Liberty Defense Holdings, Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

(Expressed in U.S. dollars)

Independent auditor's report

To the Shareholders of Liberty Defense Holdings, Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Liberty Defense Holdings, Ltd. and its subsidiary (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other information

Management is responsible for the other information. The other information comprises the 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 30, 2021

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

		December 31, 2020		December 31, 2019
Assets				
Current assets:				
Cash and cash equivalents	$	24,039	$	578,765
Receivables & prepaids (note 4)		35,100		119,161
		59,139		697,926
Non-current assets:				
Property & equipment (note 5)		264,136		430,743
Intangible asset (note 6)		119,305		120,884
		383,441		551,627
Total assets	**$**	**442,580**	**$**	**1,249,553**
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities (note 7)	$	420,320	$	730,191
Borrowings (note 8)		2,321,209		–
Lease liabilities (note 9)		154,243		136,686
		2,895,772		866,877
Non-current liabilities:				
Non-current lease liabilities (note 9)		82,546		235,010
CEBA Loan (note 8)		25,081		–
Total liabilities	$	3,003,399	$	1,101,887
Shareholders' equity (deficiency)				
Common shares (note 10)	$	10,342,881	$	10,342,881
Contributed surplus		4,230,538		4,267,832
Accumulated other comprehensive losses ("AOCL")		(182,709)		(64,322)
Deficit		(16,951,529)		(14,398,725)
Total shareholders' equity (deficiency)		(2,560,819)		147,666
Total liabilities and shareholders' equity (deficiency)	**$**	**442,580**	**$**	**1,249,553**

Nature of operations and going concern (note 1)
Subsequent events (note 17)

Approved by the Board of Directors on April 30, 2021, and signed on the Company's behalf by:

"William Frain" Director

"John McCoach" 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)

		Years ended December 31,		
		2020		2019
Expenses:				
Brand & Market Awareness				
Legal fees	$	1,229	$	7,090
Marketing		3,205		900,751
Other costs		–		10,206
Salaries & consulting fees		19,647		77,200
Stock-based compensation		(41,027)		255,439
Travel and miscellaneous		–		116,352
		(16,946)		1,367,038
Research and Development				
Depreciation		133,719		127,902
Amortization of intangible asset		7,851		–
Legal fees		87,641		64,611
Other costs		46,887		186,592
Salaries & consulting fees (note 8)		1,354,877		3,401,492
Stock-based compensation		(31,457)		347,126
Technology costs		213,667		1,129,669
Travel and miscellaneous		3,734		55,205
		1,816,919		5,312,597
General and Administrative				
Depreciation		32,888		24,856
Foreign exchange (gain) loss		(80,787)		17,320
Interest on Investment		–		(28,221)
Accretion of government loans		25,938		–
Benefit of government loan		(7,779)		–
Interest expense		162,048		–
Legal fees		120,068		179,425
Marketing and investor relations		6,098		932,800
Other costs		75,516		105,236
RTO transaction costs (note 3)		–		2,205,822
Salaries & consulting fees		383,578		853,659
Stock-based compensation		35,190		518,131
Travel and miscellaneous		73		98,457
		752,831		4,907,485
Total loss for the year	**$**	**2,552,804**	**$**	**11,587,120**
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment		118,387		(163,633)
Total loss and comprehensive loss for the year	**$**	**2,671,191**	**$**	**11,423,487**
Weighted average number of common shares outstanding				
Basic and diluted		66,549,721		63,053,000
Loss per share				
Basic and diluted loss per share	$	0.04	$	0.18

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

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

	Common shares		Contributed surplus	AOCL	Deficit	Total
	Number of shares	Amount				
Balance at December 31, 2018	**51,311,525**	**$ 4,277,990**	**$ 2,462,334**	**$ (227,955)**	**$ (2,778,392)**	**$ 3,733,977**
Lease accounting adjustment	–	–	–	–	(33,213)	(33,213)
Restated opening balance at January 1, 2019	51,311,525	4,277,990	2,462,334	(227,955)	(2,811,605)	3,700,764
Issue of advisor shares (note 10)	1,800,000	457,803	(457,803)	–	–	–
Issue of subscription receipts (note 10)	-	-	4,534,959	–	–	4,534,959
Conversion of subscription receipts (note 10)	8,826,630	3,391,553	(3,391,553)	–	–	–
GS RTO share issuance (note 3)	4,611,566	2,215,535	-	–	–	2,215,535
Stock based compensation (note 11)	–	–	1,119,895	–	–	1,119,895
Foreign currency translation adjustment	–	–	–	163,633	–	163,633
Loss for the year	–	–	–	–	(11,587,120)	(11,587,120)
Balance as at December 31, 2019	**66,549,721**	**10,342,881**	**4,267,832**	**(64,322)**	**(14,398,725)**	**147,666**
Share based compensation (note 11)	–	–	(37,294)	–	–	(37,294)
Foreign currency translation adjustment	–	–	–	(118,387)	–	(118,387)
Loss for the year	–	–	–	–	(2,552,804)	(2,552,804)
Balance as at December 31, 2020	**66,549,721**	**$ 10,342,881**	**$ 4,230,538**	**$ (182,709)**	**$ (16,951,529)**	**$ (2,560,819)**

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)

	Years ended December 31, 2020	2019
Cash (used in) provided by:		
Operating activities:		
Loss for the year	$ (2,552,804)	$ (11,587,120)
Items not involving cash:		
Depreciation (note 5)	166,607	152,758
Amortization of intangible asset (note 6)	7,851	–
Accrued interest (note 8)	145,079	–
Benefit of government grant (note 8)	(84,292)	–
Accretion of government loan (note 8)	25,938	–
Unrealized foreing exchange	(80,787)	–
Interest expense	24,687	–
RTO transaction costs (note 3)	–	2,229,734
Stock based compensation (note 11)	(37,294)	1,120,696
Changes in non-cash working capital:		
Amounts receivable and prepaids	82,518	157,245
Accounts payable and accrued liabilities	(313,364)	333,860
Cash used in operating activities	(2,615,861)	(7,592,827)
Cash flows from investing activities:		
Payments for property & equipment	–	(61,709)
Payments for intangible assets (note 6)	(6,272)	(5,741)
Cash used in investing activities	(6,272)	(67,450)
Cash flows from financing activities:		
Proceeds from borrowings (note 8)	2,262,567	–
Share issuance, net of share issuance costs (note 10)	–	4,558,006
Principal elements of lease repayment (note 9)	(137,232)	(113,276)
Interest elements of lease repayment (note 9)	(24,984)	(33,718)
Cash provided by financing activities	2,100,351	4,411,012
Effect of foreign exchange rate changes on cash	(32,944)	163,633
Decrease in cash	(554,726)	(3,085,632)
Cash, beginning of the year	578,765	3,664,397
Cash, end of the year	**$ 24,039**	**$ 578,765**

During the year ended December 31, 2020 and 2019, the Company paid $nil in income taxes and $nil in interest expense.

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

1 Nature of operations and going concern

Liberty Defense Holdings, Ltd. (the "Company" or "Liberty"), 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 undertook a reverse takeover ("GS RTO") transaction with Liberty Defense Holdings, Inc. ("LPC") on April 3, 2019 and subsequently renamed itself from Gulfstream Acquisition 1 Corp. ("Gulfstream"), to Liberty. The Company, through its wholly owned subsidiary Liberty Defense Technologies Inc. ("LDT"), is principally engaged in the commercialization of an active 3D imaging technology system, HEXWAVE, to detect concealed threats. The Company's corporate office is located at Suite 1030, 200 Granville St, Vancouver, British Columbia, Canada, V6C 1S4 and its registered and records office is located at 5300 Commerce Court West, 199 Bay Street, Toronto, ON M5L 1B9.

Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. For the year ended December 31, 2020, the Company reported a $2,552,804 loss and cash outflows from operating activities of $2,615,861.

As at December 31, 2020, the Company had a negative working capital of $2,836,633. On March 12, 2021, the Company closed a financing for gross proceeds of CAD$6,900,000 and on March 17, 2021, the Company completed an amalgamation that constituted a reverse take-over of the Company by Drawdown Detection Inc. ("DrawDown"). Notwithstanding, subsequent to year end financing and reverse take-over of the Company, 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.

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 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. These consolidated financial statements were approved for issuance by the Board of Directors on April 30, 2021.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, LDT. Subsidiaries are entities controlled by the Company. The Company controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken in account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases. All significant intercompany balances and transactions have been eliminated on consolidation.

2 Significant accounting policies (continued)

Basis of measurement
These consolidated financial statements have been prepared on the historical cost basis.

Estimates and use of judgement
In preparing these consolidated financial statements, the Company has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are made prospectively.

Critical accounting judgements
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 feasible and have future economic benefits, 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. The threshold for capitalizing has not yet been reached as of December 31, 2020.

Foreign currency translation
The functional currency of the parent company is the Canadian dollar (CAD$). The functional currency of the Company's United States subsidiary is the U.S. dollar ($). The presentation currency of these consolidated financial statements is the U.S. dollar.

The financial statements of the parent company are translated into U.S. dollars for presentation purposes as follows:

a) Assets and liabilities are translated at the closing rate at the date of that statement of financial position
b) Income and expenses and other comprehensive income are translated at exchange rates at the date of the transaction
c) All resulting exchange differences are recognized in other comprehensive income.

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.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and held at banks and short-term investments with an original maturity of 90 days or less, which are readily convertible into a known amount of cash and excludes any restricted cash that is not available for use by the Company.

Accounts receivable
Accounts receivable are recognized initially at the amount of consideration that is unconditional. The Company holds accounts receivable with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortized cost using the effective interest method.

Property and equipment
Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses. 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.

2 Significant accounting policies (continued)

Property and equipment are depreciated on a straight-line basis depending on the assets useful life. Computer equipment is depreciated over three years, lab equipment and miscellaneous tools are depreciated over five years, and leasehold improvements are depreciated over the term of the lease.

Intangible Assets
Intangible assets with finite lives consist of acquired and internally developed technology, capitalized development, and intellectual property. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization. Acquired intangibles are initially recognized at cost.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The amortization is calculated on a straight-line basis using 16 years as the estimated useful live of the patents.

Capitalization of development costs
Expenditures on research activities and non-capitalized patent-related costs are expensed in research and development expenses as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Judgment is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits.

Impairment
At each reporting date, the Company assesses its intangible assets to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the asset’s recoverable amount is calculated.

For impairment testing, intangible assets that do not generate independent cash flows are grouped together into a cash generating unit (“CGU”), which represents the lowest level at which largely independent cash flows are generated.

An impairment loss is recognized in net income to the extent that the carrying value of an asset or CGU exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use or its fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows discounted at appropriate discount rates.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Share capital
Common shares issued by the Company are recorded at the net proceeds received which is the fair value of the consideration received less costs incurred in connection with the issue.

Stock-based payments
The Company will apply the fair value method of accounting for stock options granted to employees and others providing similar services and has applied the fair value method of accounting to the stock based compensation to advisors. The fair value of options is determined using a Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The Company will expense the fair value of stock options granted over the vesting period with the corresponding credit to contributed surplus.

Cash consideration received from employees on exercise of options will be credited to common shares along with the original grant date fair value of the options exercised.

2 Significant accounting policies (continued)

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

(i) Classification
The Company determines the classification of financial instruments at initial recognition.

Financial assets - Debt
The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. A debt instrument is measured at amortized cost if the objective of the business model is to hold the debt instrument for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current or non-current assets based on their maturity date. If the business model is not to collect the contractual cash flows or the intention is to sell the asset, it is classified as FVTPL.

Equity
Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

Financial liabilities
Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure at FVTPL.

(ii) Measurement

Financial assets and liabilities at FVTPL
Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in the consolidated statement of loss and comprehensive loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in OCI.

Financial assets at FVTOCI
Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes from initial recognition recognized in OCI.

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, and subsequently carried at amortized cost less any impairment.

Impairment of financial assets

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the expected credit losses are reversed after the impairment was recognized.

2 Significant accounting policies (continued)

(iii) Derecognition

Derecognition of financial assets and liabilities

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains and losses on derecognition are recognized within finance income and finance costs, respectively. Gains or losses on financial assets classified as FVTOCI remain within accumulated OCI.

Derivative instruments
Derivative instruments, including embedded derivatives, are recorded at fair value through profit or loss and accordingly recorded on the consolidated statement of financial position date at fair value. Fair values for derivative instruments are determined using valuation techniques, using assumptions based on market conditions existing at the statement of financial position date.

Loss per share
Loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method whereby all in the money options and warrants are assumed to have been exercised at the beginning of the year and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period. In periods of loss, basic and diluted loss per share are the same, as the effect of the exercise of outstanding options and warrants is anti-dilutive.

Income taxes
The income tax expense for the period is comprised of current and deferred tax and is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity.

Current income tax
Current tax for each of our taxable entities is based on the local taxable profit for the period at the local statutory tax rates enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred tax
Deferred tax is recognized, using the liability method, on temporary differences between the carrying value of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is determined using tax rates and tax laws that are enacted or substantively enacted at the date of the consolidated statement of financial position and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities are not recognized if the temporary difference arises on the initial recognition of assets and liabilities in a transaction other than a business combination, that at the time of the transaction, affects neither the taxable nor the accounting profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available to be utilized against those deductible temporary differences. Deferred tax assets are reviewed at each reporting date and amended to the extent that it is no longer probable that the related tax benefit will be realized. The change in the net deferred income tax asset or liability is included in income except for deferred income tax relating to equity items which is recognized directly in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when they relate to income taxes levied by the same taxation authority and we intend to settle our current tax assets and liabilities on a net basis.

2 Significant accounting policies (continued)

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. 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.

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:
(i) fixed payments, including in-substance fixed payments;
(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
(iii) amounts expected to be payable under a residual value guarantee; and
(iv) 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.

2 Significant accounting policies (continued)

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 Operations and Comprehensive Income (Loss) if the carrying amount of the right-of-use asset has been reduced to zero.

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.

Application of new and revised accounting standards
Accounting standards adopted during the year

There were no new standards effective January 1, 2020 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, have been issued but are not yet effective as of December 31, 2020.

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

On May 14, 2020, the IASB amended IAS 16 "Property, Plant and Equipment" 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 Company does not expect the amendments to IAS 16 to have a significant impact on its accounting policies.

3 Reverse takeover of Gulfstream

In April 2019, with the completion of the GS RTO with LPC (note 1), all the issued and outstanding securities of LPC were acquired in exchange for equity in the Company. For accounting purposes, LPC has been treated as the accounting parent company (legal subsidiary) and Gulfstream has been treated as the accounting subsidiary (legal parent) in these financial statements. The acquisition by LPC of Gulfstream is considered to be an asset acquisition. Accordingly, the GS RTO transaction is treated as a share based payment transaction under IFRS 2. The GS RTO transaction constituted a "Qualifying Transaction" under the policies of the TSX Venture Exchange. The GS RTO transaction included a share consolidation of 2.5:1 which reduced the issued shares to 3,444,403 and the issuance of 1,167,163 common shares as a finders fee.

In conjunction with the GS RTO, a brokered private placement of subscription receipts (the "Subscription Receipts") raised gross proceeds of CA$7 million at an issue price of CA$0.80 per Subscription Receipt (the "QT Financing"). The Subscription Receipts closed on March 7, 2019 and on April 3, 2019 were converted into 8,826,630 units of Liberty. Each Liberty unit is comprised of one common share and one common share purchase warrant.

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

3 Reverse takeover of Gulfstream (continued)

$	2019
Purchase price:	
Fair value of shares retained by Gulfstream shareholders	1,654,795
Transaction costs	191,317
Finders fee	560,740
Total purchase price	2,406,852
Net assets acquired:	
Current assets	215,668
Current liabilities	(14,638)
Net Identifiable assets	201,030
Reverse acquisition costs	2,205,822

4 Receivables & prepaids

As of December 31, 2020, the Company had $4,955 (2019: $70,591) in receivables and $30,145 (2019: $48,570) in prepaids.

5 Property & equipment

$	Leasehold Improvements	Equipment	Right of Use Asset	Total
Cost				
At December 31, 2018	12,058	61,095	-	73,153
Opening adjustments	-	-	344,353	344,353
Additions (1)	11,820	39,329	152,091	203,240
Disposals	-	(3,557)	-	(3,557)
At December 31, 2019	23,878	96,867	496,444	617,189
Additions	-	-	-	-
Disposals	-	(5,228)	-	(5,228)
Exchange differences	-	(369)	3,058	2,689
At December 31, 2020	23,878	91,270	499,502	614,650
Accumulated Depreciation				
At December 31, 2018	1,764	6,838	-	8,602
Opening adjustments	-	-	25,197	25,197
Depreciation for the year	6,466	23,605	123,225	153,296
Disposals	-	(649)	-	(649)
At December 31, 2019	8,230	29,794	148,422	186,446
Depreciation for the period	7,640	27,005	131,962	166,607
Disposals	-	(2,144)	-	(2,144)
Exchange differences	-	(191)	(204)	(395)
At December 31, 2020	15,870	54,464	280,180	350,514
Net Book Value				
At December 31, 2018	10,294	54,257	-	64,551
At December 31, 2019	15,648	67,073	348,022	430,743
At December 31, 2020	**8,008**	**36,806**	**219,322**	**264,136**

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

6 Intangible asset

In September 2018, Liberty entered into an Exclusive Patent Licence Agreement ("Patent Agreement") with the Massachusetts Institute of Technology ("MIT") for active imaging technology, the core technology behind the Company's HEXWAVE product. The Patent Agreement required an initial license issue fee of $30,000 to be paid upfront. Under the Patent Agreement, the Company reimbursed global patent filing costs totalling $6,272 in 2020 (2019: $5,741).

$	2020	2019
Opening balance of intangible asset	120,884	115,143
Additions - patent filing costs	6,272	5,741
Amortization	(7,851)	-
Ending balance of intangible asset	**119,305**	**120,884**

7 Accounts payable and accrued liabilities

As of December 31, 2020, the Company had $320,585 (2019: $356,372) in accounts payables and $99,735 (2019: $373,819) in accruals.

8 Borrowings

(i) DrawDown

The Company entered into the Agreement with DrawDown on April 2nd, 2020 ("DrawDown Loan"). The Agreement provides for a maximum loan of $2 million bearing 12% interest per annum and upon completion of the merger to provide a minimum of 12 months funding. As of December 31, 2020, the Company has received $1.8 million in total funding from DrawDown and is payable within a 6-month period should the proposed agreement (note 13) be terminated. As at December 31, 2020, the Company has accrued $142,397 in interest on the loan. The loan issued by DrawDown is secured by all shares held by the Company including all of its subsidiaries and provides for an unlimited guarantee from the Company and its subsidiaries in favor of DrawDown. The significant covenants per the loan agreement include not substantially changing the nature of the Company's operations and to not have greater than $300,000 in outstanding financial liabilities with the exception of the DrawDown Loan and transactions fees with Laurentian Bank Securities Inc. As at December 31, 2020 Liberty has exceeded $300,000 in outstanding financial liabilities however has received written confirmation from DrawDown's management stating "that it is not the intention of DrawDown to terminate or exercise any of its rights under the loan agreement and/or the amalgamation agreement due to covenants being breached in connection to the amount of the liabilities recorded as at December 31, 2020". Subsequently, on March 17, 2021, the Company and DrawDown completed the business combination (note 17).

(ii) PPP loan

The Company, through its wholly owned subsidiary LDT, filed for a Paycheck Protection Program Loan ("PPP Loan") under the Coronavirus Aid, Relief, and Economic Security Act and received $406,170 on May 4, 2020. The PPP Loan has a 1% fixed interest rate per annum and a deferment period of 6 months. The entire loan can be forgiven through the loan forgiveness process if the Company uses at least 60% of loan proceeds for eligible payroll costs and at least 40% eligible non-payroll costs. The Company plans to utilize all funds received on required eligible payroll and eligible non payroll costs and therefore expects to receive forgiveness for the principal and interest amount, however there is no assurance the application for full forgiveness will be approved. The Company recorded as an accrued interest liability an amount of $2,682 as at December 31, 2020 (note 17).

The Company also recorded an initial benefit of a below market government loan received against salaries and consulting fees under research and development expenses in the amount of $76,513. This amount was calculated as the net present value of the two-year loan with a discounted rate of 12%. The Company also recognized an accretion expenses of $24,175 in connection to this loan at December 31, 2020.

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

8 Borrowings (continued)

(iii) Canada Emergency Business Account ("CEBA") loan

The Company received CAD$40,000 Canada Emergency Business Account Loan ("CEBA Loan") on May 5, 2020, which carries a 0% interest rate per annum, however, increases to 5% per annum if the loan is not repaid in full on or before December 31, 2022 ("Term Period"). In this case the loan 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 Company recorded an initial benefit of a below market government loan received against general expenses in the amount of $7,779. This amount was calculated as the net present value of the 2.7 year loan with a discount rate of 12%. The Company also recognized an accretion expenses of $1,763 in connection to this loan at December 31, 2020.

9 Leases

The continuity of lease liabilities for the years ended December 31, 2020 and 2019 are as follows:

$	2020	2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	165,158	160,863
One to five years	82,788	248,961
Total undiscounted lease liabilities at December 31,	247,946	409,824
Lease liabilities included in the statement of financial position at December 31,	236,790	371,696
Current	154,243	136,686
Non-current	82,546	235,010
Amounts recognized in profit or loss		
Interest on lease liabilities	24,687	33,718

10 Common shares

Authorized

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

Issued

The issued and outstanding common shares as at December 31, 2020, was 66,549,721.

During the year ended December 31, 2020, the Company did not issue common shares.

Prior to December 31, 2018, agreements with a number of advisors required the issuance of shares and/or warrants for services to be performed. On January 31, 2019, 1,800,000 common shares with a fair value of $457,803 (750,000 which have been valued on the same basis as the CAD$0.05 Unit offering as well as 1,050,000 valued based on the CAD$0.80 Unit offering exercisable at CAD$0.80) were issued. 8,826,630 subscription receipts were issued upon completion of the GS RTO.

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

10 Common shares (continued)

On April 3, 2019, these subscription receipts converted into units of Liberty and were split between common shares ($4,240,578) and contributed surplus ($1,022,330). In conjunctions with the GS RTO a share consolidation of 2.5:1 occurred (note 3) reducing the issued and outstanding shares to 3,444,403 with a fair value of $1,654,795. A finder's fee consisting of 1,167,163 shares was also issued with a fair value $560,740.

11 Share stock options and warrants

Options

During the year ended December 31, 2020, the Company did not grant any stock options.

In 2019, Liberty issued 5,200,000 options with an exercise price of CAD$0.80 to various employees, consultants, and directors. A total of 1,334,335 options were forfeited during the year as a result of unvested options from terminations. Furthermore, an additional 1,973,999 options expired due to vested options that were not exercised.

	2020	
	Number of options	**Weighted average exercise price CAD$**
Outstanding – January 1	4,738,334	0.80
Forfeited	(1,334,335)	0.80
Expired	(1,973,999)	0.80
Outstanding & exercisable – December 31	**1,430,000**	**0.80**

The exercise price for all outstanding options is CAD$0.80 and there were 1,289,998 stock options exercisable as at December 31, 2020 which expire between April 9 and July 2, 2024. The weighted average remaining contractual life of outstanding stock options at December 31, 2020 was 3.29 years.

The options issued in 2019 were priced based on the Black-Scholes option pricing model using the following assumptions to estimate the fair value of warrants granted and can be summarized as follows:

Options	**2019**
Risk-free interest rate	1.35% to 1.62%
Expected life	2.5 to 3.70 years
Expected volatility	71 to 79%
Expected dividend	0%
Forfeiture rate	0%

Warrants

The Company has issued warrants for both common shares and units (comprising one common share and one further common share warrant). As of December 31, 2020, the Company had 10,766,630 common share warrants and 503,935 unit warrants for a total of 11,784,500 dilutive warrant securities.

As of December 31, 2020, the Company had the following warrants for common shares outstanding:

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

11 Share stock options and warrants (continued)

Warrants – common shares	2020		2019	
	Number of warrants	Weighted average exercise price CAD$	Number of warrants	Weighted average exercise price CAD$
Outstanding – January 1	19,733,055	1.07	8,956,425	1.10
Issued – Broker and advisors	-	-	1,950,000	0.80
Issued – Financing	-	-	8,826,630	1.10
Expired	(8,956,425)	1.10	-	-
Outstanding & exercisable – December 31	**10,776,630**	**1.05**	**19,733,055**	**1.07**

During the year ended December 31, 2020, the Company did not issue warrants.

As of December 31, 2020, the Company had the following warrants for units outstanding:

Warrants - units	2020		2019	
	Number of warrants	Weighted average exercise price CAD$	Number of warrants	Weighted average exercise price CAD$
Outstanding – January 1	796,022	0.80	292,087	0.80
Issued	-	-	503,935	0.80
Expired	(292,087)	0.80	-	-
Outstanding & exercisable – December 31	**503,935**	**0.80**	**796,022**	**0.80**

During the year ended December 31, 2020, the Company did not issue warrants for units.

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

The warrants issued in 2019 were priced based on the Black-Scholes option pricing model using the following assumptions to estimate the fair value of warrants granted and can be summarized as follows:

Warrants	2019
Risk-free interest rate	1.55% to 2.24%
Expected life	1 to 1.75 years
Expected volatility	79 to 110%
Expected dividend	0%

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

12 Income taxes

	2020		2019	
	$	%	$	%
Loss before tax	2,552,804	100.0	11,587,120	100.0
Income tax recovery at statutory rates	689,257	27.0	3,128,522	27.0
Difference in foreign tax rates	(4,959)	(0.2)	(13,608)	(0.1)
Non-deductible expenses	(29,135)	(1.1)	(443,204)	(3.8)
Deductible - share issuance costs	103,189	4.0	103,189	0.9
Unrecognized tax losses	(758,352)	(29.7)	(2,774,899)	(24.0)
Income tax recovery/expense	**-**	**-**	**-**	**-**

The significant components of the Company's unrecognized deferred income tax asset are as follows:

$	2020	2019
Operating losses carried forward since inception	4,032,001	3,480,578
Share issuance costs	273,784	376,973
Unrecognized deferred tax assets	**4,305,785**	**3,857,551**

The Company has incurred non-capital losses that may be carried forward and used to reduce taxable income of future years in the countries indicated. The Company has tax losses of $6.6 million and $8.7 million, in Canada and US respectively that expire between 2032 and 2040 in Canada and indefinitely in the US.

13 Related party transactions

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

$	2020	2019
Short-term employee benefits	484,516	930,370
Share-based payments	109,297	644,981
Total key management costs	**593,813**	**1,575,351**

14 Geographic information

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

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

14 Geographic information (continued)

Geographic segmentation of non-current assets are as follows:

$	Canada	United States	Total
As at December 31, 2020			
Non-current assets			
Property & equipment	103,342	160,794	264,136
Intangible assets	-	119,305	119,305

$	Canada	United States	Total
As at December 31, 2019			
Non-current assets			
Property & equipment	136,230	294,513	430,743
Intangible assets	-	120,884	120,884

15 Financial instruments and risk management

As at December 31, 2020, the Company's financial instruments comprise of cash and cash equivalents, receivables & prepaids, accounts payable and accrued liabilities and borrowings. The fair values of receivables, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The deemed fair value of borrowings in accordance with IFRS 13 approximates their carrying value. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Inputs that are not based on observable market data (unobservable inputs).

Risks to the Company's financial instruments and their potential impact on the Company's financial instruments are summarized below:

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 tries to ensure that sufficient funds are available from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of share stock options and warrants. For further information related to liquidity and going concern please refer to note 1.

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 credit risk is primarily attributable to its cash and cash equivalents and receivables. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions. Any credit risk associated with receivables is considered to be negligible. The Company believes it is not exposed to significant credit risk.

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

15 Financial instruments and risk management (continued)

Foreign currency risk
The Company is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency. Additionally, the Company's subsidiary operates in the United States. The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations and a one per cent increase-strengthening (decrease-weakening) in the U.S. dollar at period end against the Canadian dollar would have resulted in an increase (decrease) in the net loss of $19,171.

16 Commitments

As mentioned in note 6, the Company has commitments relating to the Patent Agreement with MIT. In 2020, the Company paid $50,000 in license maintenance fees and has agreed to the following license maintenance fees thereafter:

$	2021	2022	2023	Annually Thereafter
License maintenance fees	100,000	200,000	350,000	350,000

These license maintenance fees are period costs associated with maintaining the intellectual property acquired from MIT and are therefore expensed during each period. The Patent Agreement also requires payment of a 5.7% net sales royalty on the active imaging technology that will be included in the Company's HEXWAVE product. Under the agreement, the Company can offset any of the maintenance fees it has paid against future royalty payments.

17 Subsequent events

(i) Liberty reverse take-over

a. On January 27, 2020, the Company and DrawDown entered in a letter of intent ("LOI") to acquire a 100% interest in DrawDown via a transaction that would constitute a reverse take-over of Liberty. Subsequently, on April 2, 2020 both entities entered into a binding amalgamation agreement which superseded and replaced the LOI (the "Definitive Agreement") pursuant to which Liberty acquired all of the issued and outstanding securities of DrawDown (the "Transaction") on a post-DrawDown Consolidation basis (as defined below) in exchange for common shares of Liberty on a one to one basis post-Liberty Consolidation (as defined below). In addition, each outstanding option and/or purchase warrant to acquire DrawDown's common shares became exercisable for one common share of Liberty in the same post-consolidation basis.

   Liberty completed a consolidation of all its issued and outstanding common shares on a 6.2 old for one new basis (the "Liberty Consolidation"). Furthermore, DrawDown also completed a share consolidation of two old for one new basis (the "DrawDown Consolidation") in connection to the completion of the Transaction. As a result of the share exchange described, the former shareholders of DrawDown acquired control of Liberty. Accordingly, the acquisition constitutes a capital restructuring of Liberty and is accounted with the net assets of Liberty recorded at fair value at the date of acquisition.

   On March 17, 2021, the Company and DrawDown completed the Transaction as all material conditions of the Transaction were satisfied.

b. On September 30, 2020, Liberty and DrawDown entered into an engagement letter with Canaccord Genuity Corp. (the "Agent"), who has agreed to act as Agent for and on behalf of Liberty to compete a financing on a commercially reasonable "best efforts" agency basis, in connection with an offering of subscription receipts of the Company (each, a "Subscription Receipt") to raise gross proceeds of up to CAD$6,000,000 (the "Offering"). The Offering was conducted as a closing condition of the Transaction.

17 Subsequent events (continued)

(ii) Liberty reverse take-over (continued)

On March 12, 2021, the Company closed the financing with a total of 17,250,000 Subscription Receipts for one Unit (the "Unit") at a price of $0.30 (CAD$0.40) per Unit. Each Unit is comprised of one common share and one-half of one purchase warrant. Each whole purchase warrant entitles the holder thereof to purchase one share at $0.45 (CAD$0.60) per share for a period of two years. Gross proceeds of the financing were CAD$6,900,000, which includes the exercise of the Agent's over-allotment option in full representing 2,250,000 Subscription Receipts.

(iii) Notice of paycheck protection program forgiveness

Early in 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 March 17, 2021, the Company obtained confirmation from the PPP Loan subscriber, Bank of America, that its PPP Loan is now considered paid in full, including applicable interest.

(iv) Compensation awards

On April 7, 2021, pursuant to the Company's omnibus long-term incentive plan, the Company granted a total of 2,195,000 stock options and 1,000,000 restricted share units ("RSU") to directors, officers, employees, and consultants of the Company. an exercise price of CAD$0.50 per share. Stock options vest at 25% after six months from the grant date, and 25% every six months thereafter, expiring on April 7, 2026. 750,000 RSUs vest at 100% after 36 months from the date of grant, expiring on April 7, 2026. 250,000 RSUs vest at 100% after 24 months from the date of grant, expiring on April 7, 2026. All stock options and RSUs are subject to the terms of the Company's omnibus long-term incentive plan and applicable securities law hold periods.

(v) DKL license agreement

On April 19, 2021, the Company gave notice of termination of the license agreement between DKL International, Inc. ("DKL"), and DrawDown Technologies Inc. ("DDT"), a wholly owned subsidiary of the Company since completion of the Transaction March 17, 2021. On October 11, 2018, DDT entered into a license agreement ("Licensing Agreement") with 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. Such notice of termination served as formal notice that the Licensing Agreement 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 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 offered to pay up to $77,025 subject to DKL's delivery of valid invoices and/or receipts for such amounts to the Company and the Company's written approval of such invoices and/or receipts.

On April 28, 2020, the Company received confirmation from DKL that an amount of $631,570 was owing from the Company to DKL as at December 31, 2020, however management believes this claim is without merit and is in the process of disputing this amount. As at December 31, 2020, the Company has accrued $56,500.