Liberty Defense Holdings, Ltd.

Consolidated Financial Statements

For the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018

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

Independent auditor's report

To the Shareholders of Liberty Defense Holdings, Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Liberty Defense Holdings, Ltd. and its subsidiary (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018;
- the consolidated statements of shareholders' equity for the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018;
- the consolidated statements of cash flows for the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Material uncertainty related to going concern

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

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 11, 2020

Liberty Defense Holdings, Ltd.

Consolidated Statements of Financial Position
As at December 31

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

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	578,765	3,664,397
Receivables & prepaids (note 4)	119,161	252,119
Deferred financing fees	-	74,977
	697,926	3,991,493
Property & equipment (note 5)	430,743	64,551
Intangible asset (note 6)	120,884	115,143
Total assets	**$1,249,553**	**$4,171,187**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	730,191	437,210
Lease obligation (note 8)	136,686	-
	866,877	**437,210**
Non-current liabilities		
Lease obligation (note 8)	235,010	-
Total liabilities	**1,101,887**	**437,210**
Shareholders' equity		
Common shares (note 9)	10,342,881	4,277,990
Contributed surplus	4,267,832	2,462,334
Accumulated other comprehensive income ("AOCI")	(64,322)	(227,955)
Deficit	(14,398,725)	(2,778,392)
Total equity	**147,666**	**3,733,977**
Total liabilities and equity	**$1,249,553**	**$4,171,187**

Nature of operations and going concern (note 1)
Subsequent events (note 16)

"William Riker"
Director

"John McCoach"
Director

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

Liberty Defense Holdings, Ltd.

Consolidated Statements of Loss and Comprehensive Loss

For the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018

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

Expenses	2019	2018
Brand & Market Awareness		
Legal fees	7,090	56,675
Marketing	900,751	106,839
Other costs	10,206	3,570
Salaries & consulting fees	77,200	171,498
Stock-based compensation	255,439	543,772
Travel and miscellaneous	116,352	14,790
	1,367,038	**897,144**
Research and Development		
Depreciation	127,902	8,168
Legal fees	64,611	92,604
Other costs	186,592	6,660
Salaries & consulting fees	3,401,492	651,493
Stock-based compensation	347,126	-
Technology costs	1,129,669	169,748
Travel and miscellaneous	55,205	70,351
	5,312,597	**999,024**
General and Administrative		
Depreciation	24,856	452
Foreign exchange (gain) / loss	17,320	(619)
Interest income	(28,221)	-
Legal fees	179,425	100,746
Marketing and investor relations	932,800	86,390
Other costs	105,236	38,355
GS RTO transaction costs (note 3)	2,205,822	-
Salaries & consulting fees	853,659	518,501
Stock-based compensation	518,131	83,324
Travel and miscellaneous	98,457	55,075
	4,907,485	**882,224**
Loss for the period	**11,587,120**	**2,778,392**
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	(163,633)	227,955
Loss and comprehensive loss for the period	**$11,423,487**	**$3,006,347**
Basic and diluted loss per share ($ per share)	**$0.18**	**$0.10**
Weighted average shares outstanding (000's)	**63,053**	**26,703**

Liberty Defense Holdings, Ltd.

Consolidated Statements of Shareholders' Equity

For the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018

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

	Common shares					
	Number of Shares	**Amount**	**Contributed surplus**	**AOCI**	**Deficit**	**Total**
Opening balance at April 30, 2018 (inception)	-	$ -	$ -	$ -	$ -	$ -
Issue of unit financing	21,250,000	472,084	157,678	-	-	629,762
October unit financing	8,811,525	2,834,412	1,837,390	-	-	4,671,802
Warrants exercised	21,250,000	971,494	(157,678)	-	-	813,816
Pending share-based payments	-	-	624,944	-	-	624,944
Foreign currency translation adjustment	-	-	-	(227,955)	-	(227,955)
Loss for the period	-	-	-	-	(2,778,392)	(2,778,392)
Closing balance at December 31, 2018	51,311,525	$4,277,990	$2,462,334	($227,955)	($2,778,392)	$3,733,977

	Common shares					
	Number of Shares	**Amount**	**Contributed surplus**	**AOCI**	**Deficit**	**Total**
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)
Restated opening balance at January 1, 2019	51,311,525	4,277,990	2,462,334	(227,955)	(2,811,605)	3,700,764
Issue of advisor shares (note 9)	1,800,000	457,803	(457,803)	-	-	-
Issue of subscription receipts (note 9)	-	-	4,534,959	-	-	4,534,959
Conversion of subscription receipts (note 9)	8,826,630	3,391,553	(3,391,553)	-	-	-
GS RTO share issuance (note 3)	4,611,566	2,215,535	-	-	-	2,215,535
Stock based compensation (note 10)	-	-	1,119,895	-	-	1,119,895
Foreign currency translation adjustment	-	-	-	163,633	-	163,633
Loss for the year	-	-	-	-	(11,587,120)	(11,587,120)
Balance at December 31, 2019	66,549,721	10,342,881	4,267,832	(64,322)	(14,398,725)	147,666

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

Liberty Defense Holdings, Ltd.

Consolidated Statements of Cash Flows

For the year ended December 31, 2019 and period from April 30, 2018 to December 31, 2018

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

	2019	2018
Cash flows from operating activities		
Loss for the period	(11,587,120)	(2,778,392)
Items not affecting cash		
Depreciation	152,758	8,620
GS RTO transaction costs (note 3)	2,229,734	-
Stock based compensation	1,120,696	627,096
	(8,083,932)	(2,142,676)
Change in non-cash operating working capital		
Decrease / (increase) in receivables & prepaids	157,245	(252,119)
Increase in accounts payable and accrued liabilities	333,860	369,883
	(7,592,827)	(2,024,912)
Cash flows from financing activities		
Share issuances (net of issuance costs) (note 9)	4,558,006	6,073,725
Principal elements of lease repayment (note 8)	(113,276)	-
Interest elements of lease repayment (note 8)	(33,718)	-
	4,411,012	6,073,725
Cash flows from investing activities		
Payments for property & equipment	(61,709)	(66,678)
Payments for intangible assets	(5,741)	(89,784)
	(67,450)	(156,462)
Exchange rate differences	163,633	(227,955)
(Decrease) / Increase in cash and cash equivalents	(3,085,632)	3,664,397
Cash and cash equivalents - beginning of period	3,664,397	-
Cash and cash equivalents - end of year	578,765	3,664,397

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

1 Nature of operations and going concern

Liberty Defense Holdings, Ltd. (the "Company" or "Liberty"), is a public company (TSXV: SCAN, Frankfurt: L2D, OTCQB: LDDFF), that was incorporated under the Business Corporation Act of Ontario on June 8, 2012. The Company undertook a reverse takeover ("GS RTO") transaction with Liberty Defense Holdings Inc. ("LPC") on April 3, 2019 and subsequently renamed itself from Gulfstream Acquisition 1 Corp. ("Gulfstream"), to Liberty. The Company, through its wholly owned subsidiary Liberty Defense Technologies Inc. ("LDT"), is principally engaged in the commercialization of an active 3D imaging technology system, HEXWAVE, to detect concealed threats. The Company's corporate office is located at Suite 1030, 200 Granville St, Vancouver, British Columbia, Canada, V6C 1S4 and its registered and records office is located at 5300 Commerce Court West, 199 Bay Street, Toronto, ON M5L 1B9.

Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. For the year ended December 31, 2019, the Company reported a $11,587,120 loss ($2,205,822 relating to GS RTO costs) and cash outflows from operating activities of $7,592,827.

As at December 31, 2019, the Company had a negative working capital of $168,951. Notwithstanding the negative working capital, 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. The Company, on December 31, 2019, announced the undertaking of a strategic review and subsequently entered into a letter of intent (the "LOI") effective January 27, 2020 with DrawDown Detection Inc. ("DrawDown") (note 16). The LOI provided for an initial loan of $2 million ($1.0 million advanced as of March 11, 2020) and completion of a reverse-takeover to provide a minimum 12 months funding. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional funding through financing such as the DrawDown LOI or through other arrangements.

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

2 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. These consolidated financial statements were approved for issuance by the Board of Directors on March 10, 2020.

Consolidation

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

2 Significant accounting policies (continued)

Basis of measurement
These consolidated financial statements have been prepared on the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

Critical accounting judgements
Development costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Those criteria require that the product is technically feasible and have future economic benefits, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The threshold for capitalizing has not yet been reached as of December 31, 2019.

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

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

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

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

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

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

Property and equipment
Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

2 Significant accounting policies (continued)

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

Intangible Assets
Intangible assets with finite lives consist of acquired and internally developed technology, capitalized development, and intellectual property. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization. Intangible assets are not depreciated until available for their intended use. Acquired intangibles are initially recognized at cost.

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

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

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

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

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

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

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

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

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

2 Significant accounting policies (continued)

Financial assets

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

(i) Classification

The Company determines the classification of financial instruments at initial recognition.

Financial assets - Debt

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

Equity

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

Financial liabilities

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

(ii) Measurement

Financial assets and liabilities at FVTPL

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

Financial assets at FVTOCI

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

Financial assets and liabilities at amortized cost

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

Impairment of financial assets

Impairment of financial assets at amortized cost

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

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

2 Significant accounting policies (continued)

(iii) Derecognition

Derecognition of financial assets and liabilities

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

Derivative instruments

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

Loss per share

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

Income taxes

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

Current income tax

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

Deferred tax

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

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

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

2 Significant accounting policies (continued)

Investment tax credits
The Company is entitled to certain Canadian federal and provincial tax incentives for Scientific Research and Experimental Development ("SRED"), US federal tax incentives for increasing research activities, and US state research and development

tax credits. These ITCs are available to the Company to reduce actual income taxes payable. Any credits that are not used in the year in which they are earned are recorded as a deferred income tax asset when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management estimates the amount of ITCs based on eligible SRED expenditures for the year and assesses the probability of usage based upon forecast results.

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

New accounting pronouncements
The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards.

Adoption of Accounting Policies – IFRS 16 Lease Accounting

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

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-of-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 consolidated statement of loss and comprehensive loss. Short-term leases are leases with a lease term of 12 months of 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 statement of financial position on January 1, 2019.

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

2 Significant accounting policies (continued)

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 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 $319,156. 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	-

3 Reverse takeover of Gulfstream

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

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

	December 31, 2019
Purchase price:	
Fair value of shares retained by Gulfstream shareholders	1,654,795
Transaction costs	191,317
Finders fee	560,740
Total purchase price	2,406,852
Net assets acquired:	
Current assets	215,668
Current liabilities	(14,638)
Net Identifiable assets	201,030
Reverse acquisition costs	2,205,822

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

4 Receivables & prepaids

As of December 31, 2019, the Company had $70,591 (2018: $42,420) in receivables and $48,570 (2018: $209,699) in prepaids.

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 (note 2)	-	-	344,353	344,353
Additions [(1)]	11,820	39,329	152,091	203,240
Disposals	-	(3,557)	-	(3,557)
At December 31, 2019	23,878	96,867	496,444	617,189
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 (note 2)	-	-	25,197	25,197
Depreciation for the year	6,466	23,605	123,225	153,296
Disposals	-	(649)	-	(649)
At December 31, 2019	8,230	29,794	148,422	186,446
Net Book Value				
At April 30, 2018	-	-	-	-
At December 31, 2018	10,294	54,257	-	64,551
At December 31, 2019	**15,648**	**67,073**	**348,022**	**430,743**

(1) In April 2019, the Company entered into a new office lease whereby an initial right-of-use asset was recognized totalling $152,091.

6 Intangible

In September 2018, Liberty entered into an Exclusive Patent Licence Agreement (“Patent Agreement”) with the Massachusetts Institute of Technology (“MIT”) for active imaging technology, the core technology behind the Company’s HEXWAVE product. The Patent Agreement required an initial license issue fee of $30,000 to be paid upfront. Under the Patent Agreement, the Company reimbursed global patent filing costs totalling $5,741 in 2019 (2018: $85,143).

$	2019	2018
Opening balance of intangible asset	115,143	-
Additions - license fee	-	30,000
Additions - patent filing costs	5,741	85,143
Ending balance of intangible asset	**120,884**	**115,143**

7 Accounts payable and accrued liabilities

As of December 31, 2019, the Company had $356,372 (2018: $345,830) in accounts payables and $373,819 (2018: $91,380) in accruals.

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

8 Leases

Lease liabilities

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

The Company incurred variable lease payments relating to its lease amounting to $16,052.

9 Common shares

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

Issued
The issued and outstanding common shares as at December 31, 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 GS 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 conjunctions with the GS RTO a share consolidation of 2.5:1 occurred (note 3) reducing the issued and outstanding shares to 3,444,403 with a fair value of $1,654,795. A finder's fee consisting of 1,167,163 shares was also issued with a fair value $560,740.

10 Share stock options and warrants

Options

In 2019, Liberty issued 5,200,000 options with an exercise price of CA$0.80 to various employees, consultants, and directors. A total of 373,333 options were forfeited during the year as a result of unvested options from terminations. Furthermore, an additional 88,333 options expired due to vested options that weren't exercised.

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

10 Share stock options and warrants (continued)

	December 31, 2019	
	Number of options	Weighted average exercise price CA$
Outstanding – January 1	-	-
Issued	5,200,000	0.80
Forfeited	(373,333)	0.80
Expired	(88,333)	0.80
Outstanding & exercisable – December 31	**4,738,334**	**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	1.35% to 1.62%
Expected life	2.5 to 3.70 years
Expected volatility	71 to 79%
Expected dividend	0%
Forfeiture rate	0%

Warrants

The Company has issued warrants for both common shares and units (comprising one common share and one further common share warrant). As of December 31, 2019, the Company had 19,733,055 common share warrants and 796,022 unit warrants and a total of 21,325,099 dilutive warrant securities.

As of December 31, 2019, the Company had the following warrants for common shares outstanding:

Warrants – common shares	December 31, 2019		December 31, 2018	
	Number of warrants	Weighted average exercise price CA$	Number of warrants	Weighted average exercise price CA$
Outstanding – January 1	8,956,425	1.10	-	-
Issued – Broker and advisors	1,950,000	0.80	144,900	1.10
Issued – Financing	8,826,630	1.10	8,811,525	1.10
Exercised	-	-	-	-
Outstanding & exercisable – December 31	**19,733,055**	**1.07**	**8,956,425**	**1.10**

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.

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

10 Share stock options and warrants (continued)

As of December 31, 2019, the Company had the following warrants for units outstanding:

Warrants - units	**December 31, 2019**		**December 31, 2018**	
	Number of warrants	**Weighted average exercise price CA$**	**Number of warrants**	**Weighted average exercise price CA$**
Outstanding – January 1	292,087	0.80	-	-
Issued	503,935	0.80	292,087	0.80
Exercised	-	-	-	-
Outstanding & exercisable – December 31	**796,022**	**0.80**	292,087	**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%

11 Income taxes

	December 31, 2019		**December 31, 2018**	
	$	**%**	**$**	**%**
(Loss) before tax	(11,587,120)	100	(2,778,392)	100
Income tax (recovery) at statutory rates	(3,128,522)	(27.0)	(750,166)	(27.0)
Difference in foreign tax rates	13,608	0.1	-	-
Non-deductible expenses	443,204	3.8	80,271	2.9
Deductible - share issuance costs	(103,189)	(0.9)	(35,784)	(1.3)
Unrecognized tax losses	2,774,899	24.0	705,679	25.4
Income tax (recovery) expense	**-**	**-**	**-**	**-**

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

11 Income taxes (continued)

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

$	December 31, 2019	December 31, 2018
Operating losses carried forward since inception	3,480,578	705,678
Share issuance costs	376,973	250,486
Unrecognized deferred tax assets	**3,857,551**	**956,164**

The Company has incurred non-capital losses that may be carried forward and used to reduce taxable income of future years in the countries indicated. The Company has tax losses of $6.6 million and $6.4 million, in Canada and US respectively that expire after 2038.

12 Related party transactions

Key management personnel includes 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.

$	2019	2018
Short-term employee benefits	930,370	876,347
Share-based payments	644,981	83,128
Total key management costs	**1,575,351**	**959,475**

In December 2018, $96,613 was accrued and expensed to Makena Management Group Ltd. (“MMG”), a company whose principal was a director of LPC, for accounting services, rent and office expenses. In 2018, the services of the Chief Financial Officer were billed through MMG, however starting in 2019, these were paid directly by the Company. A total of $19,690 was expensed and accrued, relating to MMG in 2019, prior to the termination of its contract with MMG.

13 Geographic information

The Company operates as a single operating segment and all non-current assets are in Canada & the United States.

$ **As at December 31, 2018**	**Canada**	**United States**	**Total**
Non-current assets			
Property & equipment	6,059	58,492	64,551
Intangible assets	-	115,143	115,143

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

13 Geographic information (continued)

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

14 Financial instruments and risk management

As at December 31, 2019, the Company's financial instruments comprise of cash and cash equivalents, receivables, and accounts payable and accrued liabilities. The fair values of receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Inputs that are not based on observable market data (unobservable inputs).

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. As at December 31, 2019, the Company had cash and cash equivalents of $578,765 and total current liabilities of $866,877. All the Company's financial liabilities have contractual maturities of 30 days or are due on demand and subject to normal trade terms. For further information related to liquidity and going concern please refer to note 1.

Credit risk
Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents and receivables. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions. Any credit risk associated with receivables is considered to be negligible.

Foreign currency risk
Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. The Company's subsidiary is located in the United States and the parent company is in Canada. As a result, a portion of the Company's accounts receivable, accounts payable and accruals are denominated in the United States dollars and Canadian dollars and are therefore subject to fluctuation in exchange rates. As the Company' parent company functional currency is the Canadian dollar, a 100 basis point (one per cent) increase-strengthening (decrease-weakening) in the U.S. dollar at period end would have resulted in an increase (decrease) in the net loss of $4,556.

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

15 Commitments

As mentioned in note 6, the Company has commitments relating to the Patent Agreement with MIT. In 2019, the Company paid $20,000 in license maintenance fees and has agreed to the following license maintenance fees thereafter:

$	2020	2021	2022	2023	Annually Thereafter
License maintenance fees	50,000	100,000	200,000	350,000	350,000

These license maintenance fees are period costs associated with maintaining the intellectual property acquired from MIT and are therefore are 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.

16 Subsequent events

DrawDown LOI

The Company entered into the LOI on January 27, 2020, with DrawDown, an arm's length privately held corporation, to acquire a 100% interest in DrawDown via a transaction that would constitute a reverse take-over of Liberty. The LOI provided for an initial 12% per annum interest bearing loan of $2 million ($1.0 million advanced as of March 11, 2020) and completion of the merger to provide a minimum 12 months funding. The closing of the Transaction is subject to Liberty and DrawDown negotiating and executing definitive documentation, the satisfactory completion of due diligence by the parties, the completion of consolidating the entities, and the completion of additional financing by DrawDown. The final structure of this transaction will be determined by DrawDown and Liberty to accommodate tax considerations, accounting treatment, and applicable legal and regulatory requirements.