



Liberty
Defense
Holdings

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended September 30, 2019
(unaudited, expressed in U.S. dollars, except where indicated)

Liberty Defense Holdings, Ltd.

Interim Consolidated Statement of Financial Position

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

	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	1,869,746	3,664,397
Receivables & prepaids (note 4)	360,238	252,119
Deferred financing fees	-	74,977
	<u>2,229,984</u>	<u>3,991,493</u>
Property & equipment (note 5)	463,995	64,551
Intangible asset	100,597	115,143
Total assets	<u>2,794,576</u>	<u>4,171,187</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	382,428	437,210
Lease liabilities (note 7)	132,166	-
	<u>514,594</u>	<u>437,210</u>
Non-current lease liabilities (note 7)	269,219	-
Total liabilities	<u>783,813</u>	<u>437,210</u>
Shareholders' equity		
Common shares (note 8)	10,342,881	4,277,990
Contributed surplus	4,094,399	2,462,334
Accumulated other comprehensive income ("AOCI")	(80,159)	(227,955)
Deficit	(12,346,358)	(2,778,392)
Total equity	<u>2,010,763</u>	<u>3,733,977</u>
Total liabilities and equity	<u>2,794,576</u>	<u>4,171,187</u>

Nature of operations and going concern (note 1)

"Damian Towns"

Director

"John McCoach"

Director

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

Liberty Defense Holdings, Ltd.

Interim Consolidated Statement of Loss and Comprehensive Loss

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Expenses				
Brand & Market Awareness				
Legal fees	-	10,433	-	21,434
Marketing	245,086	-	744,795	-
Other costs	10,000	3,570	10,206	3,570
Salaries & consulting fees	15,337	97,708	60,226	162,057
Stock-based compensation	84,984	25,249	219,472	25,249
Travel and miscellaneous	33,063	14,857	111,782	14,857
	388,470	151,817	1,146,481	227,167
Research and Development				
Depreciation	32,729	-	94,654	-
Legal fees	18,107	57,582	57,717	82,837
Other costs	51,912	-	140,640	-
Salaries & consulting fees	966,483	194,938	2,377,909	282,151
Stock-based compensation	90,329	-	311,927	-
Technology costs	369,295	61,400	962,316	61,400
Travel and miscellaneous	15,479	34,082	46,044	34,082
	1,544,334	348,002	3,991,207	460,470
General and Administrative				
Depreciation	8,106	-	16,726	-
Foreign exchange (gain) / loss	(3,364)	195	54	429
Interest income	(9,078)	-	(24,511)	-
Legal fees	41,217	35,258	120,350	54,623
Marketing and investor relations	238,047	16,991	783,528	75,991
Other costs	21,643	702	85,986	1,243
RTO transaction costs (note 3)	-	-	2,230,108	-
Salaries & consulting fees	199,510	260,030	664,002	311,387
Stock-based compensation	95,773	196	446,322	196
Travel and miscellaneous	30,709	2,587	74,500	23,322
	622,563	315,959	4,397,065	467,191
Loss for the period	2,555,367	815,778	9,534,753	1,154,828
Other comprehensive income				
Items that may be reclassified subsequently to net income				
Foreign currency translation adjustment	33,184	4,348	(147,796)	8,049
Loss and comprehensive loss for the period	2,588,551	820,126	9,386,957	1,162,877
Basic and diluted loss per share (\$ per share)	0.04	0.05	0.15	0.07
Weighted average shares outstanding (000's)	66,550	17,644	61,874	16,590

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

Liberty Defense Holdings, Ltd.

Interim Consolidated Statement of Shareholders' Equity

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

	Common shares		Contributed surplus	AOCI	Deficit	Total
	Number of Shares	Amount				
Balance at April 30, 2018 (Inception)	-	\$ -	\$-	\$-	\$-	\$-
Issue of seed financing	21,250,000	403,350	156,135	-	-	559,485
Warrants exercised	6,280,000	288,652	(46,087)	-	-	242,565
Advance subscription receipts	-	-	91,735	-	-	91,735
Pending share-based payments	-	-	24,445	-	-	25,445
Foreign currency translation adjustment	-	-	-	(8,049)	-	(8,049)
Loss for the period	-	-	-	-	(1,154,828)	(1,154,828)
Balance at September 30, 2018	27,530,000	692,002	227,228	(8,049)	(1,154,828)	(243,647)

	Common shares		Contributed surplus	AOCI	Deficit	Total
	Number of Shares	Amount				
Balance at January 1, 2019	51,311,525	\$4,277,990	\$2,462,334	(\$227,955)	(\$2,778,392)	\$3,733,977
Lease accounting adjustment (note 2)	-	-	-	-	(33,213)	(33,213)
Restating opening balance at January 1, 2019	51,311,525	4,277,990	2,462,334	(227,955)	(2,811,605)	3,700,764
Issue of subscription receipts – QT (note 9)	-	-	4,534,959	-	-	4,534,959
Issue of shares – QT	8,826,630	3,391,553	(3,391,553)	-	-	-
Issue of advisor shares (note 8)	1,800,000	457,803	(457,803)	-	-	-
Issue of shares – RTO (note 3)	4,611,566	2,215,535	-	-	-	2,215,535
Share based compensation (note 9)	-	-	976,185	-	-	976,185
Share Issuance Costs (Pre-financing)	-	-	(29,723)	-	-	(29,723)
Foreign currency translation adjustment	-	-	-	147,796	-	147,796
Loss for the period	-	-	-	-	(9,534,753)	(9,534,753)
Balance at September 30, 2019	66,549,721	10,342,881	4,094,399	(80,159)	(12,346,358)	2,010,763

Liberty Defense Holdings, Ltd.

Interim Consolidated Statement of Cash Flows

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

	For the three months ended September 30,		For the nine months ended September 30	
	2019	2018	2019	2018
Cash flows from operating activities				
Loss for the period	(2,555,367)	(815,778)	(9,534,753)	(1,154,828)
Items not affecting cash				
Depreciation	40,835	-	111,380	-
Interest expense	8,597	-	25,770	-
RTO transaction costs	-	-	2,215,534	-
Stock based compensation	271,086	25,445	977,721	25,445
	<u>(2,234,849)</u>	<u>(790,333)</u>	<u>(6,204,348)</u>	<u>(1,129,383)</u>
Change in non-cash operating working capital				
Decrease / (increase) in receivables and prepaid expenses	503,698	(26,477)	(108,119)	(27,151)
(Decrease) / increase in accounts payable and accrued liabilities	<u>(177,662)</u>	<u>577,993</u>	<u>9,502</u>	<u>835,804</u>
	<u>(1,908,813)</u>	<u>(238,817)</u>	<u>(6,302,965)</u>	<u>(320,730)</u>
Cash flows from financing activities				
Advance subscription receipts	-	91,735	-	91,735
Share issuances (net of issuance costs) (note 8)	(29,723)	249,528	4,503,701	991,311
Principal elements of lease repayment (note 7)	(30,323)	-	(80,998)	-
Interest elements of lease repayment (note 7)	<u>(8,597)</u>	<u>-</u>	<u>(25,770)</u>	<u>-</u>
	<u>(68,643)</u>	<u>341,263</u>	<u>4,396,933</u>	<u>1,083,046</u>
Cash flows from investing activities				
Payments for property & equipment	(10,854)	-	(36,415)	-
Payments for intangible assets	<u>-</u>	<u>(89,784)</u>	<u>-</u>	<u>(89,784)</u>
	<u>(10,854)</u>	<u>(89,784)</u>	<u>(36,415)</u>	<u>(89,784)</u>
Exchange rate differences on cash and cash equivalents	(38,601)	(11,750)	147,796	(8,049)
(Decrease) / Increase in cash and cash equivalents	(2,026,911)	912	(1,794,651)	664,483
Cash and cash equivalents - beginning of period	<u>3,896,657</u>	<u>663,571</u>	<u>3,664,397</u>	<u>-</u>
Cash and cash equivalents - end of period	<u>1,869,746</u>	<u>664,483</u>	<u>1,869,746</u>	<u>664,483</u>

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

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 nine-month period ended September 30, 2019, the Company reported a \$9,534,753 loss (\$2,230,108 relating to RTO costs) and cash outflows from operating activities of .

As at September 30, 2019, the Company had a positive working capital of \$1,715,390. Notwithstanding, in order to fully commercialize HEXWAVE the Company will require additional funds to achieve its development timeline and bring HEXWAVE to market. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. The Company has certain committed development milestones over the next twelve months and based on the Company’s current forecasted operational and development spend, the Company will require additional funds to meet these milestones. These conditions cast significant doubt on the validity of the going concern assumption. In November 7, 2019 the Company announced a CA\$2.5 million financing and it has also filed a base shelf prospectus, in order to be able to continue to advance the development of HEXWAVE.

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

2 Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with 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 except for the adoption of new and amended standards as set out below.

Adoption in Accounting Policies – IFRS 16 Lease Accounting

Accounting policy

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

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

2 Basis of preparation (continued)

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

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

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

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

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

Adjustments recognized on adoption

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

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

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

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

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

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

3 Reverse takeover of Gulfstream

In April 2019, with the completion of the 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 RTO transaction is treated as a share based payment transaction under IFRS 2. The RTO transaction constituted a “Qualifying Transaction” under the policies of the TSX Venture Exchange. The RTO transaction included the following:

- A share consolidation of 2.5:1 to reduce the issued shares to 3,444,403
- The issuance of 1,167,163 common shares as a finders fee.

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

	September 30, 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	191,382
Current liabilities	(14,638)
Net Identifiable assets	176,744
Reverse acquisition costs	2,230,108

4 Receivables & prepaids

As of September 30, 2019, the Company had \$140,636 (December 31, 2018: \$42,420) in receivables and \$219,602 (December 31, 2018: \$209,699) in prepaids.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

5 Property & equipment

\$	Leasehold Improvements	Equipment	Right of Use Asset	Total
Cost				
At April 30, 2018	-	-	-	-
Additions	12,058	61,095	-	73,153
At December 31, 2018	12,058	61,095	-	73,153
Opening adjustments	-	-	344,353	344,353
Additions	11,820	33,730	149,163	194,713
Disposals	-	(3,613)	-	(3,613)
At September 30, 2019	23,878	91,211	493,516	608,605
Accumulated Depreciation				
At April 30, 2018	-	-	-	-
Depreciation for the period	1,764	6,838	-	8,602
At December 31, 2018	1,764	6,838	-	8,602
Opening adjustments	-	-	25,197	25,197
Depreciation for the period	4,556	16,618	90,261	111,435
Disposals	-	(623)	-	(623)
At September 30, 2019	6,320	22,832	115,458	144,611
Net Book Value				
At April 30, 2018	-	-	-	-
At December 31, 2018	10,294	54,257	-	64,551
At September 30, 2019	17,558	68,379	378,058	463,995

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

6 Accounts payable and accrued liabilities

As of September 30, 2019, the Company had \$143,423 (December 31, 2018: \$345,830) in accounts payables and \$239,005 (December 31, 2018: \$91,380) in accruals.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

7 Leases

Lease liabilities	
\$	2019
Maturity analysis - contractual undiscounted cash flows	
Less than one year	159,588
One to five years	303,134
Total undiscounted lease liabilities at September 30, 2019	462,722
Lease liabilities included in the statement of financial position at September 30, 2019	401,385
Current	132,166
Non-current	269,219
Amounts recognized in profit or loss	
Interest on lease liabilities	25,914

The Company incurred variable lease payments relating to its lease amounting to \$11,059.

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 September 30, 2019 was 66,549,721.

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

8,826,630 subscription receipts were issued upon completion of the RTO. On April 3, 2019, these subscription receipts converted into units of Liberty and were split between common shares (\$4,240,578) and contributed surplus (\$1,022,330). In conjunction with the 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 and a finder's fee of 1,167,163 shares were issued with a fair value \$560,740.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

9 Stock options and warrants

	September 30, 2019	
	Number of options	Weighted average exercise price CA\$
Outstanding – January 1	-	-
Issued	4,950,000	0.80
Forfeited	(176,667)	0.80
Outstanding – September 30	4,773,333	0.80

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

Options	
Risk-free interest rate	1.42% 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 September 30, 2019, the Company had 19,733,055 common share warrants and 796,022 unit warrants for a total of 20,529,077 dilutive securities.

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

Warrants – common shares

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

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

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

9 Stock options and warrants (continued)

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

Warrants – units

	Number of warrants	September 30, 2019
		Weighted average exercise price CA\$
Outstanding – January 1	292,087	0.80
Issued	503,935	0.80
Exercised	-	-
Outstanding – September 30	796,022	0.80

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

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

Warrants

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

10 Related party transactions

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
\$	2019	2018	2019	2018
Short-term employee benefits	201,218	329,706	745,599	497,308
Share-based payments	188,179	-	441,603	-
Total key management personnel	389,397	329,706	1,187,202	497,308

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

11 Financial instruments

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