



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

Interim Condensed Consolidated Financial Statements

**Three and Six Months Ended June 30, 2020**

(unaudited, expressed in U.S. dollars)

# Liberty Defense Holdings, Ltd.

## Interim Condensed Consolidated Statement of Financial Position

(unaudited, expressed in U.S. dollars)

	June 30, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	412,703	578,765
Receivables & prepaids (note 3)	38,212	119,161
	<u>450,915</u>	<u>697,926</u>
<b>Property &amp; equipment (note 4)</b>	339,049	430,743
<b>Intangible asset</b>	126,149	120,884
<b>Total assets</b>	<u><b>916,113</b></u>	<u><b>1,249,553</b></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	314,589	730,191
Lease liabilities (note 6)	143,640	136,686
Borrowings (note 7)	1,704,148	-
	<u>2,162,377</u>	<u>866,877</u>
Non-current lease liabilities (note 6)	156,956	235,010
Borrowings (note 7)	29,352	
<b>Total liabilities</b>	<u><b>2,348,685</b></u>	<u><b>1,101,887</b></u>
<b>Shareholders' equity</b>		
Common shares (note 8)	10,342,881	10,342,881
Contributed surplus	4,258,422	4,267,832
Accumulated other comprehensive losses ("AOCL")	(76,030)	(64,322)
Deficit	(15,957,845)	(14,398,725)
<b>Total equity</b>	<u><b>(1,432,572)</b></u>	<u><b>147,666</b></u>
<b>Total liabilities and equity</b>	<u><b>916,113</b></u>	<u><b>1,249,553</b></u>

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

"William E Riker"

Director

"John McCoach"

Director

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

# Liberty Defense Holdings, Ltd.

## Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

(unaudited, expressed in U.S. dollars)

Expenses	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Brand &amp; Market Awareness</b>				
Legal fees	835	2,593	1,229	6,139
Marketing	528	351,366	3,164	499,709
Other costs	-	206	-	206
Salaries & consulting fees	11,923	21,495	19,646	44,889
Stock-based compensation	(18,146)	134,488	(19,789)	134,488
Travel and miscellaneous	-	34,419	-	78,719
	<b>(4,860)</b>	<b>544,567</b>	<b>4,250</b>	<b>764,150</b>
<b>Research and Development</b>				
Depreciation	33,430	31,821	66,860	61,925
Legal fees	25,652	29,058	43,113	33,471
Other costs	10,051	50,540	35,464	88,728
Salaries & consulting fees	370,809	851,771	770,836	1,411,426
Stock-based compensation	507	221,598	(20,140)	221,598
Technology costs	64,892	340,070	158,127	593,021
Travel and miscellaneous	496	14,211	2,950	30,565
	<b>505,837</b>	<b>1,539,069</b>	<b>1,057,210</b>	<b>2,440,734</b>
<b>General and Administrative</b>				
Depreciation	7,297	8,050	15,261	8,620
Foreign exchange loss	149	(1,621)	167	140
Interest on Investment	-	(15,433)	-	(15,433)
Legal fees	35,837	59,502	98,150	79,133
Marketing and investor relations	1,295	403,097	4,970	545,481
Other costs	44,033	33,173	79,267	64,343
RTO transaction costs	-	2,230,108	-	2,230,108
Salaries & consulting fees	156,567	164,732	268,524	464,492
Stock-based compensation	11,710	350,549	31,250	350,549
Travel and miscellaneous	-	31,806	71	43,791
	<b>256,888</b>	<b>3,263,963</b>	<b>497,660</b>	<b>3,771,224</b>
<b>Loss for the period</b>	<b>757,865</b>	<b>5,347,599</b>	<b>1,559,120</b>	<b>6,976,108</b>
<b>Other comprehensive (income) / expenditures</b>				
<b>Items that may be reclassified subsequently to loss for the period</b>				
Foreign currency translation adjustment	35,587	(238,647)	11,708	(179,864)
<b>Loss and comprehensive loss for the period</b>	<b>793,452</b>	<b>5,108,952</b>	<b>1,570,828</b>	<b>6,796,244</b>
<b>Basic and diluted loss per share (\$ per share)</b>	<b>0.01</b>	<b>0.08</b>	<b>0.02</b>	<b>0.12</b>
<b>Weighted average shares outstanding (000's)</b>	<b>66,550</b>	<b>66,107</b>	<b>66,550</b>	<b>59,497</b>

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

# Liberty Defense Holdings, Ltd.

## Interim Condensed Consolidated Statement of Shareholders' Equity

(unaudited, expressed in U.S. dollars)

	Common shares		Contributed surplus	AOCL	Deficit	Total
	Number of Shares	Amount				
<b>Balance at January 1, 2019</b>	51,311,525	4,277,990	2,462,334	(227,955)	(2,778,392)	3,733,977
Lease accounting adjustment	-	-	-	-	(33,213)	(33,213)
Issue of subscription receipts	-	-	4,539,921	-	-	4,539,921
Share issuance	13,438,196	5,612,050	(3,396,515)	-	-	2,215,535
Issue of advisor warrants	1,800,000	457,803	(457,803)	-	-	-
Share based compensation	-	-	703,392	-	-	703,392
Foreign currency translation adjustment	-	-	-	180,980	-	180,980
Loss for the period	-	-	-	-	(6,977,224)	(6,977,224)
<b>Balance at June 30, 2019</b>	66,549,721	10,347,843	3,851,329	(46,975)	(9,788,829)	4,363,368

	Common shares		Contributed surplus	AOCL	Deficit	Total
	Number of Shares	Amount				
<b>Balance at January 1, 2020</b>	66,549,721	10,342,881	4,267,832	(64,322)	(14,398,725)	147,666
Share based compensation	-	-	(9,410)	-	-	(9,410)
Foreign currency translation adjustment	-	-	-	(11,708)	-	(11,708)
Loss for the period	-	-	-	-	(1,559,120)	(1,559,120)
<b>Balance at June 30, 2020</b>	66,549,721	10,342,881	4,258,422	(76,030)	(15,957,845)	(1,432,572)

# Liberty Defense Holdings, Ltd.

## Interim Condensed Consolidated Statement of Cash Flows

(unaudited, expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Cash flows from operating activities</b>				
Loss for the period	(757,865)	(5,347,599)	(1,559,120)	(6,976,108)
Items not affecting cash				
Depreciation	41,213	39,871	82,877	70,545
Interest expense	30,485	9,210	46,776	17,173
RTO transaction costs	-	2,215,534	-	2,215,534
Stock based compensation	(6,565)	706,635	(9,410)	706,635
	<u>(692,732)</u>	<u>(2,376,349)</u>	<u>(1,438,877)</u>	<u>(3,966,221)</u>
Change in non-cash operating working capital				
Decrease / (increase) in receivables and prepaid expenses	(9,452)	(43,786)	80,949	(611,817)
(Decrease) / increase in accounts payable and accrued liabilities	(5,165)	(161,627)	(445,320)	212,361
	<u>(707,349)</u>	<u>(2,581,762)</u>	<u>(1,803,248)</u>	<u>(4,365,677)</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	724,886	-	1,752,771	-
Share issuance (net of share issuance)	-	4,811,088	-	4,536,679
Principal elements of lease repayment (note 6)	(33,562)	(27,638)	(66,289)	(50,675)
Interest elements of lease repayment (note 6)	(6,494)	(9,211)	(13,731)	(17,174)
	<u>684,830</u>	<u>4,774,239</u>	<u>1,672,751</u>	<u>4,468,830</u>
<b>Cash flows from investing activities</b>				
Payments for property & equipment	-	(35,648)	-	(50,757)
Payments for intangible assets	(316)	-	(5,265)	-
	<u>(316)</u>	<u>(35,648)</u>	<u>(5,265)</u>	<u>(50,757)</u>
<b>Exchange rate differences on cash and cash equivalents</b>	4,792	238,649	(30,300)	179,864
<b>(Decrease) / Increase in cash and cash equivalents</b>	(18,043)	2,395,478	(166,062)	232,260
<b>Cash and cash equivalents - beginning of period</b>	<u>430,746</u>	<u>1,501,179</u>	<u>578,765</u>	<u>3,664,397</u>
<b>Cash and cash equivalents - end of period</b>	<u>412,703</u>	<u>3,896,657</u>	<u>412,703</u>	<u>3,896,657</u>

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

# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

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(unaudited, expressed in U.S. dollars)

### 1 Nature of operations and going concern

Liberty Defense Holdings Ltd. (the “Company” or “Liberty”), is a public company (TSXV: SCAN, Frankfurt: L2D, OTC: LDDFF), that was incorporated under the Business Corporation Act of Ontario on June 8, 2012. The Company undertook a reverse takeover (“RTO”) transaction with Liberty Defense Holdings Inc. (“LPC”) on April 3, 2019 and subsequently renamed itself from Gulfstream Acquisition 1 Corp., to Liberty. The Company, through its wholly owned subsidiary Liberty Defense Technologies Inc. (“LDT”), is principally engaged in the commercialization of an active 3D imaging technology system, HEXWAVE, to detect 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 six-month period ended June 30, 2020, the Company reported a \$1,559,120 loss and cash outflows from operating activities of \$1,803,248.

As at June 30, 2020, the Company had a negative working capital of \$1,711,462. Current liabilities include \$1,297,978 relating to DrawDown Detection Inc. (“DrawDown”) borrowings and \$406,170 relating to the Paycheck Protection Program loan (“PPP loan”), (note 7). In order to fully commercialize HEXWAVE the Company will require additional funds to achieve its development timeline and bring HEXWAVE to market. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. The Company has multiple development milestones and committed license fees (note 12) 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 and pay the committed license fees. There can be no assurance that the Company will be successful in obtaining this additional financing. These conditions give rise to material uncertainties that may cast significant doubt on the validity of the going concern assumption.

To mitigate this challenge, the Company, on December 31, 2019, announced the implementation of a strategic review and subsequently the Company entered into an amalgamation agreement (the “Agreement”) with DrawDown on April 2, 2020, whereby it will acquire all the issued and outstanding securities of DrawDown (the “Transaction”). The Agreement provided for an initial loan of \$2 million (\$1.3 million advanced as of June 30, 2020) and the intention for Liberty to acquire 100% of Drawdown, which would constitute a reverse-takeover of Liberty. Alongside this reverse-takeover, a concurrent financing is planned such that sufficient cash is raised to provide working capital for a minimum of 12 months from the transaction date for the combined entities. The Company’s ability to continue as a going concern is dependent upon raising additional funding through financing such as the reverse-takeover / concurrent financing as described above or through other arrangements.

These consolidated interim financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

### 2 Basis of preparation

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

The accounting policies adopted are consistent with those of the previous financial year.

# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

### 3 Receivables & prepaids

As of June 30, 2020, the Company had \$2,638 (December 31, 2019: \$70,591) in receivables and \$35,574 (December 31, 2019: \$48,570) in prepaids.

### 4 Property & equipment

\$	Leasehold Improvements	Equipment	Right of Use Asset	Total
<b>Cost</b>				
At December 31, 2019	23,878	96,867	496,444	617,189
Additions	-	-	-	-
Disposals	-	(5,191)	-	(5,191)
Exchange differences	-	(650)	(7,142)	(7,792)
At June 30, 2020	23,878	91,026	483,302	604,206
<b>Accumulated Depreciation</b>				
At December 31, 2019	8,230	29,794	148,423	186,447
Depreciation for the period	3,820	13,654	64,650	82,125
Disposals	-	(2,144)	-	(2,144)
Exchange differences	-	(217)	(1,053)	(1,271)
At June 30, 2020	12,050	41,087	212,020	265,157
<b>Net Book Value</b>				
At December 31, 2019	15,648	67,073	348,022	430,743
At June 30, 2020	11,828	49,938	277,283	339,049

### 5 Accounts payable and accrued liabilities

As of June 30, 2020, the Company had \$91,022 (December 31, 2019: \$356,372) in accounts payables and \$223,567 (December 31, 2019: \$373,819) in accruals.

### 6 Leases

#### Lease liabilities

\$	2020
Maturity analysis - contractual undiscounted cash flows	
Less than one year	162,311
One to five years	164,777
Total undiscounted lease liabilities at June 30, 2020	327,088
Lease liabilities included in the statement of financial position at June 30, 2020	300,596
Current	143,640
Non-current	156,956
<b>Amounts recognized in profit or loss</b>	
Interest on lease liabilities	13,731

The Company incurred variable lease payments relating to its lease for the period ended June 30, 2020 amounting to \$10,224.

# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

### 7 Borrowings

#### I. DrawDown

The Company entered into the Agreement with DrawDown on April 2nd, 2020. 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 June 30, 2020 the Company has received \$1.3 million in total funding from DrawDown and is payable within a 6-month period should the proposed agreement (note 13) be terminated. As at June 30, 2020, the Company has accrued \$47,293 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 Loan and transactions fees with Laurentian Bank Securities Inc. As at June 30, 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 June 30, 2020."

#### 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 for which the Company has accrued a total of \$634 in interest as of June 30, 2020. 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 entire amount. As of June 30, 2020, the Company has not yet applied for loan forgiveness and therefore has recognized the entire amount of \$406,170 as part of current borrowings.

#### III. Canada Emergency Business Account ("CEBA") loan

The Company received CA\$40,000 Canada Emergency Business Account Loan ("CEBA Loan") on May 5, 2020 which currently carries a 0% interest rate per annum, however, increases to 5% per annum starting on January 1, 2023. The Company plans to utilize the funds received from both loans to help fund payroll, rent, and utilities under the appropriate guidelines in the loan agreements. The CEBA loan is an extendible revolving facility convertible to a reducing term facility on December 31, 2020 ("Conversion Date"). Any unutilized portion of the revolving facility will be cancelled on the Conversion Date and will be reduced to the aggregate amount borrowed. If the Company pays 75% of the aggregate amount advanced to the revolving facility on or before December 31, 2022 ("Term Period"), the remaining 25% of the amount advanced will be forgiven. If the loan is not repaid in full on or before the Term Period, it may be extended from January 1, 2023 to December 31, 2025 ("Extension Period").

### 8 Common shares

#### Authorized

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

#### Issued

The issued and outstanding share capital for the period ended June 30, 2020 was 66,549,721.



# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

### 9 Stock options and warrants

#### Options

	June 30, 2020	
	Number of options	Weighted average exercise price CA\$
Outstanding – January 1 2020	4,738,334	0.80
Forfeited	(742,001)	0.80
Expired	(922,667)	0.80
Outstanding – June 30 2020	<b>3,073,666</b>	<b>0.80</b>

The exercise price for all outstanding options is CA\$0.80 and there were 2,121,329 stock options exercisable as at June 30, 2020. The weighted average remaining contractual life of outstanding stock options at June 30, 2020 was 3.83 years.

#### Warrants

The Company has issued warrants for both common shares and units (comprising one common share and one further common share warrant). As of June 30, 2020, the Company had 19,733,055 common share warrants and 796,022 unit warrants for a total of 21,325,099 dilutive securities.

As of June 30, 2020, the Company had the following warrants for common shares outstanding:

#### Warrants – common shares

	June 30, 2020	
	Number of warrants	Weighted average exercise price CA\$
Outstanding – January 1 2020	19,733,055	1.07
Exercised	-	-
Outstanding – June 30 2020	<b>19,733,055</b>	<b>1.07</b>

The exercise price for all outstanding warrants for common shares is between CA\$0.80 and CA\$1.10 and there were 19,733,055 warrants for common shares exercisable as at June 30, 2020. The weighted average remaining contractual life of outstanding warrants for common shares at June 30, 2020 was 0.63 years.

The Board of Advisor warrants for common shares are exercisable into one common share at an exercise price of CA\$0.80 for a period of three years. The rest of the outstanding warrants for common shares are exercisable at CA\$1.10 for a period of two years were issued subject to an accelerated exercise clause whereby if the daily volume-weighted average trading price for any 10 consecutive trading days is greater than CA\$2.00 per share, the Company may provide written notice to accelerate the expiry date of the warrants to 30 days after providing such notice.

# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

### 9 Stock options and warrants (continued)

As of June 30, 2020, the Company had the following warrants for units outstanding:

#### Warrants – units

	Number of warrants	June 30, 2020
		Weighted average exercise price CA\$
Outstanding – January 1 2020	796,022	0.80
Issued	-	-
Exercised	-	-
Outstanding – June 30 2020	<b>796,022</b>	<b>0.80</b>

The exercise price for all outstanding warrants for units is CA\$0.80 and there were 796,022 warrants for units exercisable as at June 30, 2020. The weighted average remaining contractual life of outstanding warrants for units at June 30, 2020 was 0.59 years.

Each broker unit warrant entitles the holder to acquire one unit of the Company representing one common share and a further share purchase warrant for CA\$0.80 for a period of 2 years. Each share purchase warrant is exercisable at CA\$1.10 per common share for a period of 2 years, subject to an accelerated exercise clause whereby if the daily volume-weighted average trading price for any 10 consecutive trading days is greater than CA \$2.00 per share, the Company may provide written notice to accelerate the expiry date of the warrants to 30 days after providing such notice.

### 10 Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Liberty's former CEO and CFO agreed to terminate their employment effective April 30, 2020. A severance package was therefore paid out in May 2020 totalling approximately \$121,000.

\$	Three months ending		Six months ending	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Short-term employee benefits	135,777	342,923	364,028	544,033
Share-based payments	43,869	433,735	78,172	433,735
<b>Total key management personnel</b>	<b>179,646</b>	<b>776,658</b>	<b>442,200</b>	<b>977,768</b>

### 11 Financial instruments

As at June 30, 2020, the Company's financial instruments comprise cash and cash equivalents, receivables, and accounts payable and accrued liabilities, none of which are valued at fair value. The fair values of receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

### 12 Commitments

The Company has commitments relating to the Patent Agreement with MIT. In June 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	60,000	100,000	200,000	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.

### 13 DrawDown – Proposed Transaction

The Company entered into an amalgamation agreement (the "Agreement") with DrawDown on April 2, 2020, whereby it will acquire all the issued and outstanding securities of DrawDown (the "Transaction"). Upon completion, the Transaction will constitute an arm's length reverse takeover of the Company by DrawDown. The Company is expected to resume trading on the exchange under the name "Liberty Defense Holdings, Ltd." or such other name as the parties may reasonably agree upon and as is acceptable to the TSX Venture Exchange ("Exchange") and the corporate registrar. The Transaction is subject to a number of terms and conditions as set forth in the Agreement, including (among other things) the approval of the Exchange.

Pursuant to the Agreement, the parties will complete a three-cornered amalgamation whereby 1246043 B.C. Ltd. ("Liberty Subco"), a wholly-owned subsidiary of Liberty, will amalgamate with DrawDown, and the Company will acquire all of the issued and outstanding common shares in the capital of DrawDown and all of the securities of DrawDown convertible into common shares of DrawDown. The amalgamated corporation resulting from the amalgamation of Liberty Subco and DrawDown will be wholly-owned by the Company. All of the outstanding common shares of DrawDown will be exchanged for common shares of Liberty on a one for one basis, post-consolidation. In addition, all of the outstanding convertible securities of DrawDown will, in accordance with their terms, cease to represent a right to acquire DrawDown common shares and will instead provide the right to acquire Liberty common shares on a one for one basis post-consolidation and on the same economic terms and conditions.

Immediately after the closing of the Transaction it is expected:

- The outstanding share capital of the Company will consist of 60,154,322 common shares, 10,092,102 warrants, 256,781 units and 2,215,753 stock options (excluding the securities issued in exchange for the securities of DrawDown issued pursuant to the Bridge Financing and Concurrent Financing).
- The existing shareholders of DrawDown will hold approximately 64.31% of the common shares of the Company on an undiluted basis (excluding the securities issued in exchange for the securities of DrawDown issued pursuant to the Bridge Financing and the Concurrent Financing).

In connection with the Transaction, DrawDown completed a bridge financing ("Bridge Financing") of CA\$954,750 principal amount 10% convertible debentures (the "DrawDown Convertible Debentures"). The DrawDown Convertible Debentures will automatically be converted immediately prior to the closing of the Transaction into DrawDown units (the "DrawDown

# Liberty Defense Holdings, Ltd.

## Notes to the Interim Condensed Consolidated Financial Statements

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(unaudited, expressed in U.S. dollars)

### 13 DrawDown – Proposed Transaction (continued)

Units”) at a conversion price per DrawDown unit equal to a 20% discount to the DrawDown common shares to be issued pursuant to the Concurrent Financing. Each DrawDown Unit will consist of one DrawDown common share and one-half of one DrawDown warrant. Upon completion of the Transaction: (i) the DrawDown common shares issued upon conversion of the DrawDown Units will be exchanged for common shares of Liberty; and (ii) the DrawDown warrants issued to upon conversion of the DrawDown Units will cease to represent a right to acquire DrawDown common shares and will instead provide the right to acquire Liberty common shares on a one for one basis post-consolidation and on the same economic terms and conditions.

It is intended that, concurrent with the closing of the Transaction, DrawDown will complete a financing (the “Concurrent Financing”) by way of a private placement of DrawDown common shares. The DrawDown common shares issued pursuant to the Concurrent Financing will be exchanged for common shares of Liberty upon completion of the Transaction.

Liberty had previously engaged Laurentian Bank Securities Inc. (“Laurentian”) as its exclusive financial advisor and, upon completion of the Transaction, has agreed to pay Laurentian CA\$50,000 cash and issue Laurentian 596,323 Liberty common shares on a post-consolidation basis. Upon completion of the Transaction, the Company will carry on the combined businesses currently conducted by Liberty and DrawDown. It is anticipated that trading of the Company’s shares will remain halted on the Exchange until completion of the Transaction.