



Liberty
Defense
Holdings

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Financial Statements

Three Months Ended March 31, 2020

(unaudited, expressed in U.S. dollars)

Liberty Defense Holdings, Ltd.

Interim Consolidated Statement of Financial Position

(unaudited, expressed in U.S. dollars)

	March 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	430,746	578,765
Receivables & prepaids (note 3)	28,760	119,161
	<u>459,506</u>	<u>697,926</u>
Property & equipment (note 4)	375,215	430,743
Intangible asset	125,833	120,884
Total assets	<u>960,554</u>	<u>1,249,553</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	295,762	730,191
Lease liabilities (note 6)	138,441	136,686
Borrowings (note 7)	967,604	-
	<u>1,401,807</u>	<u>866,877</u>
Non-current lease liabilities (note 6)	191,302	235,010
Total liabilities	<u>1,593,109</u>	<u>1,101,887</u>
Shareholders' equity		
Common shares (note 8)	10,342,881	10,342,881
Contributed surplus	4,264,987	4,267,832
Accumulated other comprehensive losses ("AOCL")	(40,443)	(64,322)
Deficit	(15,199,980)	(14,398,725)
Total equity	<u>(632,555)</u>	<u>147,666</u>
Total liabilities and equity	<u>960,554</u>	<u>1,249,553</u>

Nature of operations and going concern (note 1)

Subsequent events (note 13)

"William E Riker"

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)

Expenses	Three months ended March 31,	
	2020	2019
Brand & Market Awareness		
Legal fees	394	3,546
Marketing	2,636	148,343
Salaries & consulting fees	7,723	23,394
Stock-based compensation	(1,643)	-
Travel and miscellaneous	-	44,300
	9,110	219,583
Research and Development		
Depreciation	33,430	30,104
Legal fees	17,461	4,413
Other costs	25,414	38,188
Salaries & consulting fees	400,026	559,655
Stock-based compensation	(20,647)	-
Technology costs	93,235	252,951
Travel and miscellaneous	2,454	16,354
	551,373	901,665
General and Administrative		
Depreciation	7,964	570
Foreign exchange loss	18	1,761
Legal fees	62,313	19,631
Marketing and investor relations	3,675	142,384
Other costs	35,234	31,170
Salaries & consulting fees	111,957	299,760
Stock-based compensation	19,540	-
Travel and miscellaneous	71	11,985
	240,772	507,261
Loss for the period	801,255	1,628,509
Other comprehensive (income) / expenditures		
Items that may be reclassified subsequently to loss for the period		
Foreign currency translation adjustment	(23,879)	58,783
Loss and comprehensive loss for the period	777,376	1,687,292
Basic and diluted loss per share (\$ per share)	0.01	0.03
Weighted average shares outstanding (000's)	66,550	52,815

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)

	Common shares		Contributed surplus	AOCL	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	-	-	-	-	(33,213)	(33,213)
Issue of subscription receipts	-	-	4,561,125	-	-	4,561,125
Issue of advisor warrants	1,800,000	457,803	(457,803)	-	-	-
Foreign currency translation adjustment	-	-	-	100,162	-	100,162
Loss for the period	-	-	-	-	(1,787,454)	(1,787,454)
Balance at March 31, 2019	53,111,525	4,735,793	6,565,656	(127,793)	(4,599,059)	6,574,597

	Common shares		Contributed surplus	AOCL	Deficit	Total
	Number of Shares	Amount				
Balance at January 1, 2020	66,549,721	10,342,881	4,267,832	(64,322)	(14,398,725)	147,666
Share based compensation	-	-	(2,845)	-	-	(2,845)
Foreign currency translation adjustment	-	-	-	23,879	-	23,879
Loss for the period	-	-	-	-	(801,255)	(801,255)
Balance at March 31, 2020	66,549,721	10,342,881	4,264,987	(40,443)	(15,199,980)	(632,555)

Liberty Defense Holdings, Ltd.

Interim Consolidated Statement of Cash Flows

(unaudited, expressed in U.S. dollars)

	Three months ended March	
	31,	
	2020	2019
Cash flows from operating activities		
Loss for the period	(801,255)	(1,787,454)
Items not affecting cash		
Depreciation	41,664	30,674
Interest expense	16,291	7,963
Stock based compensation	(2,845)	-
	<u>(746,145)</u>	<u>(1,748,817)</u>
Change in non-cash operating working capital		
Decrease / (increase) in receivables and prepaid expenses	90,401	(568,031)
(Decrease) / increase in accounts payable and accrued liabilities	(440,156)	373,988
	<u>(1,095,900)</u>	<u>(1,942,860)</u>
Cash flows from financing activities		
Proceeds from borrowings	1,027,885	-
Subscription receipts issuance costs	-	(274,409)
Principal elements of lease repayment (note 6)	(32,726)	(23,037)
Interest elements of lease repayment (note 6)	(7,237)	(7,963)
	<u>987,922</u>	<u>(305,409)</u>
Cash flows from investing activities		
Payments for property & equipment	-	(15,109)
Payments for intangible assets	(4,949)	-
	<u>(4,949)</u>	<u>(15,109)</u>
Exchange rate differences on cash and cash equivalents	(35,092)	100,161
Decrease in cash and cash equivalents	(148,019)	(2,163,217)
Cash and cash equivalents - beginning of period	<u>578,765</u>	<u>3,664,397</u>
Cash and cash equivalents - end of period	<u>430,746</u>	<u>1,501,179</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)

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 three-month period ended March 31, 2020, the Company reported a \$801,255 loss and cash outflows from operating activities of \$1,095,900.

As at March 31, 2020, the Company had a negative working capital of \$942,301 (\$967,604 relating to DrawDown borrowings, 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 entered into a letter of intent (“LOI”) effective January 27, 2020 with DrawDown Detection Inc. (“DrawDown”). The LOI provided for an initial loan of \$2 million (\$1.0 million advanced as of March 31, 2020) and the intention for Liberty to acquire 100% of Drawdown that 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.

3 Receivables & prepaids

As of March 31, 2020, the Company had \$4,946 (December 31, 2019: \$70,591) in receivables and \$23,814 (December 31, 2019: \$48,570) in prepaids.

4 Property & equipment

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

\$	Leasehold Improvements	Equipment	Right of Use Asset	Total
Cost				
At December 31, 2019	23,878	96,867	496,444	617,189
Additions	-	-	-	-
Disposals	-	(5,191)	-	(5,191)
Exchange differences	-	(788)	(12,854)	(13,641)
At March 31, 2020	23,878	90,889	483,590	598,357
Accumulated Depreciation				
At December 31, 2019	8,230	29,794	148,423	186,447
Depreciation for the period	1,910	7,014	34,676	43,599
Disposals	-	(2,144)	-	(2,144)
Exchange differences	-	(232)	(4,528)	(4,760)
At March 31, 2020	10,140	34,432	178,570	223,142
Net Book Value				
At December 31, 2019	15,648	67,073	348,022	430,743
At March 31, 2020	13,738	56,457	305,020	375,215

5 Accounts payable and accrued liabilities

As of March 31, 2020, the Company had \$111,083 (December 31, 2019: \$356,372) in accounts payables and \$184,679 (December 31, 2019: \$373,819) in accruals.

6 Leases

Lease liabilities

\$	2020
Maturity analysis - contractual undiscounted cash flows	
Less than one year	159,919
One to five years	202,401
Total undiscounted lease liabilities at March 31, 2020	362,320
Lease liabilities included in the statement of financial position at March 31, 2020	329,743
Current	138,441
Non-current	191,302
Amounts recognized in profit or loss	
Interest on lease liabilities	7,237

The Company incurred variable lease payments relating to its lease for the period ended March 31, 2020 amounting to \$5,443.

7 Borrowings

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

The Company entered into the LOI with DrawDown on January 27, 2020. The LOI provides for an initial 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 March 31, 2020 the Company has received \$1.0 million in total funding from DrawDown and is payable within a 6-month period should the proposed agreement (note 13) be terminated. As at March 31, 2020, the Company has accrued \$15,661 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 guaranty 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.

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 March 31, 2020 was 66,549,721.

9 Stock options and warrants

Options

		March 31, 2020
	Number of options	Weighted average exercise price CA\$
Outstanding – January 1 2020	4,738,334	-
Forfeited	(458,667)	0.80
Expired	(398,334)	0.80
Outstanding – March 31 2020	3,881,333	0.80

The exercise price for all outstanding options is CA\$0.80 and there were 2,545,660 stock options exercisable as at March 31, 2020. The weighted average remaining contractual life of outstanding stock options at March 31, 2020 was 4.03 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 March 31, 2020, the Company had 19,733,055 common share warrants and 796,022 unit warrants for a total of 21,325,099 dilutive securities.

9 Stock options and warrants (continued)

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

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

Warrants – common shares

		March 31, 2020
	Number of warrants	Weighted average exercise price CA\$
Outstanding – January 1 2020	19,733,055	1.07
Exercised	-	-
Outstanding – March 31 2020	19,733,055	1.07

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 March 31, 2020. The weighted average remaining contractual life of outstanding warrants for common shares at March 31, 2020 was 0.88 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.

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

Warrants – units

		March 31, 2020
	Number of warrants	Weighted average exercise price CA\$
Outstanding – January 1 2020	796,022	0.80
Issued	-	-
Exercised	-	-
Outstanding – March 31 2020	796,022	0.80

The exercise price for all outstanding warrants for units is CA\$0.80 and there were 796,022 warrants for units exercisable as at March 31, 2020. The weighted average remaining contractual life of outstanding warrants for units at March 31, 2020 was 0.84 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.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

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.

	Three month ended March 31	
\$	2020	2019
Short-term employee benefits	135,777	201,110
Share-based payments	43,869	-
Total key management personnel	179,646	201,110

11 Financial instruments

As at March 31, 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.

12 Commitments

The Company has commitments relating to the Patent Agreement with MIT. In 2020, the Company is required to pay \$50,000 in license maintenance fees in June 2020 and has agreed to the following license maintenance fees thereafter:

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

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

13 Subsequent events

DrawDown – the 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

13 Subsequent events (continued)

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, expressed in U.S. dollars)

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

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.

Loans Received - Paycheck Protection Program (“PPP”) Canada Emergency Business Account (“CEBA)

The Company, through its wholly owned subsidiary LDT, filed for a Paycheck Protection Program Loan (“PPP Loan”) under the Coronavirus Aid, Relief, and Economic Security Act and received \$406,170 on May 4, 2020. The PPP Loan has a 1% fixed interest rate per annum and a deferment period of 6 months. The Company also received an additional 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.

Severance Package

In connection with the reverse takeover between the Company and DrawDown, 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.