



Liberty
Defense
Holdings

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

UNAUDITED

(Expressed in U.S. dollars)

LIBERTY DEFENSE HOLDINGS, LTD.

Interim Condensed Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of Liberty Defense Holdings, Ltd., (the "Company") have been prepared by and are the responsibility of Company's management and approved by the Company's Audit Committee and Board of Directors.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by CPA Canada for a review of interim financial statements by the entity's auditor.

May 31, 2021

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

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash	\$ 2,708,690	\$ 57,047
Amounts receivable, prepaids and deposits (note 4)	82,681	50,907
Pre-existing loan receivable from Liberty (note 3 and 9)	–	1,963,179
	2,791,371	2,071,133
Non-current assets:		
Property & equipment (note 5)	222,646	–
Intangible assets (note 6 and 3)	8,883,137	–
	9,105,783	–
Total assets	\$ 11,897,154	\$ 2,071,133
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 345,710	\$ 449,230
Working capital loans (note 7)	–	550,525
Paycheck protection program loan (note 8)	–	67,588
Convertible debentures (note 10)	–	1,531,309
Lease liabilities (note 11)	147,847	–
	493,557	2,598,652
Non-current liabilities:		
Non-current lease liabilities (note 11)	53,016	–
CEBA loan (note 12)	26,099	–
Deferred income tax liability (note 3)	2,365,610	–
Total liabilities	\$ 2,938,282	\$ 2,598,652
Shareholders' equity (deficiency)		
Share capital (note 13)	\$ 13,341,966	\$ 2,866,502
Equity reserves (note 14)	113,644	108,276
Accumulated other comprehensive income ("AOCI")	34,822	59,746
Deficit	(4,531,560)	(3,562,043)
Total shareholders' equity (deficiency)	8,958,872	(527,519)
Total liabilities and shareholders' equity (deficiency)	\$ 11,897,154	\$ 2,071,133

Nature of operations and going concern (note 1)
Subsequent events (note 19)

Approved by the Board of Directors on May 31, 2021, and signed on the Company's behalf by:

"William Frain"
Director

"Daryl Rebeck"
Director

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

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in U.S. dollars)

	Three months ended March 31,	
	2021	2020
Research and development:		
Consideration recovery for the DKL licensing agreement	\$ —	\$ (268,126)
Product development	180,279	—
Technology costs	—	15,345
Legal fees	17,550	—
Salaries & Consulting Fees (note 8)	(328,998)	—
Stock-based Compensation (note 14)	790	—
Office, rent and administration	1,871	—
Depreciation	11,143	—
Amortization (note 6 (a))	2,062	—
General Expenses:		
Consulting fees, salaries and benefits (note 8 and 16)	69,687	173,828
Depreciation	3,958	—
Legal and professional fees	83,001	84,692
Stock based compensation (note 14)	4,578	54,125
Office, rent and administration	13,922	3,254
Regulatory and shareholder information	12,419	—
Travel, promotion and investor relations	43,120	25,094
RTO transaction costs (note 3)	807,615	—
	922,997	88,212
Other expense (income):		
Interest income	(54,375)	(3,036)
interest expense	38,967	—
Accretion expense	39,292	—
Foreign exchange loss	22,636	(186,561)
	46,520	(189,597)
Total (loss) income for the period	\$ (969,517)	\$ 101,385
Other comprehensive (loss) income		
Items that may be reclassified subsequently to profit or (loss)		
Foreign currency translation adjustment	(24,924)	(194,190)
Total loss and comprehensive loss for the period	\$ (994,441)	\$ (92,805)
Weighted average number of common shares outstanding		
Basic and diluted	19,315,712	19,953,226
Loss per share		
Basic and diluted loss per share (note 15)	\$ (0.05)	\$ 0.01

The accompanying notes form an integral part of these interim condensed 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 13)	(1,500,000)	(230,982)	-	-	-	230,982	-
Obligation to issue shares	-	-	(188,126)	-	-	-	(188,126)
Fair value of finder's warrants	-	-	-	20,516	-	-	20,516
Stock based compensation (note 14)	-	-	-	54,125	-	-	54,125
Foreign currency translation adjustment	-	-	-	-	(194,190)	-	(194,190)
Loss for the period	-	-	-	-	-	101,385	101,385
Balance as at March 31, 2020	19,343,336	\$ 2,875,013	\$ -	\$ 74,641	\$ (146,536)	\$ (2,419,865)	\$ 383,253
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	10,733,792	3,444,458	-	-	-	-	3,444,458
Convertible deventures converted into commonn shares (note 10)	5,825,468	1,495,507	-	-	-	-	1,495,507
Issue of subscription receipts (note 13)	17,250,000	5,535,499	-	-	-	-	5,535,499
Stock based compensation (note 14)	-	-	-	5,368	-	-	5,368
Foreign currency translation adjustment	-	-	-	-	(24,924)	-	(24,924)
Loss for the period	-	-	-	-	-	(969,517)	(969,517)
Balance as at March 31, 2021	47,490,095	\$ 13,341,966	\$ -	\$ 113,644	\$ 34,822	\$ (4,531,560)	\$ 8,958,872

*Number of common share information has been updated retroactively to reflect the share consolidation, please refered to Note 3 and 13.

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

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

	Three months ended March 31,	
	2021	2020
Cash (used in) provided by:		
Operating activities:		
Loss and comprehensive loss for the period	\$ (969,517)	\$ 101,385
Items not involving cash:		
(Recovery of) consideration for DKL licensing agreement	–	(188,126)
Interest paid, net of accrued interest on convertible debentures (note 10)	(100,202)	–
Unrealized foreign exchange	22,636	–
Accrued interest income on loan receivable from Liberty (note 3 and 9)	(55,250)	–
Accretion expense (note 10)	39,292	–
Depreciation	15,101	–
Amortization (note 6 (a))	2,062	–
Government loans forgiven Note 8)	(424,102)	–
Stock based compensation (note 14)	5,368	54,125
Changes in non-cash working capital:		
Amounts receivable and prepaids	3,495	41,659
Accounts payable and accrued liabilities	(381,899)	(201,743)
Cash used in operating activities	(1,843,016)	(192,700)
Financing activities:		
Proceeds from issuance of common shares, net of share issue costs (note 13)	5,535,499	–
Overdraft acquired in RTO paid (note 3)	(107,557)	–
Cash advanced to Liberty as part of the loan (note 9)	(353,432)	(1,026,838)
Convertible debentures issued, net of transaction costs (note 10)	–	621,945
Working capital loans repayment (note 7)	(552,988)	–
Cash provided by (used in) financing activities	4,521,522	(404,893)
Effect of foreign exchange rate changes on cash	(26,863)	(156,423)
Increase (decrease) in cash	2,651,643	(754,016)
Cash, beginning of the period	57,047	967,947
Cash, end of the period	\$ 2,708,690	\$ 213,931

During the period ended March 31, 2021 and 2020, the Company paid \$nil in income taxes.

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

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 “DDD”) on March 17, 2021. 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.

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company incurred in a total loss during the three months ended March 31, 2021 of \$969,517. Furthermore, the Company has limited financial resources, no source of operating cash flows, and there is no assurance that enough funding (including adequate financing) will be available to conduct further research and development. These factors indicate the existence of a material uncertainty that casts significant doubt upon the Company’s ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

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.

The application of the going concern concept is dependent upon the Company’s ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These interim condensed consolidated financial statements do not give effect to any adjustments that might be required should the Company be unable to continue as a going concern.

Management plans to continue to pursue equity and/or debt financing to support operations. There can be no assurance that these financing efforts will be successful. Failure to maintain the support of creditors and obtain additional external financing will cause the Company to curtail operations and the Company’s ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time.

2. Basis of presentation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

2. Basis of presentation (continued)

(a) Statement of compliance (continued)

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 31, 2021.

(b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2020. However, this interim financial report provides selected significant disclosures that are required in the annual audited consolidated financial statements under IFRS.

These interim condensed consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the annual financial statements for the year ended December 31, 2020. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

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

(c) Basis of measurement

These interim condensed 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 interim condensed 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 interim condensed consolidated financial statements is the U.S. dollar ("USD"); therefore, references to \$ means USD and CAD\$ are to Canadian dollars.

(e) 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.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

2. Basis of presentation (continued)

(e) Critical accounting estimates and judgments (continued)

The accounting judgements and estimates which have the most significant effect on these condensed interim consolidated financial statements were the same as those applied to the audited consolidated financial statements as at the period ended December 31, 2020.

3. Reverse takeover of DrawDown

On March 17, 2021, Liberty and DrawDown completed a reverse acquisition transaction (“RTO”) 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. In addition, each outstanding option and/or purchase warrant to acquire DrawDown’s common shares will become exercisable for common shares of Liberty in the same post-consolidation basis.

As a result of this share exchange described above, the former shareholders of DrawDown acquired control of Liberty. Accordingly, the acquisition constitutes a reverse acquisition and 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 interim condensed consolidated financial statements at their historical carrying value.

The RTO was accounted for as a business combination and the acquisition method of accounting was used, whereby the purchase price is allocated to the identifiable assets and liabilities on the basis of fair value at the acquisition date. Provisional fair values have been allocated as at the reporting date and will be finalized as soon as the relevant information is available, within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

The consideration transferred in this reverse acquisition where DrawDown issued no consideration to Liberty but instead Liberty issued 19,506,303 common shares to the shareholders of DrawDown is determined by the fair value of the number of shares that DrawDown would have had to issue to give the shareholders of Liberty the same percentage of equity interest in the combined entity that results from the reverse acquisition. The consideration of the acquisition is therefore \$3,444,458 for the shares and \$2,379,110 for the settlement of a pre-existing liability between the two entities.

The total consideration of the acquisition has been allocated based on provisional management’s estimates of the relative fair value of assets acquired and liabilities assumed as follows:

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

3. Reverse takeover of DrawDown (continued)

	Amount
Assets acquired and liabilities assumed:	
Receivables & prepaids	\$ 34,998
Fixed assets	238,652
Intangible asset	8,885,199
Overdraft	(107,556)
Accounts payable and accrued liabilities	(660,511)
Lease obligation	(201,604)
Future income tax liability	(2,365,610)
Net assets acquired	\$ 5,823,568
Consideration:	
Fair value of shares retained by Liberty shareholders	3,444,458
Pre-existing liability settlement	2,379,110
Total consideration	\$ 5,823,568

4. Amounts receivables, prepaids and deposits

As of March 31, 2021, the Company had \$56,205 (December 31, 2020 – \$31,839) in amounts receivables and \$26,476 (December 31, 2020 – \$19,068) in prepaids and deposits.

5. Property & equipment

	Leasehold Improvements	Equipment	Right of Use Asset	Total
Cost				
At December 31, 2020	\$ -	\$ -	\$ -	\$ -
Additions RTO transaction (note 3)	6,735	32,410	199,508	238,652
Exchange differences	-	(33)	(1,387)	(1,420)
At March 31, 2021	\$ 6,735	\$ 32,377	\$ 198,121	\$ 237,232
Accumulated Depreciation				
At December 31, 2020	\$ -	\$ -	\$ -	\$ -
Depreciation for the period	637	3,885	10,579	15,101
Exchange differences	-	(138)	(377)	(515)
At March 31, 2021	\$ 637	\$ 3,747	\$ 10,202	\$ 14,586
Net Book Value				
At December 31, 2020	\$ -	\$ -	\$ -	\$ -
At March 31, 2021	\$ 6,098	\$ 28,630	\$ 187,918	\$ 222,646

6. Intangible assets

(a) MIT Patent Agreement

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 paid upfront along with the reimbursement of global patent filing costs as they become due.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

6. Intangible assets (continued)

(a) MIT Patent Agreement (continued)

	March 31, 2021	December 31, 2020
Opening balance of intangible asset	\$ -	\$ -
Additions RTO transaction (note 3)	8,885,199	-
Amortization	(2,062)	-
Ending balance of intangible asset	\$ 8,883,137	\$ -

(b) 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”) 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”).

On April 19, 2021, the Company gave notice of termination of the License Agreement. 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. The Company is in the process of negotiating a settlement which is expected to be completed before the end of the second quarter of 2021.

7. Working capital loans

The Company received working capital loans in the amount of \$550,525 during the year 2020. These loans were paid in full during the three months ended March 31, 2021. These loans were unsecured and non-interest bearing.

8. 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 salaries and benefits under general expenses.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

8. Paycheck protection program loan (continued)

Subsequent to the RTO transaction, the Company through its wholly owned subsidiary Liberty Defense Technology, Inc., submitted a similar application to request for forgiveness on the Company's PPP Loan, which was fully approved. 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, therefore the balance owing in the amount of \$364,069 was recorded as a recovery against R&D salaries and benefits.

9. Pre-existing loan receivable from Liberty

Before the completion of the RTO with DrawDown, the Company had a loan agreement with DDD which provided for a maximum financing of \$2.0 million with a minimum of 12 months funding bearing 12% interest per annum. As March 17, 2021 when RTO transaction was completed the outstanding balance was \$2,379,110 (December 31, 2020 \$1,963,179) which was considered a pre-existing receivable and effectively settled with no gain or loss recognized on the date the RTO transaction closed.

10. Convertible debentures

In connection with the RTO, the Company on March 5 and May 29, 2020, issued convertible debentures 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\$0.24 per DrawDown Unit. Each DrawDown Unit was comprised of one common share and one-half of one DrawDown warrant. 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.

The continuity of the outstanding balance for the convertible debentures is 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	38,592
Interest paid	(137,175)
Foreign exchange movement	25,808
Converted to common shares	(1,495,507)
Balance March 31, 2021	\$ -

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

11. Leases

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

	March 31, 2021	December 31, 2020
Maturity analysis - contractual undiscounted cash flows		
Less than one year	\$ 156,982	\$ -
One to five years	55,047	-
Total undiscounted lease liabilities	212,028	-
Lease liabilities included in the statement of financial position	268,206	-
Current	154,243	-
Non-current	113,963	-
Amounts recognized in profit or loss		
Interest on lease liabilities	\$ 1,373	\$ -

12. Canada Emergency Business Account (“CEBA”) loan

As a result of closing the RTO transaction, the Company acquired a CAD\$40,000 Canada Emergency Business Account Loan (“CEBA Loan”) which was received by Liberty on May 5, 2020 and 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 net present value of the CEBA loan as at March 31, 2021 is \$26,099 (December 31, 2020 – \$nil) and is recorded as a non-current liability.

13. Share Capital

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

- i) On March 17, 2021, the Company completed a share consolidation of two old common shares for one new basis in connection to the completion of the RTO transaction. All shares and per share data presented in the Company’s interim condensed consolidated financial statements have been retroactively adjusted to reflect the share consolidation unless otherwise noted.
- ii) 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 3) 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 under the same economic terms and conditions. A total of 5,825,468 common shares were issued with a fair value of \$1,495,507.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

13. Share Capital (continued)

iii) 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 “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.

(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 (3,000,000 pre-consolidation) common shares that were issued to DKL on April 2, 2019 as part of the consideration for the Licensing Agreement with a state value of \$230,982 (CAD\$300,000).
- ii) On April 12, 2020, a total of 5,662,500 (11,325,000 pre-consolidation) common shares were cancelled and return to treasury. These shares were issued in connection to a private placement closed on March 5, 2019, where the Company issued 5,662,500 (11,325,000 pre-consolidation) at CAD\$0.0005 (CAD\$0.001 pre-consolidation) for gross proceeds of \$8,511 (CAD\$11,325)

14. Equity reserves

(a) Share-based compensation

In May of 2019, the Company adopted a stock option plan (the “Plan”) which offers an incentive stock option plan that provides for the granting of options up to 8% of its issued and outstanding common shares to directors, officers, employees, and consultants. The exercise price of each option is equal to the quoted market price of the Company’s common shares on the trading day immediately preceding the date of grant. The exercise period is fixed by the Board’s committee at the time the option is granted and may not exceed 10 years from the date of the grant. Vesting terms, if any, are also set at the discretion of the Board’s committee.

On January 6, 2020, the Company agreed to grant incentive stock options to certain consultants and advisors of the Company to purchase up to an aggregate of 437,500 (875,000 pre-consolidation) common shares in the capital stock of the Company. The stock options have a five-year term from the date of the grant and are exercisable at a price of CAD\$0.50 (pre-consolidation CAD\$0.25) per share.

During the three months ended March 31, 2021 there were no share stock options granted.

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	230,645	4.96
Outstanding, March 31, 2021	668,145	CAD\$ 2.04

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

14. Equity reserves (continued)

(a) Share-based compensation (continued)

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

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
01-May-24	50,000	CAD\$ 0.50	3.09	87,500
15-Jun-24	37,500	CAD\$ 0.50	3.21	65,625
01-Jul-24	75,000	CAD\$ 0.50	3.25	112,500
08-Jul-24	75,000	CAD\$ 0.50	3.27	112,500
31-Jul-24	50,000	CAD\$ 0.50	3.34	75,000
23-Aug-24	37,500	CAD\$ 0.50	3.40	56,250
25-Sep-24	37,500	CAD\$ 0.50	3.49	46,875
29-Sep-24	75,000	CAD\$ 0.50	3.50	112,500
April 9 and July 2, 2024	230,645	CAD\$ 4.96	3.26	225,269
	668,145			668,750

(b) Share purchase warrants

As at March 31, 2021, the continuity of the number of share purchase warrants outstanding, adjusted for the share consolidation 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	1,738,166	4.96
Issued	12,635,862	0.56
Outstanding, March 31, 2021	14,582,314	CAD\$ 1.09

As at March 31, 2021, the continuity of the number of share purchase warrants units, adjusted for the share consolidation outstanding is as follows:

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2019 and 2020	-	-
RTO transaction	81,280	CAD\$ 4.96
Outstanding, March 31, 2021	81,280	CAD\$ 4.96

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

14. Equity reserves (continued)

(b) Share purchase warrants (continued)

The outstanding number of share purchase warrants and share purchase warrants units, adjusted for the share consolidation outstanding are as follows:

Expiry date	Outstanding		
	Number of warrants	Exercise price	Remaining contractual life (years)
05-Mar-22	123,300	CAD\$0.40	0.93
29-May-22	84,986	CAD\$0.40	1.16
09-Jan-22	314,516	CAD\$4.96	0.78
03-Apr-21	1,423,650	CAD\$4.96	0.01
11-Mar-23	1,098,125	CAD\$0.40	1.95
11-Mar-23	8,625,000	CAD\$0.60	1.95
17-Mar-24	2,912,737	CAD\$0.50	2.96
	14,582,314		
03-Apr-21	81,280	CAD\$4.96	0.01

15. 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 adjusted for the share consolidation outstanding during the period.

	March 31, 2021	March 31, 2020
Loss attributable to common shareholders	\$ (969,517)	\$ 101,385
Weighted average number of shares	19,315,712	19,953,226
Basic and diluted loss per share	\$ (0.05)	\$ 0.01

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

16. 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 Abrego, 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 Technology Officer and Chief Financial Officer. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

16. Related party transactions (continued)

(a) Compensation of key management personnel: (continued)

	March 31, 2021	March 31, 2020
Short-term benefits	\$ 106,930	\$ 127,555
Consulting services ⁽ⁱ⁾	71,056	31,617
	\$ 177,986	\$ 159,172

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

(b) Related party balances:

As at March 31, 2021, the Company had a payable balance of \$99,999 (December 31, 2020 – \$25,722). This payable balance includes accounts payable and accrued liabilities relating to professional fees from directors, officers or their related companies. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

Additionally, during the year ended December 31, 2020, the Company received working capital loan proceeds of \$275,627 from Directors and officers or their related parties. During the period ended March 31, 2021 all of these working capital loans were paid in full and the outstanding balance at March 31, 2021 is \$nil (December 31, 2020 – \$275,627). These loans were unsecured and non-interest bearing.

(c) DKL International Inc:

Howard Sidman a former member of the Board of Directors is also the founder and president of DKL. Included in accounts payable and accrued liabilities as at December 31, 2020 was \$56,500.

The Company also paid or accrued \$49,829 for the year ended December 31, 2020 to DKL in relation to research and development costs.

17. Financial instruments

As at March 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.

18. Segmented 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:

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

18. Segmented information (continued)

	Canada	United States	Total
Current assets	\$ 2,581,420	\$ 209,951	\$ 2,791,371
Non-current assets			
Property & equipment	95,282	127,364	222,646
Intangible assets	-	8,883,137	8,883,137
Total assets, March 31, 2021	\$ 2,676,702	\$ 9,220,452	\$ 11,897,154
Current liabilities	258,163	235,394	493,557
Non-current liabilities	79,115	2,365,610	2,444,725
Total liabilities, March 31, 2021	\$ 337,278	\$ 2,601,004	\$ 2,938,282
	Canada	United States	Total
Current assets	\$ 2,005,581	\$ 65,552	\$ 2,071,133
Total assets, December 31, 2020	\$ 2,005,581	\$ 65,552	\$ 2,071,133
Current liabilities	\$ 2,358,321	\$ 240,331	\$ 2,598,652
Total liabilities, December 31, 2020	\$ 2,358,321	\$ 240,331	\$ 2,598,652

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

19. Subsequent events

(a) 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.

(b) DKL license agreement

On April 19, 2021, the Company gave notice of termination to the Licensing Agreement with DKL. Such notice of termination served as formal notice that the Licensing Agreement was terminated in full effective six months following the date of the notice. Upon the effective date of the termination, the parties to the Licensing Agreement will have no further rights or obligations pursuant thereto. In order to settle any and all outstanding amounts owed to DKL under the Licensing Agreement DrawDown offered to pay up to \$77,025 subject to DKL's delivery of valid invoices and/or receipts for such amounts to DrawDown and DrawDown's written approval of such invoices and/or receipts. The Company is in the process of negotiating a settlement which is expected to be completed before the end of the second quarter of 2021.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2021

19. Subsequent events (continued)

(c) Expired share purchase warrants and share purchase warrants units

On April 3, 2021, a total of 1,423,650 share purchase warrants and 81,280 share purchase warrants units expired without being exercised.

(d) License agreement with Battelle Memorial Institute

On April 13, 2021, Liberty through its wholly owned subsidiary DrawDown Detection, Inc., licensed the millimeter wave-based, High-Definition Advanced Imaging Technology (HD-AIT) body scanner and shoe scanner technologies from Battelle Memorial Institute (“Battelle”), which operates the Pacific Northwest National Laboratory. HD-AIT will enhance security screening at airports today by providing a next-generation technology platform for threat detection. The license agreement provides the Company with three years exclusively licensed for certain patents which on expiration will turn into life of patent under nonexclusively basis. The Company also received the license for certain patents for life under nonexclusively basis at the inception of the agreement. As consideration for the license agreement the Company will pay \$30,000 on signing of the agreement (paid) and \$30,000 in six months.

Under the above license agreement, the Company shall pay a five percent royalty on net sales and twenty-five percent in all sublicensing revenues if permitted. The Company is required to pay a minimum royalty every year which run from \$50,000 in the first year to \$200,000 in year 2024 and thereafter. The Company is also obligated to achieve certain minimum diligent requirements in the next twelve to thirty-six months and reimburse Battelle for patenting expenses including past patenting expenses in the amount of \$50,000 on or before January 22, 2022.

All payments made under the license agreement with Battelle are non-refundable.

(e) Private placement

The Company entered into an agreement with Canaccord Genuity Corp. as lead agent (the “Lead Agent”), on behalf of a syndicate of agents (the “Agents”), in connection with a commercially reasonable best efforts brokered private placement of up to 12,400,000 units of the Company (collectively, the “Units”) at a price of CAD\$0.50 per Unit for aggregate gross proceeds of up to CAD\$6.2 million (the “Offering”).

Each Unit will consist of one common share of the Company (each, a “Common Share”) and one-half of one common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant will entitle the holder thereof to acquire, on payment of CAD\$0.75 to the Company, one common share of the Company (each, a “Warrant Share”), subject to adjustment in certain circumstances, for a period of 24 months from the closing date (the “Closing Date”).

The Offering will be conducted pursuant to the terms of an agency agreement to be entered into between the Company and the Agents on or prior to the Closing Date. The Company has agreed to pay the Agents a cash fee equal to 8.0% of the gross proceeds of the Offering (or 2% of the in the case of subscribers identified on the Company’s president’s list) and to issue that number of compensation warrants (each a “Compensation Warrant”) equal to 8.0% of the number of Units sold under the Offering (or 2% of the in the case of subscribers identified on the Company’s president’s list). Each Compensation Warrant will be exercisable to purchase one Common Share for a period of 24 months from the Closing Date at an exercise price of C\$0.50.

The Company has granted the Agents an option to increase the size of the Offering by up to 15%, exercisable in the discretion of the Agents, in whole or in part, at any time up to 48 hours prior to the Closing Date.

Liberty Defense Holdings, Ltd.

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For the three months ended March 31, 2021

19. Subsequent events (continued)

(e) Private placement (continued)

The net proceeds from the Offering are intended to fund development of the Company's latest technology that was recently licensed from the Pacific Northwest National Laboratory as well as further development of the Company's HEXWAVE technology. The securities issued pursuant to the Offering will be subject to a four-month hold period from the closing date. Completion of the Offering remains subject to the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange.