by transacting only with reputable financial institutions. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk.

20. Financial Instruments (continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash balances, expected exercise of share purchase warrants, and stock options.

c) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Significant market risks to which the Company is exposed are as follows:

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is not significant.

Foreign currency risk

The Company is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency. The Company operates in foreign jurisdictions, which uses the U.S. dollar. The Company does not use derivative instruments to reduce upward, and downward risk associated with foreign currency fluctuations.

		Amounts US dollars
Financial assets denominated in foreign currencies	$	359,247
Financial liabilities denominated in foreign currencies		(524,191)
Net exposure	**$**	**(164,944)**

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company’s profit or loss by $16,494.

Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

21. Capital Risk Management

The Company manages common shares and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest-bearing chartered bank account. Cash consists of cash on held with banks.

The Company expects its current capital resources will be sufficient to carry its operations, and product development plans for the foreseeable future. The Company is not subject to externally imposed capital requirements.

There has been no change to the Company's approach to capital management during years ended December 31, 2021, and 2020.

22. Income Tax

The reconciliation of income tax provision computed at Canadian federal and provincial statutory tax rates to the reported income tax provision is:

		December 31, 2021		December 31, 2020
Loss for the year	$	12,389,549	$	1,049,304
Statutory tax rate		26.5%		27.0%
Expected income tax (recovery)		(3,283,000)		(283,000)
Change in statutory, foreign tax, foreign exchange rates and other		(30,000)		43,000
Permanent differences		1,454,000		21,000
Impact of reverse takeover		(4,785,000)		-
Share issue cost		(408,000)		(8,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non		(12,000)		-
Fair value obligation to issue shares		-		(51,000)
Change in unrecognized deductible temporary differences		7,064,000		278,000
Income tax recovery/expense	**$**	**-**	**$**	**-**

(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

22. Income Tax (continued)

The significant components of the Company's deferred tax assets and liabilities are as follows:

		December 31, 2021		December 31, 2020
Deferred tax assets (liabilities)				
Property and equipment		(33,000)		-
Non-capital losses		33,000		-
Unrecognized deferred tax assets	**$**	**-**	**$**	**-**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

		December 31, 2021	Expiry Date Range		December 31, 2020	Expiry Date Range
Temporary Differences						
Property and equipment	$	2,000	No expiry date	$	-	n/a
Share issue costs		1,417,000	2042 to 2046		98,000	2041 to 2044
Non-capital losses		25,989,000			3,215,000	
Canada		10,344,000	2030 to 2041		1,060,000	2038 to 2040
USA		15,645,000	No expiry date		2,155,000	No expiry date

23. Geographic information

The Company operates in one reportable operating segment, being the research and development of new technology for the security industry.

Geographic segmentation of assets and liabilities are as follows:

		Canada		United States		Total
Non-current assets						
Property & equipment	$	-	$	768,771	$	768,771
Intangible assets		-		4,135,452		4,135,452
Lease receivable		28,675		-		28,675
Balance, December 31, 2021	**$**	**28,675**	**$**	**4,904,223**	**$**	**4,932,898**
Non-current liabilities						
Lease liability		27,677		612,403		640,080
Battelle patent expense		-		25,000		25,000
Balance, December 31, 2021	**$**	**27,677**	**$**	**637,403**	**$**	**665,080**

As of December 31, 2020, the Company did not have any non-current assets or liabilities.

24. Subsequent Events

a) On January 9, 2022, a total of 314,516 share purchase warrants with an exercise price of CAD$4.96 expired without being exercised.

b) On January 14, 2022, 150,000 RSUs were granted to Aman Bhardwaj as part of his resignation agreement. The RSUs granted are not transferable or assignable except in accordance with the plan. The RSUs will vest on January 14, 2023.

c) On January 14, 2022, 100,000 stock options were granted with an exercise price of CAD$0.36.

d) On March 3, 2022, a total of 246,600 share purchase warrants were exercised at CAD$0.30 per share for total proceeds of CAD$73,980, of which 123,300 share purchase warrants were exercised in error and are in the process of being returned and canceled.

e) On March 17, 2022, the Company closed a brokered private placement for gross proceeds of CAD$8,624,994. The Company issued 26,136,345 units (each a “Unit”) of the Company at a price of CAD$0.33 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD$0.50 within a period of 24 months. The Company paid the agents 1,996,363 broker warrants and cash commission of CAD$658,800. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD$0.33. Additionally, the Company also incurred in other cash costs in connection to filling and legal expenses in the amount of CAD$123,500 and paid a corporate finance fee of $100,000 in common shares of the Company (303,030 common shares issued). All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.

f) In connection to the Mach 17, 2022, financing, an additional two milestones were reached related to the capital market performance shares and a total of 4,386,500 common shares will be from escrow.