



Liberty
Defense
 Holdings

INNOVATIVE & REVOLUTIONARY THREAT DETECTION

**MANAGEMENT’S DISCUSSION AND ANALYSIS (“MD&A”) FOR THE YEAR
 ENDED March 31, 2020**
(Expressed in U.S. Dollars)

Dated: June 12, 2020

Information is available at the Company’s website www.libertydefense.com. In addition, reference should be made to Company’s audited consolidated financial statements for the year ended December 31, 2019. Financial information included in this MD&A has primarily been derived from the consolidated financial statements of the Company, which are prepared in accordance with International Financial Reporting Standards (IFRS). All amounts are presented in United States dollars, unless otherwise noted. This MD&A should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the year ended March 31, 2020.

This MD&A may contain forward looking statements based on assumptions and judgments of management regarding events or results that may prove to be inaccurate as a result of development or other risk factors beyond its control. Actual results may differ materially from the expected results.

Additional information on the Company is available under the Company’s profile at www.sedar.com.

Table of Contents

1	OVERVIEW	2
2	OUTLOOK	5
3	FINANCIAL POSITION REVIEW	6
4	EXPENDITURES REVIEW	9
5	RISKS FACTORS	13
6	CRITICAL ACCOUNTING ESTIMATES & POLICIES	15



1 OVERVIEW

About Liberty Defense Holdings Ltd.

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 transaction (“GS RTO”) 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 development and commercialization of HEXWAVE, an active 3D imaging technology and machine learning system, 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.

Recognizing the public security need and the potential of the Urban Security Market (“USM”), LDT was formed in April 2018. LDT has exclusive global license for the active imaging technology and has trademarked HEXWAVE and the Company will look to bring this exciting product to market.

Strategic Review and the Agreement

On December 31, 2019 Liberty announced a fulsome review of its go-to-market strategy and all aspects of its business, which included finding a strategic partner, selling, or raising additional funding to ensure that HEXWAVE could be brought to market. On April 2, 2020, the Company entered into an amalgamation agreement (the “Agreement”) with DrawDown Detection Inc. (“DrawDown”) to acquire a 100% interest in DrawDown via an arm’s length reverse takeover of the Company by DrawDown. The Agreement provides for a bridge loan of \$2 million (\$1.0 million advanced as of April 27, 2020) and upon completion of the merger, a minimum of 12 months funding. Upon completion of the merger, it is expected that the common shares of the resulting entity will resume trading on the TSXV. The closing of the transaction is subject to, amongst other things, Liberty and DrawDown negotiating and executing definitive documentation and the completion of additional financing. As a condition of the Agreement, a new management team will also be put in place.

About DrawDown

DrawDown is a privately-held corporation incorporated on October 26, 2018 under the Business Corporations Act (British Columbia), and is a weapons detection technology company that intends to commercialize intellectual property for use in the public safety market. DrawDown is in the development stage of a handheld device to detect smokeless gunpowder (the “GDS”), which it intends to develop and sell. The GDS technology is being developed in the United States.

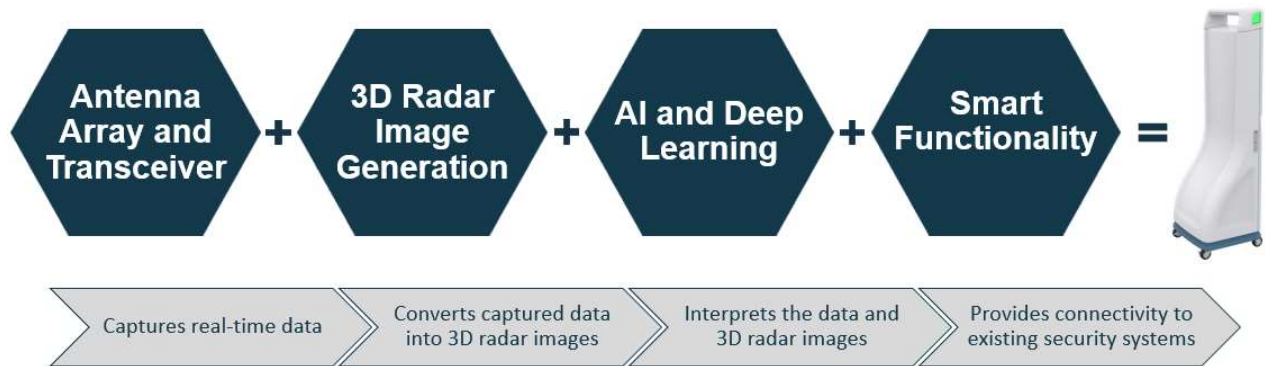
About HEXWAVE

Active imaging technology was developed by the Massachusetts Institute of Technology Lincoln Labs (“MIT LL”) and the technology has been in development since 2014. In October 2017, a concept demonstrator (pre-prototype) of the core technology was successfully tested under operational conditions.

MIT LL undertook 4 years of research and development, including building a working prototype and testing the technology in both lab and real electromagnetic environments. LDT worked with MIT LL to transfer the active imaging technology. In September 2019, Liberty and MIT LL were recognized by the FLC (Federal Laboratory Consortium) for the 2019 Excellence in Technology Transfer North East Region.

With the exclusive global license agreement (the “License Agreement”) for the use of the active imaging technology, the Company has continued to develop HEXWAVE using the technology and concepts demonstrated by MIT LL. MIT LL, through the Technology Transfer Agreement (“TTA”) has transferred the intellectual property and understanding to Liberty’s Center of Excellence (“COE”) in order for the technology to be further refined and developed. As part of the commercialization and go to market strategy, the Company has identified certain required changes and entered into the Cooperative Research and Development Agreement (CRADA) with MIT LL to leverage off their existing experience and accelerate the development of certain aspects of HEXWAVE. In addition to active imaging technology, the Company is also developing Automatic Threat Detection technology with the help of rich 3-dimension data and deep learning algorithms.

HEXWAVE Overview:



Since acquiring the License Agreement from MIT LL, Liberty has significantly advanced HEXWAVE which includes active imaging technology, automated threat detection (“ATD”) and smart technologies. This culminated in the demonstration of the four principle subsystems in September 2019. This step represented a significant de-risking of the product development phase.

Global License Agreement – September 2018

The License Agreement for the use of the technology behind HEXWAVE with MIT is for a 20-year period. Under the License Agreement, several milestones are required to be met to keep it in good standing. MIT continues to work closely with Liberty on developing this technology and recently amended the timeline to develop a beta prototype from on or before December 31, 2019 to November 1, 2020. The amendment also included additional details in relation to changes on required commercial sales dates, required total net sales by year, and payment dates on its license agreement. Refer to [SEDAR](#) for further details on the MIT amendment.

HEXWAVE Key Discriminators

Central to positioning HEXWAVE is building on its key discriminators. These are enabled by the system architecture that aligns to key market needs. These include:

- Detects metal & non-metal threat objects
- Detects both indoor and outdoor locations including both overt and covert application
- Protects privacy (no personal data is collected or analyzed)
- ATD in real-time using rich 3D data and deep learning algorithms
- Smart functionality provides connectivity to existing security systems (VMS, door locks, networks)
- Routine software & AI updates
- Operationally agile (mobile and deployable across detection space)
- High throughput (over 1,000 screens per hour) with precise secondary screening

About the Explosives and Weapon Detection Market

The aggregate markets associated with the explosives and weapon detection market are expected to total over \$11 billion by 2025. The verticals most relevant to the growing Urban Security Market (“USM”) are public venues, secured perimeters & buildings, land transportation, government, and others (schools, hotels, casinos, places of worship, malls, workplace & community screening).

The complexity of the urban security threat environment has dramatically changed over the last decade, requiring a more proactive approach to preventing violent attacks against communities. Since the 9/11 events, the air transportation community has effectively deployed a combination of detection technologies that are being consistently upgraded in an attempt to “stay ahead” of evolving threats. The array of detection tools has largely been protecting access to aircraft systems as gated or “point” solutions. The public is forced to tolerate the delays associated with such inspections due to the extreme risks that explosives or weapons can have on an aircraft and its passengers.

In contrast, urban communities are largely unprotected against random acts of violence or use systems that significantly impede the flow of customers into and within business facilities. While the occasional violent act was more often considered an anomaly, the frequency and magnitude of violent attacks is forcing both businesses and governments to

rethink how to move to more proactive measures. Since 2015, there have been over 300 mass shootings per year in the USA at a pace of nearly one per day. There is a market-driven need for security detection that can be broadly deployed across nearly all public and private facilities. The base requirements are that they be both highly accurate and nonintrusive to our daily lives.

Current Alternatives

The current alternatives in the USM are typically restricted to:

- principally focusing on metal threats, therefore non-metal threats can potentially go undetected
- airport solutions which aren't able to be used across other verticals and do not have the requisite throughput
- limited outdoor application and therefore hinder the capability of providing a layered defense for proactive threat detection
- requiring large dedicated areas or space versus integration into existing infrastructure
- limited capability for integration into existing security systems command & control

About Liberty's Management Team

Central to Liberty's team since 2018, is the technical and management expertise of the Interim CEO Aman Bhardwaj who is the technology and product development lead for the business, with 30 years experience in bringing software and hardware technologies to market and building global teams in U.S., Canada, China, and India for large multi-national and start-up companies.

As part of the strategic review, the Company undertook a review of its go-to-market strategy and development timelines based on its inability to raise the required capital to continue at the previous pace of development. As a result, a number of the COE team members were either laid off and/or reduced from full time to part time in Q1 2020. In conjunction with the DrawDown Agreement and the revised scope of development some of the team has been rehired while others remain on part-time basis. It is anticipated that further management and board changes will occur upon completion of the merger with DrawDown.

About Liberty's Advisors

Liberty has assembled a group of Advisors that can provide unprecedented market access to a number of our identified market verticals including stadiums National Hockey League and Federation Internationale de Football Association and shopping malls. A key aspect to Liberty's success will be gaining access and developing the market for HEXWAVE.

Recent Updates & Developments

From inception, Liberty set itself an aggressive product development timeline by pursuing a concurrent engineering and development approach and prior to its financial constraints had managed to deliver upon this timeline. The development timeline is being revisited and will be updated upon completion of the merger with DrawDown.

- [Achieved active real-time 3D Imaging \(November 2019\)](#)
- [Demonstrated HEXWAVE's subsystem prototypes \(September 2019\)](#)
- [Enhanced HEXWAVE's Smart Functionality with ONVIF \(August 2019\)](#)
- [Completed Tech Transfer and Announced Antenna Array working at the COE \(June 2019\)](#)
- [Announced FCC Granting of Experimental License to Begin Testing HEXWAVE \(April 2019\)](#)

Liberty has also established a number of collaboration agreements with multiple well-respected recognizable organizations across its various market verticals to participate in Beta testing HEXWAVE. These include the following most recent announcements:

- [Port of Tampa \(October 2019\)](#)
- [University of Wisconsin Police Department \(October 2019\)](#)
- [Greater Toronto Airport Authority \(October 2019\)](#)
- [Metro Toronto Convention Centre \(September 2019\)](#)
- [Maryland Stadium Authority \(September 2019\)](#)
- [A Major Global Hindu Organization \(September 2019\)](#)
- [Virginia Division of Capitol Police \(July 2019\)](#)
- [FC Bayern München \(June 2019\)](#)
- [Utah Attorney General \(May 2019\)](#)

In addition to advancing HEXWAVE and the market for it, Liberty achieved a number of significant corporate milestones which include:

- [Execution of Definitive Agreement with DrawDown \(April 2020\)](#)
- [Proposed merger transaction with DrawDown \(January 2020\)](#)
- [Laurentian Bank initiated analyst coverage \(September 2019\)](#)
- [Appointed Bob Falk as VP of Sales & Business Development \(July 2019\)](#)
- [Testified before the House of Commons standing Committee on Health \(June 2019\)](#)
- [Appointed Jeremy Morton as Chairman \(May 2019\)](#)
- [Commenced trading on the Frankfurt Stock Exchange \(April 2019\)](#)
- [Commenced Trading on the TSXV under the symbol “SCAN” \(April 2019\)](#)
- [Completion of GS RTO \(April 2019\)](#)
- [Completed Qualifying Transaction \(“QT”\) financing for CA\\$7m \(March 2019\)](#)

Going Concern & Nature of Operations

For the year ended March 31, 2020, the Company reported a loss of \$801,255 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). 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 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.

2 OUTLOOK

Despite meeting all of its stated business objectives and milestones during the year, the Company was unable to raise the required capital to continue with its concurrent engineering and initial go-to-market strategy. In December 2019, Liberty announced it was unsuccessful in closing the November 2019 financing and a decision to conduct a strategic review. This strategic review resulted in stopping all outside engineering efforts with a reduced development scope to reduce burn and conserve cash which resulted in a workforce reduction.

The DrawDown Agreement was entered into on April 2, 2020 and subject to closing will result in the merger of Liberty with DrawDown. The LOI provided for a loan of \$2 million bearing 12% interest per annum and upon completion of the merger to provide a minimum of 12 months funding. The merger with DrawDown is expected to close in Q2 2020 and with the completion of the associated financings, the Company should be well funded to complete and push towards commercialization of HEXWAVE.

It is expected that changes will occur at both the executive management level and Board level and these changes will be communicated as the merger progresses.

3 FINANCIAL POSITION REVIEW

Certain comparatives in prior periods may have revised to conform to the current presentation. The following table sets out the assets of the Company on a quarterly basis since inception:

3.1 Assets

Table 1: Assets (\$)	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Current assets								
Cash and cash equivalents	663,571	664,483	3,664,397	1,501,179	3,896,657	1,869,746	578,765	430,746
Restricted cash	-	-	-	4,988,834	-	-	-	-
Receivables and prepaids	674	27,152	252,119	820,150	863,936	360,238	119,161	28,760
Deferred financing fees	-	20,938	74,977	-	-	-	-	-
Total current assets	664,245	712,573	3,991,493	7,310,163	4,760,593	2,229,984	697,926	459,506
Intangible assets	-	89,784	115,143	115,143	115,143	100,597	120,884	125,833
Property & equipment	-	-	64,551	372,243	495,526	463,995	430,743	375,215
Total assets	664,245	802,357	4,171,187	7,797,549	5,371,262	2,794,576	1,249,553	960,554

Cash and cash equivalents receipts in Q2 and Q3 2018 relate to the initial seed financing of LPC. The increase in Q4 2018, was a result from proceeds obtained from the October 2018 financing, which was offset by a reduction in accounts payable and expenses. The decrease in Q1 2019 was due to development expenditures in the first quarter. In Q2 2019 cash and cash equivalents increased from the QT financing. The decrease in Q3 2019, Q4 2019, and Q1 2020 was due to development expenditures incurred during the respective periods.

Restricted cash arose in Q1 2019 due to the receipt of funds from the QT financing which was subject to completion of the GS RTO.

Receivables and prepaids increased in Q4 2018 mainly as a result of a prepayment under the CRADA. The increase in Q1 2019 relates to a refund of a marketing contract. The prepaids balance at the end of Q2 2019 primarily relates to advances on marketing contracts and a further CRADA instalment. The decrease in Q3 & Q4 2019 primarily relates to recognizing the benefit of marketing contracts and CRADA.

On January 1, 2019 the Company adopted IFRS 16 which resulted in the capitalization of the lease payments associated with lease obligations at the COE and the recognition of a lease asset of \$319,157 recorded as property and equipment. In Q2 2019 the Company entered into a lease for its corporate office which increased total PP&E by \$150,941. The decrease in Q3 2019, Q4 2019 and Q1 2020 primarily relates to recognizing depreciation on the Company's office leases.

3.2 Liabilities

Table 2: Liabilities (\$)	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Current liabilities								
Accounts payable and accrued liabilities	257,811	1,046,004	437,210	893,621	574,676	382,428	730,191	295,762
Lease liabilities	-	-	-	99,532	128,586	132,166	136,686	138,441
Short-term loan	-	-	-	-	-	-	-	967,604
Non-current Liabilities								
Lease liabilities	-	-	-	229,800	304,632	269,219	235,010	191,302
Total Liabilities	257,811	1,046,004	437,210	1,222,953	1,007,894	783,813	1,101,887	1,593,109

As of December 31, 2019, accounts payable was \$356,372 (2018: \$345,830) and accruals were \$373,819 (2018 \$91,380). Accounts payables and accruals in Q1 2019 were higher due to costs associated with the GS RTO. In Q4 2019 accounts payable increased significantly as the Company sought additional financing and was forced to age

certain creditors. In Q1 2020 accounts payable and accruals decreased as a number of creditors were paid down with the proceeds from the DrawDown loan. In November 2019, the Company announced a \$2.5 million financing and on December 31, 2019 announced that the financing had not closed and that the funds would be returned. As of December 31, 2019, \$109,250 was recorded in accruals associated with the financing and has subsequently been repaid in 2020.

The finance lease obligation increased due to the adoption of IFRS 16 leases (effective January 1, 2019), where any leases that are operating in nature for accounting purposes that have a lease period extending more than one year, are capitalized. The increase in Q2 2019 is a direct result of the lease for the corporate office. The decrease in Q3 2019, Q4 2019, and Q1 2020 is a direct result of paying monthly lease payments during the period.

3.3 Equity

Table 3: Equity (\$)	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Shareholders' equity								
Common shares	461,346	692,002	4,277,990	4,735,793	10,342,881	10,342,881	10,342,881	10,342,881
Contributed surplus	280,437	227,228	2,462,334	6,565,655	3,851,329	4,094,399	4,267,832	4,264,987
Accumulated other comprehensive income ("AOCI")	3,701	(8,049)	(227,955)	(127,793)	(42,013)	(80,159)	(64,322)	(40,443)
Deficit	(339,050)	(1,154,828)	(2,778,392)	(4,599,059)	(9,788,829)	(12,346,358)	(14,398,725)	(15,199,980)
Total shareholders' equity	406,434	(243,647)	3,733,977	6,574,596	4,363,368	2,010,763	147,666	(632,555)

Common Shares

Table 4: Common shares	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Opening balance	-	15,000,000	27,530,000	51,311,525	53,111,525	66,549,721	66,549,721	66,549,721
Unit financing	15,000,000	12,530,000	23,781,525	-	8,826,630	-	-	-
Advisor shares	-	-	-	1,800,000	-	-	-	-
GS RTO - Gulfstream	-	-	-	-	3,444,403	-	-	-
GS RTO - Finders fee	-	-	-	-	1,167,163	-	-	-
Total Common Shares	15,000,000	27,530,000	51,311,525	53,111,525	66,549,721	66,549,721	66,549,721	66,549,721

The initial seed unit financing, totalling 21,250,000 (15,000,000 Q2 18 and 6,250,000 in Q3 2018) units at a price of CA\$0.05 per unit for gross proceeds of \$836,747. Each unit was comprised of one common share and one share purchase warrant, which were subsequently all exercised by December 31, 2018. Each share purchase warrant was exercisable at CA\$0.05 per common share.

In October 2018, an 8,811,525 unit financing at CA\$0.80 per unit was completed, recognizing total net proceeds of CA\$6.2 million. Each unit was comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable at CA\$1.10 per common share for a period of two 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, by written return notice, accelerate the expiry date of the warrants to 30 days after providing such notice.

In conjunction with the aforementioned financing, 144,900 warrants were issued with a deemed value of \$28,420 (booked to contributed surplus), entitling the holder to acquire one common share with the same terms as the October financing mentioned above. In addition, 292,087 Advisory and Broker warrants were issued with a deemed value of \$80,743 (also booked to contributed surplus) to purchase a unit at CA\$0.80. Each Broker warrant entitles the holder to purchase one common share and one share purchase warrant. Each share purchase warrant is on the same terms as October financing mentioned above.

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.

On March 7, 2019, 503,935 Advisory and Broker warrants were issued with a fair value of \$121,530 (booked to contributed surplus) to purchase a unit at CA\$0.80. Each Broker warrant entitles the holder to purchase one common share and one share purchase warrant. Each share purchase warrant can be exercised for CA\$1.10. Furthermore, on March 7, 2019 an additional 8,826,630 warrants were issued relating to the QT financing all of which are booked as part of contributed surplus and can be exercised for CA\$1.10.

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 conjunction with the GS RTO a share consolidation of 2.5:1 occurred reducing the issued and outstanding shares to 3,444,403 with a fair value of \$1,654,795 and a finders fee of 1,167,163 shares were issued with a fair value \$560,740.

As of March 31, 2020, the Company had 66,549,721 common shares issued and outstanding (March 31, 2019: 51,311,525).

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 and a total of 21,325,099 dilutive warrant securities.

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

Table 5: Warrants - Common Shares	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Opening balance	-	15,000,000	14,970,000	8,956,425	10,906,425	19,733,055	19,733,055	19,733,055
Unit financing	15,000,000	6,250,000	8,956,425	-	8,826,630	-	-	-
Warrants exercised	-	(6,280,000)	(14,970,000)	-	-	-	-	-
Advisor warrants	-	-	-	1,950,000	-	-	-	-
Total Warrants	15,000,000	14,970,000	8,956,425	10,906,425	19,733,055	19,733,055	19,733,055	19,733,055

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.

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

Table 6: Warrants Outstanding - Units	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Opening Balance	-	-	-	292,087	796,022	796,022	796,022	796,022
Broker/Advisor Warrants	-	-	292,087	503,935	-	-	-	-
Total Warrants	-	-	292,087	796,022	796,022	796,022	796,022	796,022

In conjunction with the QT financing 503,935 Broker Unit warrants were issued. Each broker unit warrant entitles the holder to acquire one unit 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.

Options

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

Table 7: Options	Q219	Q319	Q419	Q120
Opening Balance	-	4,725,000	4,773,333	4,738,334
Issued	4,725,000	225,000	250,000	-
Forfeited	-	(176,667)	(196,666)	(458,667)
Expired	-	-	(88,333)	(398,334)
Total Options	4,725,000	4,773,333	4,738,334	3,881,333

In April 2019, Liberty issued 4,725,000 options with an exercise price of CA\$0.80 to various employees, consultants, and directors. The purpose of the plan is to help attract and retain these individuals who will contribute to the Company's long-range success to provide incentives to these individuals that align with the interests of shareholders, and to promote the success of the Company's business. In Q3 2019, the Company issued an additional 225,000 options to consultants and in Q4 2019 another 250,000 options to a director. In Q3 2019, Q4 2019, and Q1 2020 176,667, 196,666, and 458,667 options were forfeited respectively. The Company normally has vesting restrictions placed on options when they are initially granted, when these vesting conditions are not met the options are regarded as forfeited. In Q4 2019 and Q1 2020 88,333 and 398,334 options expired, generally as a result of the acceleration of the expiry dates on vested options due to either resignations or terminations of employees or consultants.

Table 8: Equity Instruments	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Common shares outstanding	15,000,000	27,530,000	51,311,525	53,111,525	66,549,721	66,549,721	66,549,721	66,549,721
Warrants outstanding – common shares	15,000,000	14,970,000	8,956,425	10,906,425	19,733,055	19,733,055	19,733,055	19,733,055
Weighted average price (CA\$)	0.05	0.05	1.10	1.05	1.07	1.07	1.07	1.07
Warrants outstanding – units			292,087	796,022	796,022	796,023	796,022	796,022
Weighted average price (CA\$)			0.80	0.80	0.80	0.80	0.80	0.80
Options outstanding					4,725,000	4,773,333	4,738,334	3,881,333
Weighted average price (CA\$)					0.80	0.80	0.80	0.80
Market capitalization (CA\$)					49,246,794	31,278,369	12,644,447	7,320,469
Closing share price (CA\$)					0.74	0.47	0.19	0.11

*Not Applicable (NA), as the Company wasn't public during this period

As of February 29, 2020, the Company had a closing price of CA\$0.11 and a total market capitalization of CA\$7,320,469 and currently remains halted due to the merger with DrawDown.

4 EXPENDITURES REVIEW

The following table details the Company's expenditures to December 31, 2019 broken down into their functional areas of Brand & Market Awareness (costs associated with establishing a market for HEXWAVE and the brand HEXWAVE), Research and Development (costs associated with obtaining, developing, engineering, refining, prototypes for testing, and redesigning the product) and General and Administrative (costs associated with starting up the Company and running the Company from a corporate perspective).

As the Company is in a start-up phase, the Company has no revenues and does not expect any until it commercializes HEXWAVE. From an operational standpoint, there are no comparatives that existed prior to Q2 2018 and therefore aren't included within this expenditure review.

Certain comparatives in prior periods may have been revised to conform to the current presentation.

4.1 Brand & Market Awareness

Table 9: Brand & Market Awareness (\$)	Quarterly								Annual		
	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	2018	2019	2020
Legal fees	11,001	10,433	35,174	3,546	2,593	-	951	394	56,608	7,090	394
Marketing	24,647	36,650	45,542	148,343	351,366	245,086	155,956	2,636	106,839	900,751	2,636
Other Costs	-	3,570	-	-	206	10,000	-	-	3,570	10,206	-
Salaries & consulting Fees	39,701	61,058	70,739	23,394	21,495	15,337	16,974	7,723	171,498	77,200	7,723
Stock-based compensation	-	25,249	518,523	-	134,488	84,984	35,967	(1,643)	543,772	255,439	(1,643)
Travel & miscellaneous	-	14,857	-	44,300	34,419	33,063	4,570	-	14,857	116,352	-
Total	75,349	151,817	669,978	219,583	544,567	388,470	214,418	9,110	897,144	1,367,038	9,110

The ability to understand and develop the market as well as gain access to it will be a critical in determining the success of Liberty. The legal costs include costs associated with understanding the marketplace and developing a trademark.

Our marketing expenditures have benefits to both brand and market awareness as well as investor and shareholder interest. For this reason we generally split our costs on marketing between brand and market awareness, and also general & administrative costs. Marketing costs include costs associated with promoting awareness of HEXWAVE and Liberty both from a product awareness and Company awareness perspective, as well as encouraging investment in the Company. During 2019, significant marketing costs were incurred to help promote the HEXWAVE brand and to provide awareness about the Company to its stakeholders. Costs increased in Q2 & Q3 2019 primarily as a result of entering into marketing initiatives once the Company became public in April 2019. In 2019 the Company embarked on a marketing and brand awareness campaign program in Europe. Pursuant to an agreement with a consulting firm the Company agreed to pay approximately €\$200,000 for a three-month period marketing campaign in Europe. The aforementioned European program was completed in Q2 hence the reduction in Q3 2019 costs. The Company's significant marketing campaigns are disclosed on Liberty's new releases dated [May 3rd 2019](#), [May 13th 2019](#), and in its [Filing Statement dated March 15th, 2019](#) available on SEDAR. In Q4 2019 and Q1 2020, marketing costs decreased as the Company was in search of seeking additional financing and limited its marketing budget.

Salary and consulting costs include a 20% allocation of the time of the CEO and in 2018 consulting fees included work done to initially understand the marketplace and gain access to key players, which have not existed in 2019.

Stock-based compensation related to developing the brand is a non-cash expense and relates to the issuance of shares and warrants to certain advisors to the Company, as well as issuing stock options. Stock-based compensation in Q4 2018, relates to four new advisors. In Q2 2019, stock options to various employees, consultants, and directors whom are associated with establishing Brand & Market Awareness and therefore increased stock-based compensation. In Q3 and Q4 2019 stock-based compensation decreased as one-third of the initial options issued in Q2 2019 vested immediately, whereas in Q3 & Q4 2019 few or no options vested, and only includes the accrued costs up until the next vesting date. In Q1 2020 the Company experienced a significant portion of layoffs which in turn increased the number of forfeitures during the period and resulted in a net credit to stock-based compensation.

Travel & miscellaneous expenses in the first three quarters of 2019 increased due to the increased activity with establishing a market for HEXWAVE. In Q4 2019 and Q1 2020, travel costs decreased as the Company was in search of seeking additional financing and limited its travel budget.

4.2 Research & Development

Table 10:	Quarterly						Annual				
Research & Development (\$)	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	2018	2019	2020
Depreciation	-	-	8,168	30,104	31,821	32,729	33,248	33,430	8,168	127,902	33,430
Legal fees	25,255	57,582	9,767	4,413	29,058	18,107	13,033	17,461	92,604	64,611	17,461
Other	-	-	6,660	38,188	50,540	51,912	45,952	25,414	6,660	186,592	25,414
Salaries & consulting fees	87,213	194,938	369,342	559,655	851,771	966,483	1,023,583	400,026	651,493	3,401,492	400,026
Stock-based compensation	-	-	-	-	221,598	90,329	35,199	(20,647)	-	347,126	(20,647)
Technology costs	-	61,400	108,348	252,951	340,070	369,295	167,353	93,235	169,748	1,129,669	93,235
Travel & miscellaneous	-	34,082	36,269	16,354	14,211	15,479	9,161	2,454	70,351	55,205	2,454
Total	112,468	348,002	538,554	901,665	1,539,069	1,544,334	1,327,529	551,373	999,024	5,312,597	551,373

Research and Development costs relate principally to the costs of running our COE. Liberty had established an aggressive development schedule based on a concurrent engineering and development approach whereby the Company was working on many different tasks in parallel rather than in series. This had enabled us to significantly shorten the normal development timelines associated with product development. This approach resulted in a higher initial cost structure compared to if we were to have taken a more conservative product development approach. In December 2019 and Q1 2020 the development pace was slowed due to capital constraints.

Depreciation increased in 2019 and Q1 2020 mainly as a result of the depreciation on the lease of the COE.

Legal fees include the costs associated with drafting and developing the technology transfer and license agreements and also some initial costs associated with CRADA. The increased legal fees during Q2 2019 was as a result of work relating to Federal Communications Commission (“FCC”) certification.

Salary and consulting costs include 100% of the COO salary and a 30% allocation of the salary of the CEO. The increase from Q318 to Q418 was consistent with the build out of our development team. There was a consistent trend of salaries & consulting fees increasing quarter over quarter in 2019 due to increased activity as the Company ramping up to commercialize. However, this trend slowed down once the decision was taken in December 2019 to conserve cash and reduce the burn rate as a result of not being able to raise the necessary financing. This in turn decreased salary and consulting costs in Q1 2020.

In Q2 2019, Liberty issued stock options to various employees, and consultants who were primarily associated with research and development, one-third of which vested immediately, the remainder vest over time. In Q3 and Q4 2019 few or no options vested. In Q1 2020 the Company experienced a significant portion of layoffs which in turn increased the number of forfeitures during the period and resulted in a net credit to stock-based compensation.

Technology costs in Q3 and Q4 2018 include \$61,400 and \$76,600 respectively for technology transfer costs associated with the TTA. Technology costs include software and hardware costs associated with developing the initial prototype which continue to be expensed as well as CRADA expenditures. Technology costs increased significantly in Q1 2019 mainly as a result of the Phase 1 CRADA costs. Technology costs in Q2 & Q3 2019 increased as there were higher costs associated with building the prototype. Technology costs decreased in Q4 2019 and Q1 2020 as a result of decreased activity on prototype related expenditures as the Company searched for additional financing.

4.3 General & Administrative

Table 11: General and Administrative (\$)	Quarterly								Annual		
	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	2018	2019	2020
Depreciation	-	-	452	570	8,050	8,106	8,130	7,964	452	24,856	7,964
Foreign exchange loss	234	195	(1,048)	1,761	(1,621)	10,289	6,892	18	(619)	17,320	18
Legal fees	19,366	35,257	46,123	19,631	59,502	41,217	59,075	62,313	100,746	179,425	62,313
Marketing & IR ⁽¹⁾	59,000	16,991	10,399	142,384	403,097	238,047	149,272	3,675	86,390	932,800	3,675
Other	541	702	37,112	31,170	33,173	21,642	19,250	35,234	38,355	105,236	35,234
RTO Transaction Costs	-	-	-	-	2,230,108	-	(24,286)	-	-	2,205,822	-
Salaries & consulting fees	51,357	260,030	207,114	299,760	164,732	199,510	189,657	111,957	518,501	853,659	111,957
Stock-based compensation	-	196	83,128	-	350,549	95,773	71,809	19,540	83,324	518,131	19,540
Travel & miscellaneous	20,735	2,587	31,753	11,985	31,806	30,709	23,957	71	55,075	98,457	71
Total	151,233	315,958	415,033	507,261	3,279,396	645,293	503,756	240,772	882,224	4,935,706	240,772

⁽¹⁾ IR denotes investor relations

Depreciation increased in the last three quarters of 2019 and Q1 2020 mainly as a result of entering into the office lease in May 2019.

2018 legal fees principally relate to costs of establishing our US subsidiary (LDT) in 2018. Legal fees increased in Q2 2019 mainly as a result of Liberty becoming public. Legal fees decreased slightly in Q3 2019 however increased again in Q4 2019 and Q1 2020 as the Company incurred costs associated with a potential financing.

Our marketing expenditures have benefits to both brand and market awareness as well as investor and shareholder interest. For this reason we split our costs on marketing between brand and market awareness, and also general & administrative costs. Costs increased in Q2 & Q3 2019 primarily as a result of entering into marketing contracts once the Company became public in April 2019. In Q4 2019 and Q1 2020 marketing costs decreased as the Company was in search of seeking additional financing and limited its marketing budget. Please refer section 4.1 marketing expenditures for additional details.

GS RTO transactions costs are expenses associated with the reverse takeover that occurred between Liberty and LPC in Q2 2019. The main costs include the shares that were issued to the former Liberty shareholders as well as the shares issued for the finders fee.

Table 12: RTO Transaction Costs	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

Salary and consulting costs include consulting fees to help stand-up and establish the Company from a corporate perspective in Q218 and Q318. Salary costs in Q318 include recruitment costs for the CEO. Q1 2019 included a severance payout for the LPC's former executive chairman. Salaries and consulting costs decreased in Q1 2020 mainly as a result of the management taking a salary cut in order to preserve additional capital.

Stock-based compensation is a non-cash expense and relates to the issuance of shares and warrants to certain advisors to the Company, as well as issuing stock options. Stock-based compensation in Q4 2018 principally relates to a signing bonus paid in shares rather than cash. Stock-based compensation increased in Q2 2019 as a result of issuing stock options to employees, consultants, and directors who are responsible for running the Company from a corporate and administrative perspective of which one-third vested immediately. In Q3 & Q4 2019 few or no options vested. In Q1 2020 the Company experienced layoffs which in turn increased the number of forfeitures during the period and resulted in a decrease in stock-based compensation.

4.4 Related Party Disclosure

Table 13: Related Parties (\$)	Quarterly								Annual		
	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	2018	2019	2020
Paid to related parties											
Short-term employee benefits	167,602	329,706	379,039	201,110	342,923	200,659	185,678	135,777	876,347	930,370	135,777
Share-based payments	-	-	83,128	-	433,735	137,946	73,300	43,869	83,128	644,981	43,869
Total	167,602	329,706	462,167	201,110	776,658	338,606	258,978	179,646	959,475	1,575,351	179,646

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. The decrease in related party expenditures in Q1 2020 is mainly a result of management taking a salary cut in order to preserve additional capital.

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 services were paid directly by the Company. In Q2 2019, a total of \$19,690 was expensed and accrued, relating to MMG. During Q2 2019, the Company terminated its contract with MMG.

4.5 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.

5 RISKS FACTORS

5.1 Forward looking and third-party information

This MD&A includes estimates, projections, and other forward-looking statements, within the meaning of applicable Canadian Securities Laws or United States securities legislation. All estimates, projections, and other forward-looking statements have been prepared by us on assumptions we consider reasonable, but these estimates, projections, and statements involve a high degree of risk and may not prove accurate. No representation is made as to the accuracy of such estimates, statements, or projections or their attainability, and nothing in this MD&A shall be relied upon as a promise or representation as to our future performance.

Statements that are not historical facts or that describe our plans, beliefs, goals, intentions, objectives, projections, expectations, assumptions, strategies, or future events are forward-looking statements. In addition, terms such as “will”, “believe”, “anticipate”, “estimate”, “plan”, “projects”, “continuing”, “ongoing”, “expect”, “intend”, “potential”, and similar expressions and discussions of our strategy or other intentions identify forward-looking statements. These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed for the reasons described in this presentation. You should not place undue reliance on these forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and, except as required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In

addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements.

This MD&A includes certain statements and estimates provided by the Company with respect to the anticipated future performance on the Company. Such statements and estimates reflect various assumptions by the Company concerning anticipated results, which assumptions may or may not prove to be correct. No representations are made as to the accuracy of such statements and estimates, as well as the exercise of a substantial degree of judgment by management as to the scope and presentation of such information. Such statements and estimates are based on a number of assumptions, and subject to a number of risks and other factors, including those that are not in the control of management and which may not prove to be true. Actual results achieved during projection periods may differ substantially from those projected. Historical statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Certain of the information contained in this MD&A concerning industry trends and performance is based upon or derived from information provided by third-party consultants, variously publicly available sources, other industry sources and our research. Although the Company believes it to be reliable, the Company has not independently verified any of the data from third-party sources referred to in this presentation, or analyzed or verified the underlying reports relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources. The Company does not make any representation as to the accuracy of such information. Statements containing forward-looking information are made as of the date of this MD&A.

5.2 Nature of Operations - *Refer to Overview*

5.3 Other Risk Factors

Reference should be made to the Company's risk factors section at the December 31, 2019, Management Discussion and Analysis for a complete discussion of the risk factors associated with:

- *Limited operating history*
- *History of losses*
- *Negative cash flow for the foreseeable future*
- *Reliance on management*
- *Reliance on the successful development of prototype of HEXWAVE*
- *Reliance on a single product, HEXWAVE, and a decline in the growth of demand for this product, would have a material adverse effect on the Company's operating results and growth prospects*
- *Because many of its expenses will be fixed, the Company may not be able to limit its losses if the Company fails to achieve forecasted revenue*
- *Concealed weapons detection is a relatively new market and the rate of adoption and the Company's associated growth in anticipated markets may not be representative of rates of adoption or future growth in other markets*
- *Reliance on third parties (MIT and MIT LL)*
- *Growth may place significant demands on the Company's management and resources*
- *Future acquisitions could disrupt the Company's business and harm the Company's financial condition and operating results*
- *The impact of worldwide economic conditions, including the resulting effect on target market spending, may adversely affect the Company's business, operating results and financial condition*
- *Failure to comply with various applicable laws, including the collection of sales or related taxes, could harm the Company's results of operations and financial condition*
- *Failure to adequately protect the Company's intellectual property could substantially harm the Company's business and operating results*
- *Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information*
- *The Company's failure to raise additional capital necessary to expand the Company's operations and invest in the Company's business could reduce the Company's ability to compete successfully*
- *The Company's business may require permits, certifications and licences*
- *The Company's business is subject to regulatory changes*

- *Low barriers to entry and high competition in the industry*
- *Risks associated with brand development of the Company*
- *The Company's business is subject to rapid technological change*
- *The Company may become engaged in legal proceedings that could cause it to incur unforeseen expenses and could occupy a significant amount of the Company's management's time and attention*
- *The Company's business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events and to interruption by manmade problems such as computer viruses and terrorism*
- *Risks associated with international operations of the Company*
- *Internal controls*
- *Potential conflicts of interest of directors and officers of the Company*
- *Failure to meet milestones under the license agreement*
- *Pandemics such as Covid-19 can disrupt large social gatherings therefore adversely affecting the requirement for capital investment in threat detection and could directly impact the health of key personnel and suppliers of the Company.*

6 CRITICAL ACCOUNTING ESTIMATES & POLICIES

For a full version of the critical accounting estimates and policies, reference should be made to the Company's audited financial statements for the period ended December 31, 2019, which are available on the Company's website at www.libertydefense.com. In addition, reference should be made to the most recently filed Annual Information Form available on SEDAR at www.sedar.com. The following list does not include the policies for **foreign currency translation, intangible assets, share-based payments, cash and cash equivalents, receivables, fixed assets, leases, accounts payable and accrued liabilities, share capital, financial assets, impairment of financial assets, derivative instruments, loss per share, income taxes, and investment tax credits.**

Basis of presentation

The condensed interim consolidated financial statements associated with the MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements were approved by the Board of Directors on June 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.

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 March 31, 2020.