



Liberty Defense

Liberty Defense Holdings, Ltd.

Amended and Restated Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2024 and 2023

Prepared by Management

(Expressed in U.S. dollars)

LIBERTY DEFENSE HOLDINGS, LTD.

Amended and Restated Interim Condensed Consolidated
Financial Statements

For the Three and Nine Months Ended September 30, 2024
and 2023

Notice to Reader

On March 12, 2025, Liberty Defense Holdings, Ltd. (the “Issuer”) filed the amended and restated interim condensed consolidated financial statements for the three and nine months ended September 30, 2024, of the Issuer (the “Interim Financial Statements”) in accordance with section 4.4 of the National Instrument 51-102 Continuous Disclosure Obligations.

The Interim Financial Statements have been refiled to incorporate changes following a review of the Interim Financial Statements performed by the Issuer’s auditors in accordance with applicable standards. The changes to the Interim Financial Statements are as follows:

1. Updated the board of director approval from November 26, 2024, to March 10, 2025;
2. Removed the “Notice of No Auditor Review” of Interim Financial Statements;
3. Correction of fair value reallocation of 60,000 warrants exercised by \$15,275 (Note 11);
4. Correction of residual value of warrants granted by \$135,587 (Note 11);
5. Correction of the calculation of fair value of 61,341 RSUs exercised by \$191,799 (Note 11);
6. Correction of Battelle Patent minimum royalty payment for 2024; accrued for year to date \$150,000 added to Intangible assets and \$150,000 depreciated and included in cost of goods sold (Note 7);
7. Correction of 465,033 special warrants granted and converted into 465,033 units (Note 11);
8. Reclassification of Parabilis loan from current to non-current (Note 8).
9. Other immaterial changes.

Reconciliation of previously reported vs restated balances

<u>Line item</u>	Previously reported (\$)	Adjustments (\$)	Restated (\$)
Total assets	4,377,411	-	4,377,411
Total liabilities	8,841,028	150,000	8,991,028
Shareholders' deficiency	(4,463,617)	(150,000)	(4,613,617)
Loss and comprehensive loss for the nine months period ended September 30, 2024	(6,262,981)	(166,746)	(6,429,727)

March 12, 2025

LIBERTY DEFENSE HOLDINGS, LTD.

Responsibility For Unaudited Condensed Interim Consolidated
Financial Statements for the Three and Nine Months Ended
September 30, 2024, and 2023

The accompanying unaudited condensed interim consolidated financial statements of Liberty Defense Holdings, LTD. and all information in this financial report are the responsibility of the Board of Directors and Management. The interim unaudited condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting and, where appropriate, include management’s best estimates and judgements. Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements. The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee. The Board of Directors appoints the Audit Committee, and all of its members are independent directors. The Audit Committee meets periodically with Management and the auditors to review internal controls, audit results, accounting principles and related matters. The Board of Directors approves the unaudited condensed interim consolidated financial statements on recommendation from the Audit Committee.

“William Frain”

Director, Chief Executive Officer

“Omar Garcia”

Chief Financial Officer

March 12, 2025

Liberty Defense Holdings, Ltd.

Amended and Restated Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. dollars - Unaudited)

As at:	Note	September 30, 2024	December 31, 2023
		(\$)	(\$)
Assets			
Current assets:			
Cash		390,516	963
Accounts receivable, prepaids and deposits	4	475,614	257,885
Inventory	5	147,317	1,255,077
Lease receivable	10	–	7,048
		1,013,447	1,520,973
Non-current assets:			
Property and equipment	6	804,095	1,043,876
Intangible assets	7	2,559,869	3,266,803
		3,363,964	4,310,679
Total assets		4,377,411	5,831,652
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		3,309,221	3,862,675
Loans payable	8	987,728	530,062
Factoring liability Bengal	8	–	1,107,347
Credit line liability Parabilis	8	1,397,066	–
Deferred revenue	14	1,315,970	180,000
CEBA loan	8	–	29,445
Lease liabilities	10	253,498	247,412
		7,263,483	5,956,941
Non-current liabilities:			
Non-current lease liabilities	10	501,697	639,173
Non-current loans payable	8	1,225,848	–
Total liabilities		8,991,028	6,596,114
Shareholders' deficiency			
Share capital	11	34,863,613	32,565,254
Share subscriptions received in advance	11	–	224,915
Equity reserves	12	4,540,070	4,146,489
Accumulated other comprehensive loss		(107,524)	(221,071)
Deficit		(43,909,776)	(37,480,049)
Total shareholders' deficiency		(4,613,617)	(764,462)
Total liabilities and shareholders' deficiency		4,377,411	5,831,652

Nature of operations and going concern (note 1)

Subsequent events (note 21)

Approved by the Board of Directors on March 10, 2025, and signed on the Company's behalf by:

"William Frain"
Director

"Arjun Grewan"
Director

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

Liberty Defense Holdings, Ltd.

Amended and Restated Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in U.S. dollars, except number of shares - Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
		(\$)	(\$)	(\$)	(\$)
Revenue	14 & 15	1,116,944	402,938	2,697,532	1,346,916
Cost of revenue		1,866,172	324,267	4,205,701	970,221
Gross income		(749,228)	78,671	(1,508,169)	376,695
Engineering and Research and Development Expenses:					
Product development & technology costs		(59,967)	120,405	103,429	430,463
Salaries and consulting fees	17	501,717	365,826	1,247,999	1,999,686
Stock-based compensation (recovery)	12 & 17	28,816	24,058	82,220	71,460
Depreciation	6	58,066	140,117	208,407	453,411
Amortization	7	–	168,124	–	495,271
Office, rent & administration, travel and miscellaneous		51,466	105,727	102,371	270,418
General and Administration Expenses:					
Salaries and consulting fees	17	494,754	294,489	1,375,216	1,152,281
Legal and professional fees		98,209	76,751	239,513	250,214
Stock-based compensation	12 & 17	137,115	56,846	296,406	423,409
Office, rent & administration, travel, and miscellaneous		251,039	387,103	688,303	1,135,153
		1,561,215	1,739,446	4,343,864	6,681,766
Other expense (income):					
Other income, net of expenses		–	(28)	–	(1,131)
Interest expense		121,055	74,700	566,266	115,427
Accretion expense	8	–	586	–	(589)
Foreign exchange loss		1,691	365	11,428	566
		122,746	75,623	577,694	114,273
Total loss for the period		\$ (2,433,189)	\$ (1,736,398)	\$ (6,429,727)	\$ (6,419,344)
Income tax expense					
Net loss for the period		(2,433,189)	(1,736,398)	(6,429,727)	(6,419,344)
Other comprehensive loss					
Items that may be reclassified subsequently to profit or (loss)					
Foreign currency translation adjustment		(36,045)	28,302	113,547	(43,045)
Total loss and comprehensive loss for the period		(2,469,234)	(1,708,096)	(6,316,180)	(6,462,389)
Weighted average number of common shares outstanding					
Basic and diluted		16,463,645	12,710,047	16,037,061	12,268,349
Loss per share					
Basic and diluted loss per share	13	(0.15)	(0.14)	(0.40)	(0.52)

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

Liberty Defense Holdings, Ltd.

Amended and Restated Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in U.S. dollars, except number of shares - Unaudited)

	Note	Number of common shares	Share capital	Equity reserves	Share subscriptions received in advance	Accumulated other comprehensive income (loss)	Deficit	Total
		(#)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance as at December 31, 2022		11,683,941	28,936,296	3,518,365	–	(252,669)	(28,111,006)	4,090,986
Issue of private placement, net of share issue cost	11	1,026,106	1,356,739	–	1,179,609	–	–	2,536,348
Fair value of compensation broker warrants	11	–	(12,238)	12,238	–	–	–	–
Residual value allocated to warrants	11	–	(94,101)	94,101	–	–	–	–
Fair value of expired broker warrants	11	–	404,799	(404,799)	–	–	–	–
Stock based compensation	12	–	–	494,869	–	–	–	494,869
Foreign currency translation adjustment		–	–	–	–	(43,045)	–	(43,045)
Loss for the period		–	–	–	–	–	(6,419,344)	(6,419,344)
Balance as at September 30, 2023		12,710,047	30,591,495	3,714,774	1,179,609	(295,714)	(34,530,350)	659,814
Balance as at December 31, 2023		14,542,804	32,565,254	4,146,489	224,915	(221,071)	(37,480,049)	(764,462)
Issue of private placement, net of share issue costs	11	2,064,190	2,208,482	–	(224,915)	–	–	1,983,567
Residual value allocated to warrants	11	–	(562,250)	562,250	–	–	–	–
Residual value of warrants exercised	11	–	15,275	(15,275)	–	–	–	–
Restricted share units exercised	11	66,341	246,934	(246,934)	–	–	–	–
Warrants exercised for cash	11	60,000	87,367	–	–	–	–	87,367
Stock based compensation	12	–	–	396,091	–	–	–	396,091
Fair value of broker warrants allocated to share capital	12	–	(10,265)	10,265	–	–	–	–
Expired broker warrants allocated to share capital on expiry	12	–	312,816	(312,816)	–	–	–	–
Foreign currency translation adjustment		–	–	–	–	113,547	–	113,547
Loss for the period		–	–	–	–	–	(6,429,727)	(6,429,727)
Balance as at September 30, 2024		16,733,335	34,863,613	4,540,070	–	(107,524)	(43,909,776)	(4,613,617)

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

Liberty Defense Holdings, Ltd.

Amended and Restated Condensed Interim Consolidated Statements of Cash Flows

(Expressed in U.S. dollars - Unaudited)

	Note	Nine months ended September 30,	
		2024	2023
		(\$)	(\$)
Cash (used in) provided by:			
Operating activities:			
Loss and comprehensive loss for the period		(6,429,727)	(6,419,344)
Items not involving cash:			
Lease liability interest	10	53,691	60,787
Accrued interest loans payable	8	56,190	–
Accretion expense CEBA loan	8	885	(1,321)
Depreciation	6	208,407	453,411
Depreciation recorded in cost of revenue		113,258	–
Amortization	7	–	495,271
Amortization recorded in cost of revenue	14 & 15	871,023	–
Loss on disposal of property and equipment	6	29,233	–
Stock based compensation	12	378,626	494,869
Stock based compensation recorded in cost of revenue	12	17,465	–
Impairment of inventory	5	143,488	–
Factoring fees	9	289,684	–
Credit Line Parabilis fees	9	15,900	–
Changes in non-cash working capital:			
Amounts receivable and prepaids		(217,729)	(532,358)
Inventory		964,272	(957,496)
Accounts payable and accrued liabilities		(703,454)	3,458,972
Deferred revenue		1,135,970	180,000
Cash used in operating activities		(3,072,818)	(2,767,209)
Investing activities:			
Additions to intangible assets	7	(14,089)	(81,904)
Additions to property and equipment	6	(111,117)	(135,768)
Additions to working capital loans	8	–	–
Cash used in investing activities		(125,206)	(217,672)
Financing activities:			
Proceeds from issuance of units, net of share issue costs	11	1,983,567	2,536,348
Proceeds from Parabilis term loan	8	1,800,000	–
Proceeds from Parabilis credit line	8	1,551,166	–
Repayments from Parabilis credit line	8	(170,000)	–
Repayments on factoring	9	(1,397,031)	–
Proceeds from working capital loans - Related Parties	8	82,000	–
Repayments of working capital loans - Related Parties	8	(220,281)	–
Proceeds from working capital loans	8	653,175	–
Repayments of working capital loans	8	(687,570)	–
Repayment of CEBA loan	8	(23,073)	–
Warrants exercised	11	87,367	–
Lease payments received	10	–	14,852
Repayment of leases	10	(185,081)	(186,038)
Cash provided by (used in) financing activities		3,474,239	2,365,162
Effect of foreign exchange rate changes on cash		113,338	(44,132)
Effect of foreign exchange rate changes on cash		113,338	(44,132)
Increase (decrease) in cash		389,553	(663,851)
Cash, beginning of the period		963	677,473
Cash, end of the period		390,516	13,622
During the nine months ended September 30, 2024 and 2023, the Company paid \$nil and \$nil in income taxes, and paid \$17,071 and \$nil in interest respectively.			
Supplemental cash flow information			
Fair value of compensation brokers warrants	11	10,265	12,238
Residual value allocated to warrants	11	426,663	–
Fair value of RSUs exercised	11	246,518	–
Fair value of warrants allocated to share capital on expiry	11	(312,816)	–

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

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

1. Nature of operations and going concern

Liberty Defense Holdings, Ltd. (“Liberty” or the “Company”), 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’s registered and records office is registered at 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117, Vancouver, British Columbia, V6E 4N7, Canada.

The Company is principally engaged in the production and commercialization of an active 3D imaging technology system, HEXWAVE, to detect concealed threats.

In November 2024, the Company completed a share consolidation on the basis of a (10) pre-consolidation common share for every (1) post-consolidation common share. The share consolidation has been applied retrospectively and as a result all shares, options, warrants, and per share amounts are stated on an adjusted basis (Note 11).

Going concern

These amended and restated condensed interim consolidated financial statements have been prepared using IFRS Accounting Standards as issued by the International Accounting Standards Board applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred in a total loss during the nine months ended September 30, 2024, of \$6,429,727 and cash outflows from operating activities of \$3,072,818. To continue the early production and commercialization of HEXWAVE, the Company requires additional funds. These funds will be pivotal in advancing the production of HEXWAVE. Additionally, 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. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. This material uncertainty casts significant doubt upon the Company’s ability to continue as a going concern.

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

2. Basis of presentation

(a) Statement of compliance

These amended and restated condensed interim consolidated financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policy information as detailed in the Company’s audited annual consolidated financial statements for the year ended December 31, 2023, and do not include all the information required for full annual financial statements in accordance with IFRS Accounting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). It is suggested that these financial statements be read in conjunction with the annual audited consolidated financial statements.

These amended and restated condensed interim consolidated financial statements were approved for issuance by the Board of Directors on March 10, 2025.

(b) Basis of measurement

These amended and restated condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these amended and restated consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

2. Basis of presentation (continued)

(c) Functional and presentation currency

The functional currency of the Company is the Canadian dollar, and the presentation currency of these amended and restated condensed interim consolidated financial statements is the U.S. dollar (“USD”); therefore, references to \$ means USD and CAD\$ are to Canadian dollars.

(d) Basis of consolidation

These amended and restated condensed interim consolidated financial statements include the financial statements of Liberty Defense Holdings, Ltd., and the entities controlled by the Company (its subsidiaries), as follows:

Subsidiary	Place of Incorporation	Functional Currency	Beneficial Interest
Liberty Defense Technologies, Inc.	United States	USD	100%
DrawDown Detection, Inc.	Canada	CAD	100%
DrawDown Technologies, Inc.	United States	CAD	100%

Control exists when the Company has power over an investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company’s returns. All intercompany balances and transactions have been eliminated upon consolidation.

(e) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to select accounting policies and make estimates and judgments that may have a significant impact on the amended and restated condensed interim financial statements. Estimates are continuously evaluated and are based on management’s experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company’s critical accounting judgements and estimates were presented in Note 2 of the annual audited consolidated financial statements and have been consistently applied in the preparation of these amended and restated condensed interim consolidated financial statements. No new estimates and judgements were applied for the period ended September 30, 2024.

3. Material Accounting Policy Information

These condensed interim consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the audited annual financial statements for the year ended December 31, 2023. In the opinion of management, all adjustments considered necessary for fair presentation of the Company’s financial position, results of operations and cash flows have been included. Operating results for the three and nine months ended September 30, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

The following new standards and amendments to standards and interpretations, which become effective for current periods.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

3. Material Accounting Policy Information (continued)

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current. The amendment clarified the guidance on whether a liability should be classified as either current or non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024.
- Amendments to IFRS 16 – Lease liability in a Sale and Leaseback. The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. These amendments are effective for annual periods beginning on or after January 1, 2024.
- Amendments to IAS 7 – Requiring entities to provide qualitative and quantitative information about their supplier finance arrangements. In connection with the amendments to IAS 7, the IASB also issued amendments to IFRS 7 requiring entities to disclose whether they have accessed, or have access to, supplier finance arrangements that would provide the entity with extended payment terms or the suppliers with early payment terms. These amendments are effective on January 1, 2024

The Company did not encounter any material effects from the implementation of new standards or amendments in 2024.

Future standards not yet adopted

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18") which replaces IAS 1 Presentation of Financial Statements. This standard aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss, in particular additional defined subtotals, disclosures about management-defined performance measures and new principles for aggregation and disaggregation of information. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 Statement of Cash Flows. IFRS 18 is effective from January 1, 2027. Companies are permitted to apply IFRS 18 before that date. The Company is currently assessing the impact the new standard will have on its consolidated financial statements.

4. Accounts Receivables, Prepaids and Deposits

	September 30, 2024	December 31, 2023
Accounts receivables	\$ 383,471	\$ 25,494
Prepaids and deposits	92,143	232,391
	\$ 475,614	\$ 257,885

5. Inventory

	September 30, 2024	December 31, 2023
Raw materials	\$ 119,056	\$734,824
Work-in-progress	28,261	467,940
Finished Goods	-	52,313
	\$ 147,317	\$1,255,077

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

5. Inventory (continued)

The Company reclassified finished goods inventory of \$nil (December 31, 2023, \$86,556) to property and equipment related to a HEXWAVE prototype unit. The HEXWAVE unit will be used in live scenarios to promote the product and collect data to further improve HEXWAVE. The Company reclassified work in process assemblies of \$48,185 (December 31, 2023, \$nil) to property and equipment related to the engineering prototype HEXWAVE unit. The engineering prototype HEXWAVE unit was disassembled and upgraded to be used for testing and development of enhanced algorithms.

As of September 30, 2024, the Company recorded an impairment expense of \$143,488 (September 30, 2023 - \$nil).

As of September 30, 2024, the Company expensed \$1,883,015 of inventory to cost of sales (September 30, 2023, \$171,500).

6. Property and Equipment

	Leasehold Improvement	Equipment	Right of Use Asset	Prototype	Construction in Process	Total
Cost						
At December 31, 2022	\$6,735	\$222,954	\$ 772,312	\$ 584,859	\$ 88,715	\$ 1,675,575
Additions	-	-	414,562	86,556	134,389	635,507
Transfers	-	-	-	171,899	(171,899)	-
At December 31, 2023	\$ 6,735	\$ 222,954	\$ 1,186,874	\$ 843,314	\$ 51,205	\$ 2,311,082
Additions	-	25,241	-	48,185	37,691	111,117
Disposals	-	-	-	(116,933)	-	(116,933)
At September 30, 2024	\$ 6,735	\$ 248,195	\$ 1,186,874	\$ 774,566	\$ 88,896	\$ 2,305,266
Accumulated Depreciation						
At December 31, 2022	\$6,735	\$71,717	\$ 234,982	\$ 360,662	\$ -	\$ 674,096
Depreciation for the year	-	59,059	192,581	341,529	-	593,169
At December 31, 2023	\$ 6,735	\$ 130,776	\$ 427,563	\$ 702,191	\$ -	\$ 1,267,265
Depreciation for disposal	-	-	-	(87,700)	-	(87,700)
Depreciation for the period	-	43,560	142,124	135,981	-	321,665
At September 30, 2024	\$ 6,735	\$ 174,336	\$ 569,687	\$ 750,472	\$ -	\$ 1,501,230
Foreign exchange movement						
At December 31, 2023	\$ -	\$ -	\$ 59	\$ -	\$ -	\$ 59
At September 30, 2024	\$ -	\$ -	\$ 59	\$ -	\$ -	\$ 59
Net Book Value						
At December 31, 2023	\$ -	\$ 92,178	\$ 759,370	\$ 141,123	\$ 51,205	\$ 1,043,876
At September 30, 2024	\$ -	\$ 73,859	\$ 617,246	\$ 24,094	\$ 88,896	\$ 804,095

On February 1, 2023, the Company entered into two new office lease agreements, each with a term of thirty-six months. The first lease resulted in the recognition of an initial right-of-use asset totaling \$58,386, using an implicit interest rate of 9.68%, and the second lease resulted in the recognition of an initial right-of-use asset totaling \$356,176, using an implicit interest rate of 9.81%.

During the three and nine months ended September 30, 2024, equipment depreciation recorded to cost of sales was \$39,039 and \$113,258 respectively (three and nine months ended September 30, 2023, \$nil and \$nil, respectively). During the three and nine months ended September 30, 2024, the Company disposed of assets with a carrying value of \$nil and \$29,233 respectively, for \$nil (three and nine months ended September 30, 2023, \$nil and \$nil, respectively) and \$nil proceeds (three and nine months ended September 30, 2023, \$nil and \$nil, respectively).

7. Intangible Assets

The continuity of the Company's intangible assets is as follows:

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

7. Intangible Assets (continued)

	MIT licenses		Battelle license		Intellectual property		Total
Balance, December 31, 2022	\$	441,225	\$	59,430	\$	3,229,808	\$ 3,730,463
Additions		-		231,805		-	231,805
Amortization		(34,108)		(67,985)		(593,372)	(695,465)
Balance, December 31, 2023	\$	407,117	\$	223,250	\$	2,636,436	\$ 3,266,803
Additions		-		164,089		-	164,089
Amortization		(25,581)		(315,759)		(529,683)	(871,023)
Balance, September 30, 2024	\$	381,536	\$	71,580	\$	2,106,753	\$ 2,559,869

Intangible assets included as MIT licenses and Battelle licenses include payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the reverse take over (“RTO”) transaction closed during the year ended December 31, 2021, and became ready for use during the year ended December 31, 2022. The remaining useful life of the intangible assets are as follows: MIT license 11.25 years, Battelle license six months, and intellectual property 4.25 years. During the nine months ended September 30, 2024, \$871,023 of amortization was allocated to cost of sales (nine months ended September 30, 2023, \$nil).

(a) MIT License Agreements

The Company, through its wholly owned subsidiary Liberty Defense Technologies Inc. (“LDT”), has entered into agreements with the Massachusetts Institute of Technology (“MIT”) and MIT’s Lincoln Laboratory (“MIT LL”), including an exclusive patent licence agreement between MIT and LDT dated September 10, 2018, as amended from time to time (the “Licence Agreement”), a technology transfer agreement between LDT and MIT LL, effective August 24, 2018 (the “Technology Transfer Agreement”), and a cooperative research and development agreement between LDT and MIT dated as of December 21, 2018 (“CRADA”), such agreements providing LDT with an exclusive licence for patents, design assets and MIT LL technical expertise related to active three-dimensional imaging technology that are the core technology behind the HEXWAVE product.

The obligations under the Technology Transfer Agreement and the CRADA have now been completed. Liberty may consider extending the CRADA (and therefore changing its scope) if it determines that additional MIT LL technical expertise related to active three-dimensional imaging technology is required. Pursuant to the License Agreement, LDT has been granted the exclusive rights to MIT’s patent in “multistatic sparse array topology for FFT-based field imaging” (MIT Case No. 1 8409L) (the “Patent”), which is being utilized in the development and application of the HEXWAVE product. The License Agreement is to be in effect until the expiration of the Patent, which is 11 years (December 2035). In granting LDT such patent rights, the Company shall pay MIT in addition to patent filing costs an annual fees as follows: 1) \$20,000 for 2019 (paid); \$50,000 for 2020 (paid); \$60,000 for 2021 (paid); \$100,000 for 2022 (paid); \$nil for 2023, \$40,000 for 2024, \$200,000 for 2025, and \$350,000 for 2026 and thereafter; and 2) a royalty of 5.7% of all future net sales of the Company. As at September 30, 2024, the Company accrued royalty payments of \$86,187 (December 31, 2023, \$nil). The Company shall also be required to achieve certain milestones.

(b) Battelle Memorial License Agreement

On March 22, 2021, the Company, through its wholly owned subsidiary DrawDown Detection, Inc. has entered into an agreement (“Battelle License Agreement”) with Battelle Memorial Institute (“Battelle”), which operates the Pacific Northwest National Laboratory (“PNNL”), to license the millimeter wave-based, High-Definition Advanced Imaging Technology (HD-AIT) body scanner and shoe scanner technologies. The agreement, as amended from time to time, provides the Company with a three-year exclusive license for certain patents which will convert to a non-exclusive license for the remaining life of the patents. The agreement also provides the Company with non-exclusive license for certain patents for life.

As consideration for the Battelle License Agreement, the Company paid \$30,000 upon signing and \$30,000 six months after.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

7. Intangible Assets (continued)

(b) Battelle Memorial License Agreement (continued)

Under the Battelle License Agreement, the Company shall pay a five percent royalty on net sales and a twenty-five percent royalty on all sublicensing revenues if permitted under the contract guidelines. Any government entity that has revenues would not require a five percent royalty on the net sales. As at September 30, 2024, the Company accrued no royalty payments (December 31, 2023, \$nil). The Company is also required to pay a minimum royalty amount as follows, unless the agreement is terminated. As at September 30, 2024, the Company has accrued \$150,000 of the \$200,000 required as the minimum royalty for 2024 (December 31, 2023, \$100,000).

	Amounts
Year 2021 (paid)	\$ 50,000
Year 2022 (paid)	50,000
Year 2023 (payable)	100,000
Year 2024 and each year thereafter (payable)	200,000

The Company is obligated to achieve certain milestones in the next fifteen months and reimburse Battelle for ongoing patenting expenses, as well as past patenting expenses in the total amount of \$50,000, from which \$50,000 has been paid.

8. Loans Payable

(a) Related Party Loans

During the nine months ended September 30, 2024, and the year ended December 31, 2023, the Company received working capital loans from related parties. These loans, unsecured and non-interest bearing, lack specified maturity dates. Repayments will be made as adequate financing becomes available to the Company.

	Amounts
Balance, December 31, 2022	\$ -
Additions	1,381,120
Repayments	(1,052,426)
Balance, December 31, 2023	\$ 328,694
Additions	82,000
Repayments	(220,281)
Balance, September 30, 2024	\$ 190,413

(b) Short Term Loans

Additionally, during the fiscal year ended December 31, 2023, the Company received a secured business line of credit from American Express, subject to a general security agreement on the Company's assets, with various draws. The interest rate on the amount withdrawn varied from 7.49% to 25.71% over a six-month term. The monthly payments fluctuated based on the amount withdrawn from the line of credit with amounts ranging from \$1,782 to \$10,624 per month. The loan is set to mature on June 25, 2024. As of September 30, 2024, the loan has withdrawn an additional \$11,900 with a balance of \$5,333 remaining. The second withdrawal is set to mature on December 16, 2024.

During the fiscal year ended December 31, 2023, the Company secured an unsecured business line of credit from BlueVine Capital. The credit facility had a twenty-six-week term, an interest rate of 1.10%, and required weekly payments of \$3,906. The loan matured on June 5, 2024, and was fully repaid.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

8. Loans Payable (continued)

(b) Short Term Loans (continued)

During the fiscal year ended December 31, 2023, the Company received a secured business line of credit with Headway Capital, subject to a general security agreement of the Company's assets, with one draw for a period of seventeen-months with a monthly interest rate of 4.17%. The Company makes monthly payments of \$6,021. The loan matures on January 31, 2025.

During the nine months ended September 30, 2024, the Company obtained a secured business loan from Blade Funding with a thirty-two-week term. The loan carries an interest rate of 11.50% and requires weekly payments of \$13,125. It is scheduled to mature on January 19, 2025.

	Amounts
Balance, December 31, 2022	\$ -
Additions	332,596
Interest	30,312
Repayments	(161,540)
Balance, December 31, 2023	\$ 201,368
Additions	653,175
Interest	31,613
Repayments	(687,570)
Balance, September 30, 2024	\$ 198,586

(c) Parabilis Term Loan

On August 22, 2024, the Company secured a \$1.8 million business term loan from Parabilis (PFF, LLC). The loan has a term of 104 weeks with an annual interest rate of 17.99% and is scheduled to mature on August 15, 2026. Repayments are set to commence in March 2025.

	Amounts
Balance, December 31, 2023	\$ -
Additions	1,800,000
Interest	24,577
Repayments	-
Balance, September 30, 2024	\$ 1,824,577
Current	\$ 598,729
Non-current	\$ 1,225,848

(d) Parabilis Credit Line

On August 22, 2024, the Company entered into a secured revolving credit line agreement with Parabilis (PFF, LLC) for up to \$2.5 million. The borrowing base for the credit line is determined based on the following percentages: 90% of eligible billed receivables, 65% of eligible unbilled receivables, and 30% of eligible delivery orders. The aggregate of eligible billed and unbilled receivables, along with eligible delivery orders, establishes the Company's borrowing capacity under the credit line.

When invoicing occurs, payments on the invoices are applied directly to the outstanding principal and interest on the credit line. The revolving credit facility has a maturity date of August 31, 2025, with the option for extension at Parabilis' sole discretion. The facility carries an interest rate of 14.99% per annum, subject to re-evaluation on June 1, 2025, at which point the rate may increase to a maximum of 16.99% per annum.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

8. Loans Payable (continued)

(d) Parabilis Credit Line (continued)

The credit line is secured by all tangible and intangible personal property of the Company, wherever located, whether currently owned or acquired in the future.

	Amounts
Balance, December 31, 2023	\$ -
Additions	1,551,166
Factoring Fee	15,900
Repayments	(170,000)
Balance, September 30, 2024	\$ 1,397,066

(e) CEBA Loan

The Company obtained a CAD\$40,000 Canada Emergency Business Account loan ("CEBA") on May 5, 2020, with a 0% interest rate applicable until January 18, 2024 (the "Term Period"). The loan was used to cover payroll, rent, and utilities in compliance with the loan agreement guidelines. Under the terms of the loan, if 75% of the principal amount was repaid by the end of the Term Period, the remaining 25% would be forgiven.

The Company did not repay the required amount by the end of the Term Period, resulting in the loan converting to a term facility. As of June 30, 2024, the outstanding balance of \$29,269 (December 31, 2023 – \$29,445) began accruing interest at an annual rate of 5%. The principal amount is now due by December 31, 2026 (the "Extension Period").

As of December 31, 2023, the net present value of the CEBA loan was \$29,445, which was recorded as a current liability. Furthermore, as of September 30, 2024, the CEBA loan has been fully repaid, and the outstanding balance is \$nil.

9. Factoring Liability

On June 22, 2023, the Company engaged in a factoring arrangement with Bengal Capital, Inc. (the "Factor"). Per the agreement, the Company submits invoices or purchase orders to the Factor after credit approval, receiving 80% of the gross amount. The Factor assumes ownership of these accounts with full recourse. Furthermore, the Company is subject to a 4% monthly factoring fee based on the face value of the accounts. No collateral is used per the agreement; however, the Company is obligated to pay the balance regardless of receiving payment for advanced orders. During the nine months ended September 30, 2024, the Company received funds of \$nil and incurred factor fees of \$289,684 with repayments of \$1,397,031. During the comparative period, September 30, 2023, the Company received funds of \$642,215 and incurred factor fees of \$56,639 with repayments of \$nil. As at September 30, 2024, trade receivables in connection to the factoring arrangements is \$nil (December 31, 2023 – \$nil).

The factoring liability as at September 30, 2024 and December 31, 2023 is as follows:

	Amounts
Balance December 31, 2022	\$ -
Additions	1,265,132
Factoring Fee	192,185
Repayments	(349,970)
Balance, December 31, 2023	\$ 1,107,347
Factoring Fee	289,684
Repayments	(1,397,031)
Balance, September 30, 2024	\$ -

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

9. Factoring Liability (continued)

For accounting purposes, the factored trade receivable remains recorded in trade receivables, while the financing costs are amortized over the financing period.

10. Leases

The Company's lease liabilities as at September 30, 2024, and December 31, 2023, are as follows:

	Right of use liability
Balance, December 31, 2022	\$ 638,306
Additions	414,562
Finance costs	81,032
Lease payments	(247,189)
Foreign exchange movement	(126)
Balance, December 31, 2023	\$ 886,585
Finance costs	53,691
Lease payments	(185,081)
Balance, September 30, 2024	\$ 755,195
Less current portion	253,498
Non-current lease liability	\$ 501,697

During the three and nine months ended September 30, 2024, the Company recorded a lease expense of \$nil and \$nil respectively (three and nine months ended September 30, 2023 – \$nil and \$23,317, respectively) related to short-term leases not meeting the criteria for capitalization under IFRS 16.

Minimum lease payments are as follows:

	September 30, 2024	December 31, 2023
Maturity analysis - contractual undiscounted cash flows		
One year or less	\$ 253,498	\$ 247,412
Two to five years	624,654	815,820
Six and thereafter	-	-
Total lease liabilities	\$ 878,152	\$ 1,063,232
Effect of discounting	(122,957)	(176,647)
Lease liabilities included in the statement of financial position	\$ 755,195	\$ 886,585
Current	\$ 253,498	\$ 247,412
Non-current	\$ 501,697	\$ 639,173

The Company's lease receivable balances as at September 30, 2024, and December 31, 2023, are as follows:

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

10. Leases (continued)

	Amounts
Balance, December 31, 2022	\$ 26,837
Accretion	983
Payments received	(20,827)
Foreign exchange movement	55
Balance, December 31, 2023	\$ 7,048
Accretion	78
Payments received	(6,928)
Foreign exchange movement	(198)
Balance, September 30, 2024	\$ -
Less current portion	-
Non-current lease receivable	\$ -

As a result of the completion of the RTO in March 2021, the Company's head office was moved to Boston, MA. Therefore, the previous head office space was subleased until the expiry of the headlease (April 2024). The Company fair valued the lease receivable by present valuing the expected lease receivable payments over the life of the lease. The Company used an interest rate of 5.55%, the interest rate implicit in the lease. As at September 31, 2024, the minimum undiscounted sublease payments receivable is \$nil (December 31, 2023 – \$7,129).

11. Share Capital

(a) Common share transactions for the nine months ended September 30, 2024

- i) On January 12, 2024, the Company closed the initial tranche of a Listed Issuer Financing Exemption (LIFE) private placement of units, raising gross proceeds of \$662,554 (CAD\$886,000). As of December 31, 2023, the Company had received \$224,915 of these proceeds. This tranche involved the issuance of 590,066 units at a price of CAD\$1.50 per unit. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD\$2.00 per share within 36 months. The warrants were allocated a residual value of \$154,596. Additionally, the Company issued 15,171 broker warrants to agents under identical terms and conditions with a fair value of \$4,508. Agent commissions totaling \$17,110 were paid. All securities issued are subject to a hold period expiring four months and one day after the closing date of the private placement.

Subsequently, on February 5, 2024, the Company closed the final tranche of the same non-brokered private placement, raising an additional \$112,285 (CAD\$150,000). This tranche involved the issuance of 100,000 units under the same terms and conditions as the initial tranche. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD\$2.00 per share within 36 months. The warrants were allocated a residual value of \$37,428.

- ii) On February 26, 2024, the Company closed an investment by Viken Detection Corp. ("Viken") pursuant to which Viken purchased 909,091 units of the Company at an issue price of CAD\$1.50 per unit for total gross proceeds of \$1,000,000 (CAD\$1,363,636). Each unit comprised one common share and one purchase warrant. Each warrant entitles Viken to purchase one additional common share of the Company at an exercise price of CAD\$2.00 for a period of 36 months. The warrants were allocated a residual value of \$166,667. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$27,116 were also paid. These warrants contain blocker language restricting the exercise of the warrants in the event such exercise results in Viken holding more than 9.9% of the outstanding voting securities of the Company.
- iii) On March 17, 2024, a total of 199,636 finder warrants expired with an exercise price of CAD\$3.30. These broker warrants had a fair value at \$312,816 and the reserve value was reclassified to share capital.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

11. Share Capital (continued)

(a) Common share transactions for the nine months ended September 30, 2024 (continued)

- iv) During the period September 30, 2024, a total of 66,341 common shares were issued pursuant to the exercise of RSUs with a fair value of \$246,934 (CAD\$332,763).
- v) During the period of September 30, 2024, a total of 60,000 shares were issued pursuant to the exercise of 60,000 warrants, resulting in proceeds of \$87,367 (CAD\$120,000). Residual value in the amount of \$15,275 was reversed.
- vi) On August 13, 2024, the Company closed the first tranche of a non-brokered private placement for gross proceeds of \$508,864 (CAD\$697,550). The Company issued 465,033 special warrants of the Company at a price of CAD\$1.50 per Unit. Each special warrant will automatically convert into one Unit. Each Unit shall consist of one common share and one share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$2.00 within a period of 36 months. These special warrants were converted into one Unit on August 13, 2024. The warrants were allocated a residual value of \$203,560. The Company paid the agents 19,015 broker warrants with a fair value of \$5,757 (CAD\$7,876). Each broker warrant will be exercisable to purchase one common share for a period of 36 months at an exercise price of CAD\$2.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$30,995. All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.

(b) Common share transactions for the year ended December 31, 2023

- i) On March 11, 2023, a total of 109,813 finder warrants expired with an exercise price of CAD\$4.00. These broker warrants had a fair value at \$188,021 and the reserve value was reclassified to share capital.
- ii) On April 14, 2023, the Company closed the first tranche of a non-brokered private placement for gross proceeds of \$1,007,249 (CAD\$1,341,212). The Company issued 670,606 units (each a "Unit") of the Company at a price of CAD\$2.00 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$3.00 within a period of 24 months. The warrants were allocated a residual value of \$100,727. The Company paid the agents 21,525 broker warrants with a fair value of \$5,498. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$3.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$39,594. All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.
- iii) On May 9, 2023, the Company closed the second tranche of a non-brokered private placement for gross proceeds of \$296,116 (CAD\$397,000). The Company issued 198,500 units (each a "Unit") of the Company at a price of CAD\$2.00 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$3.00 within a period of 24 months. The warrants were allocated a residual value of \$22,712. The Company paid the agents 13,895 broker warrants with a fair valued at \$3,816. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$3.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$20,803. The Company also issued 4,500 units for gross proceeds of \$6,713, which were issued in order to offset invoices due to a vendor. All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

11. Share Capital (continued)

(b) Common share transactions for the year ended December 31, 2023 (continued)

- iv) On June 8, 2023, the Company closed the third and final tranche of a non-brokered private placement for gross proceeds of \$228,547 (CAD\$305,000). The Company issued 152,500 units (each a “Unit”) of the Company at a price of CAD\$2.00 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$3.00 within a period of 24 months. The warrants were allocated a residual value of \$57,137. The Company paid the agents 9,275 broker warrants with a fair value of \$1,893. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$3.00. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$66,900. All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.
- v) On June 17, 2023, a total of 105,690 broker warrants expired with an exercise price of CAD\$5.00. These broker warrants had a fair value of \$208,264, and the reverse value was reclassified to share capital.
- vi) On October 5, 2023, the Company closed a non-brokered private placement for gross proceeds of \$2,588,066 (CAD\$3,565,527). The Company issued 1,782,764 units (each a “Unit”) of the Company at a price of CAD\$2.00 per Unit. Each Unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$3.00 for a period of 36 months. The warrants were allocated a residual value of \$194,105. The Company paid the agents 60,723 broker warrants with a fair value of \$37,523. Each broker warrant will be exercisable to purchase one common share for a period of 36 months at an exercise price of CAD\$2.00. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$336,600, as well as the Company issued 50,000 shares as corporate finance fee with a fair value of \$72,586. All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.
- vii) On December 6, 2023, and subsequently amended on December 29, 2023, the Company announced a non-brokered private placement, intending to sell up to 786,667 units at CAD\$1.50 per unit, aiming for gross proceeds of CAD\$1,180,000. Each unit comprises one common share and one purchase warrant, with each warrant allowing the holder to purchase one share at an exercise price of CAD\$2.00 for 36 months. As of December 31, 2023, the Company received proceeds of \$224,915 (CAD\$305,000) for share subscriptions, net of share issuance costs, ahead of closing the private placement.

12. Equity Reserves

(a) Share-based compensation

The Company maintains an Omnibus Equity Incentive Plan (the “Incentive Plan”) which is comprised of stock options, restricted share units (“RSUs”) and deferred share units (“DSUs”). The maximum number of common shares reserved for issuance, in the aggregate, under the Incentive Plan is 10% of the aggregate number of common shares issued and outstanding to be granted to directors, officers, employees, and consultants under certain restrictions.

Unless the Board decides, or the grant agreement specifies otherwise, the stock options will vest in two years with quarterly intervals following the date of such grant. The Board shall fix the exercise price of any stock option when such stock option is granted, which shall not be less than the closing price of the common shares on the Exchange on the day prior to the date of grant (the “Market Value”). A stock option shall be exercisable during a period established by the Board, which shall commence on the date of the grant and shall terminate no later than ten (10) years after the date of grant of the award or such shorter period as the Board may determine.

With respect to RSUs, the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of the grant.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

12. Equity Reserves (continued)

(a) Share-based compensation (continued)

With respect to PSUs, the specific provisions of the PSU plan, eligibility, vesting period, terms of the PSUs and the number of PSUs granted are to be determined by the Board of Directors at the time of the grant.

The continuity of the number of stock options issued and outstanding are as follows:

	Number of stock options	Weighted average exercise
Outstanding, December 31, 2022	565,460	CAD\$ 5.62
Cancelled	(21,000)	4.31
Granted	124,500	1.90
Outstanding, December 31, 2023	668,960	CAD\$ 4.94
Cancelled	(22,000)	3.90
Expired	(82,460)	12.42
Outstanding, September 30, 2024	564,500	CAD\$ 3.92

As at September 30, 2024, the number of stock options outstanding and exercisable were:

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
7-Apr-26	155,000	CAD\$ 5.00	1.52	155,000
10-Jun-26	10,000	CAD\$ 5.00	1.69	10,000
28-Jul-26	12,500	CAD\$ 5.55	1.82	12,500
28-Jul-26	9,000	CAD\$ 6.50	1.82	9,000
1-Nov-26	46,500	CAD\$ 4.60	2.09	46,500
14-Jan-27	10,000	CAD\$ 3.60	2.29	10,000
26-Apr-27	162,000	CAD\$ 4.10	2.57	162,000
26-May-27	12,500	CAD\$ 3.80	2.65	12,500
16-Aug-27	18,500	CAD\$ 2.90	2.88	18,500
21-Nov-27	6,000	CAD\$ 2.20	3.14	4,500
26-Apr-28	11,000	CAD \$1.80	3.57	8,250
16-Oct-28	111,500	CAD \$1.90	4.05	42,000
September 30, 2024	564,500			490,750

During the three and nine months ended September 30, 2024, the Company recognized stock-based compensation related to stock options totaling \$11,706 and \$62,442, respectively (three and nine months ended September 30, 2023 – \$38,556 and \$179,952 respectively). Of this amount, \$3,365 and \$17,465 was recorded as stock-based compensation in the cost of revenue for the three and nine months ended September 31, 2024, respectively (three and nine months ended September 30, 2023 – \$nil and \$nil, respectively).

The fair value of the stock options granted were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

12. Equity Reserves (continued)

(a) Share-based compensation (continued)

	September 30, 2024	December 31, 2023
Risk-free interest rate	Nil	4.16%
Expected dividend yield	Nil	Nil
Stock price volatility	Nil	80.98%
Expected life (in years)	Nil	5 years
Stock price	Nil	CAD\$1.10

No stock options were granted during the nine months ended September 30, 2024.

(b) Restricted share units (“RSU”)

Restricted share units transactions for the nine months ended September 30, 2024:

- i) On February 28, 2024, the Company granted 147,500 RSUs to employees; these RSUs will be settled with common shares of the Company, are restricted until February 28, 2029, and vest at 100% on February 28, 2025.
- ii) A total of 117,248 RSUs were canceled.
- iii) On August 19, 2024, the Company granted 30,000 RSUs to a consultant; these RSUs shall be settled with common shares of the Company, are restricted until August 19, 2029, and vest at 100% on August 19, 2025.

Restricted share units transactions for the year ended September 30, 2023:

- i) On September 1, 2023, the Company granted 20,000 RSUs to a consultant of the Company; these RSUs shall be settled with common shares of the Company, are restricted until September 1, 2028, and vest 100% on September 1, 2024.

The following table summarizes the movements in outstanding RSUs:

	Number of equity settled RSUs	Deemed Grant Price
Outstanding, December 31, 2022	247,216	CAD\$ 5.04
Granted	345,698	1.70
Outstanding, December 31, 2023	592,914	CAD\$ 3.09
Granted	177,500	1.22
Cancelled	(117,248)	3.02
Exercised	(66,341)	5.00
Outstanding, September 30, 2024	586,825	CAD\$ 2.33

The estimated fair value of the equity settled RSUs granted as of September 30, 2024, was \$159,963 (nine months ended September 30, 2023 – \$nil) and will be recognized as an expense over the vesting period of the RSUs. The fair value of the equity settled RSUs as at the grant date was determined with reference to the market value of the common shares of the Company at the grant date.

During the three and nine months ended September 30, 2024, the Company recognized stock-based compensation related to RSUs in the amount of \$124,338 and \$234,278, respectively (three and nine months ended September 30, 2023, – \$59,559 and \$226,172, respectively).

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

12. Equity Reserves (continued)

(c) Share purchase warrants

The continuity of the number of share purchase warrants outstanding is as follows:

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2022	4,691,738	CAD\$ 5.40
Issued	2,401,235	2.97
Expired	(1,791,003)	6.42
Outstanding, December 31, 2023	5,301,970	CAD\$ 3.96
Issued	2,098,412	2.00
Exercised	(60,000)	2.00
Expired	(1,797,726)	4.81
Outstanding, September 30, 2024	5,542,656	CAD\$ 2.96

The fair value of the compensation warrants was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	September 30, 2024	December 31, 2023
Risk-free interest rate	3.72%	3.53%
Expected dividend yield	Nil	Nil
Stock price volatility	66.71%	63.89%
Expected life (in years)	3 years	2 years
Share price on grant date	CAD\$1.20	CAD\$1.80
Fair value share purchase warrants	CAD\$4.00	CAD\$0.40

The outstanding number of share purchase warrants is as follows:

Expiry date	Outstanding		
	Number of warrants	Exercise price	Remaining contractual life (years)
13-Apr-25	356,828	CAD\$3.00	0.53
9-May-25	115,395	CAD\$3.00	0.61
8-Jun-25	85,525	CAD\$3.00	0.69
5-Oct-26	1,782,764	CAD\$3.00	2.01
5-Oct-26	60,723	CAD\$2.00	2.01
12-Jan-27	545,238	CAD\$2.00	2.28
5-Feb-27	100,000	CAD\$2.00	2.35
28-Feb-27	909,091	CAD\$1.50	2.41
27-Oct-27	144,674	CAD\$2.75	3.07
27-Oct-27	958,335	CAD\$5.00	3.07
27-Jun-27	19,051	CAD\$2.00	2.74
13-Aug-27	465,033	CAD\$2.00	2.87
	5,542,656		

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

12. Equity Reserves (continued)

(d) Performance Shares

On March 17, 2021, Liberty deposited into escrow, and held in escrow, Operational Performance Shares (“OPS”) and Capital Market Performance Shares (“CMPS”) for certain directors, officers, and consultants of the Company upon the Company achieving certain performance milestones. Once these milestones were achieved the shares would be released. These performance shares included 200,000 of OPS and 877,300 of CMPS. In order to fair value these performance shares, management estimated the probability that the Company would issue the performance shares.

Operational Performance Shares

During the nine months ended September 30, 2024, and 2023, none of the 200,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD\$800,000 which had an estimated vesting period between December 2024 and December 2025. During the three and nine months ended September 30, 2024, the Company recorded stock-based compensation in connection to OPS in the amounts of \$33,252 and \$99,371, respectively (three and nine months ended September 30, 2023, \$(17,211) and \$88,746).

	Number of equity settled performance share units	Weighted average price
Outstanding, December 31, 2022 and 2023	200,000	CAD\$ 4.00
Released from escrow	-	0.00
Outstanding, September 30, 2024	200,000	CAD\$ 4.00

Capital Market Performance Shares

During the year ended December 31, 2021, the Company issued 219,325 of the total 877,300 CMPS upon achieving one of the four established milestones. During the year ended December 31, 2022, an additional 657,975 CMPS were issued as the remaining three milestones were met. The Company estimated the probability of the number of CMPS to be issued and an estimated vesting period between June 2021 and September 2022. The total estimated fair value of the CMPS was \$2,696,688, which has been fully expensed.

13. Loss Per Share

Basic loss per share amounts is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the period.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Loss attributable to common shareholders	\$ (2,433,189)	\$ (1,736,398)	\$ (6,429,727)	\$ (6,419,344)
Weighted average number of shares	16,463,645	12,710,047	16,037,061	12,268,349
Basic and diluted loss per share	\$ (0.15)	\$ (0.14)	\$ (0.40)	\$ (0.52)

The Company incurred net losses for the three and nine months ended September 30, 2024, and 2023, therefore all outstanding stock options share purchase warrants, restricted share units, and performance share units, if any, have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

14. Revenue

Revenue recognition during the nine months ended September 30, 2024, relates to the contract revenue (note 16) from the Transportation Security Administration (“TSA”), as well as HEXWAVE units sales.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

14. Revenue (continued)

As of September 30, 2024, the Company recorded accounts receivable of \$296,944 for work completed on contract awards (December 31, 2023 – \$nil). Deferred revenue amounted to \$1,315,970 as of September 30, 2024 (December 31, 2023 – \$180,000). For the three and nine months ended September 30, 2024, the Company recognized total revenue of \$1,116,944 and \$2,697,532, respectively (three and nine months ended September 30, 2023 – \$402,938 and \$1,346,916, respectively).

Revenue	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Battelle Contract Award	\$ -	\$ 30,524	\$ -	\$ 32,557
TSA Contract Award HD-AIT	-	350,000	200,000	1,265,000
TSA OA Development	170,000	-	620,000	-
HD-AIT Phase II	-	-	133,056	-
TSA HDAIT Phase II A	296,944	-	296,944	-
TSA Hexwave	-	22,414	-	49,359
HEXWAVE units	650,000	-	1,447,532	-
Total Revenue	\$ 1,116,944	\$ 402,938	\$ 2,697,532	\$ 1,346,916

15. Contract Awards

During the three and nine months ended September 30, 2024, the Company recognized total contract revenue of \$466,944 and \$1,250,000, respectively, recorded in revenue (three and nine months ended September 30, 2023 – \$402,938 and \$1,346,916, respectively). Future revenue related to these contracts will be recognized as performance obligations are satisfied. It is estimated that future revenues will be recognized on the same basis according to the following timelines:

Contract Award Revenue Expected	Year ended December 31,	
	2024	2025
TSA Contract Award HD-AIT	\$ -	\$ 457,905
TSA OA Development	175,000	246,944
HD-AIT Phase II A	-	150,000
Total estimated contract revenues	\$ 175,000	\$ 854,849

(a) Battelle HD-AIT Shoe Scanner

On May 12, 2022, the Company received a contract award for \$212,697 from Battelle, Pacific Northwest Division’s Contract. The contract award is to work hand in hand with PNNL to develop the High Definition – Advanced Imaging Technology (“HD-AIT”) Retrofit Kits. On July 31, 2023, there was a contract modification decreasing the total allotment from \$212,697 to \$100,000. With developing the HD-AIT Retrofit Kits, the Battelle Memorial License and patent will be utilized in the HD-AIT technology development. The contract award was completed in fiscal year ended 2023 and has been closed. During the nine months ended September 30, 2024, as part of the contract award the Company received \$nil and had a receivable of \$nil (December 31, 2023, \$32,558 and had a receivable of \$nil, respectively).

(b) TSA HD-AIT Upgrade

On September 30, 2022, the Company received a contract award for \$1,747,905 from Transportation Security Administration (“TSA”) for the HD-AIT Wide Band Upgrade Kit. On September 28, 2023, the contract was modified adding an additional milestone. The new contract award with the modification is \$1,922,905. The contract award is to develop a series of millimeter-wave imaging system prototypes to advance and upgrade the current state-of-the-art imaging technology for the current passenger security screening applications. The project will be performed over a period of eighteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at September 30, 2024, the Company received \$200,000 and had a receivable of \$nil (December 31, 2023, – \$1,265,000 and had a receivable of \$nil respectively). The balance remaining on the contract as of September 30, 2024, was \$457,905 (December 31, 2023, – \$657,905). The Company is required to submit quarterly invoices as follows:

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

15. Contract Awards (continued)

(b) TSA HD-AIT Upgrade (continued)

TSA HD-AIT Upgrade	Amounts
Year 2023	\$ 1,265,000
Year 2024	
Milestone 5 A (Q1 2024) (payment received)	200,000
Year 2025	
Milestone 5B (Q1 2025)	100,000
Milestone 6 (Q1 2025)	357,905
Total	\$ 1,922,905

(c) TSA Open Architecture

On September 29, 2023, the Company received a contract award for \$1,116,944 from TSA for the Open Architecture Development. The contract award is to develop a system-level approach that addresses TSA's request for implementation of a Checkpoint Open Architecture for On-Person Screening (OPS) systems that enable modularity and enhances security effectiveness. The project will be performed over a period of thirteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at September 30, 2024, the Company received \$620,000 and had a receivable of \$nil (December 31, 2023, - \$75,000 and had a receivable of \$nil, respectively). The balance remaining on the contract as of September 30, 2024, was \$421,944 (December 31, 2023, - \$1,041,944). The Company is required to submit quarterly invoices as follows:

TSA Open Architecture	Amounts
Year 2023	\$ 75,000
Year 2024	
Milestone 2 (Q1 2024) (payment received)	200,000
Milestone 3 (Q2 2024) (payment received)	250,000
Milestone 4 (Q3 2024) (payment received)	170,000
Milestone 5 (Q4 2024)	175,000
Year 2025	
Milestone 6 (Q1 2025)	175,000
Milestone 7 (Q1 2025)	71,944
Total	\$ 1,116,944

(d) TSA HD-AIT Phase II

On September 29, 2023, the Company received a contract award for \$133,056 from TSA for the HD-AIT Phase II. The contract award is a follow-on option to the current HD-AIT development program to execute phase II to drive to a final hardware design capable of supporting future compliance efforts. The project will be performed over a period of three months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at September 30, 2024, the Company received \$133,056 and had a receivable of \$nil (December 31, 2023, - \$nil and had a receivable of \$nil, respectively). The balance remaining on the contract as of September 30, 2024, was \$nil (December 31, 2023, - \$133,056), as the agreement was completed on February 20, 2024.

(e) TSA HD-AIT Phase II A

On September 5, 2024, the Company received a contract award for \$446,944 from TSA for the HD-AIT Phase II A option. The contract award is a follow-on option to the current HD-AIT development program to execute phase II to drive to a final hardware design capable of supporting future compliance efforts. The project will be performed over a period of twelve months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at September 30, 2024, the Company received \$nil and had a receivable of \$296,944 (December 31, 2023, - \$nil and a receivable of \$nil, respectively). The balance remaining on the contract as of September 30, 2024, was \$150,000 (December 31, 2023, - \$nil).

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

15. Contract Awards (continued)

(e) TSA HD-AIT Phase II A (continued)

TSA HD-AIT Phase II A	Amounts
Year 2024	
Milestone 1 (Q3 2024) (invoiced)	\$ 296,944
Year 2025	
Milestone 2 (Q1 2025)	\$ 150,000
Total	\$ 446,944

16. Collaboration Agreements

Transportation Security Administration's ("TSA") On-Person Screening Capability Program

On October 20, 2021, the Company received a contract award for \$500,000 from TSA as part of the TSA On-Person Screening Capability Program. The contract award is for the demonstration and evaluation of the Company's HEXWAVE technology and its expanded capabilities for screening aviation workers to enhance detection and throughput performance. In order for the Company to draw down on this award, Liberty is required to have its HEXWAVE technology working at certain locations to collect and share data with TSA on identified threats to further develop algorithms to improve the recognition of threats with desire probability of detection. During the nine months ended September 30, 2024, the Company received \$nil in connection with this award and had a receivable of \$nil (December 31, 2023, - \$26,945 and \$22,414, respectively). The balance remaining on the contract as of September 30, 2024, was \$nil, (December 31, 2023, \$nil) as the agreement was completed on November 30, 2023.

17. Related Party Transactions

Compensation of key management personnel:

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management personnel is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
G&A Salaries	\$ 171,686	\$ 235,072	\$ 485,108	\$ 711,311
G&A Stock-based compensation	77,548	63,409	136,004	373,724
G&A Consulting fees (1)	24,192	34,407	72,788	112,870
	\$ 273,426	\$ 332,888	\$ 693,901	\$ 1,197,905

(1) Consulting fees were paid or payable to 1214852 B.C. LTD

As of September 30, 2024, the Company had a balance payable of \$725,456 to key management personnel (December 31, 2023, - \$614,547). This payable balance includes accounts payable and accrued liabilities relating to compensation to directors, officers, or their related companies, included in compensation of key management personnel. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

During the three and nine months ended September 30, 2024, the Company paid Nicole Ridgedale Communications, a related party to the Company and amount of \$nil and \$23,340, respectively (three and nine months ended September 30, 2023, \$11,049 and \$42,787, respectively) for consulting services and stock-based compensation recorded in salaries and consulting fees under general and administration expenses. As at September 30, 2024 the balance owing to Nicole Ridgedale Communications is \$nil (December 31, 2023 - \$23,340). This related party balance is unsecured, non-interest bearing and have no specific terms of settlement.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

17. Related Party Transactions (continued)

During the nine months ended September 30, 2024, the Company received working capital loans (note 8) in the amount of \$82,000 (nine months ended September 30, 2023 – \$1,566,757) from directors, officers, or their related parties. As at September 30, 2024, the outstanding balance is \$190,413 (December 31, 2023 – \$328,694).

18. Financial Instruments

As at September 30, 2024, the Company's financial instruments comprise cash, accounts receivables, accounts payable and accrued liabilities, loans payable, factoring liability and the CEBA loan. The fair values of the Company's financial instruments approximate their carrying values due to their short-term maturity.

Fair value of financial instruments:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

- 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 or indirectly
- Level 3 – Inputs that are not based on observable market data.

The Company's activities expose it to financial risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk and currency risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(a) 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, including accounts receivable terms. The Company's cash is held through large Canadian, international, and foreign national financial institutions. The Company's receivables primarily consist of trade receivables that the Company continues to collect. These trade receivables are primarily with government agencies and are not subject to significant credit risk. The Company's maximum exposure to credit risk is limited to the carrying amount of cash and accounts receivables of \$773,987.

(b) 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 manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after considering existing cash balances, expected exercise of share purchase warrants, and stock options. The Company's ability to continue as a going concern involves significant judgements and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing (note 1). As at September 30, 2024, the Company had cash of \$390,516 (December 31, 2023 – \$963) to settle current liabilities of \$7,263,483 (December 31, 2023 – \$5,956,941). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements
(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)
For the three and nine months ended September 30, 2024, and 2023

18. Financial Instruments (continued)

(c) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Significant market risks to which the Company is exposed are as follows:

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has interest-bearing financial instruments in relation to loans and the factoring agreement (note 8 & 9). The Company's exposure to interest rate risk is minimal as the interest rates are at a fixed percentage on the term of the loan and factoring.

Foreign currency risk

The Company is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency. The Company operates in foreign jurisdictions, which uses the U.S. dollar. The Company does not use derivative instruments to reduce upward, and downward risk associated with foreign currency fluctuations.

		Amounts
		CAD dollars
Financial assets denominated in foreign currencies	\$	67,925
Financial liabilities denominated in foreign currencies		(1,466,619)
Net exposure	\$	(1,398,695)

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by \$98,825.

Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

19. Capital Risk Management

The Company manages common shares, stock options, performance share units, restricted share units, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three and nine months ended September 30, 2024, and 2023

19. Capital Risk Management (continued)

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest-bearing chartered bank account. Cash consists of cash on held with banks.

The Company expects its current capital resources will be sufficient to carry its operations, and product development plans for the foreseeable future. The Company is not subject to externally imposed capital requirements.

There has been no change to the Company's approach to capital management during the nine months ended September 30, 2024.

20. Geographic Information

The Company operates in one reportable operating segment, being the development and commercialization of new technology for the security industry.

As at September 30, 2024 and December 31, 2023, all non-current assets and liabilities are located in the United States.

All revenues earned during the nine months ended September 30, 2024, and 2023 were generated in the United States.

21. Subsequent Events

- Issued a total of 224,600 common shares pursuant to the exercise of RSUs. 15,000 RSUs were cancelled upon termination of certain employees.
- On December 18, 2024, the Company closed a non-brokered private placement for gross proceeds of \$5,585,812 (CAD\$8,000,000). The Company issued 25,000,000 units (each a "Unit") of the Company at a price of CAD\$0.32 per Unit. Each Unit comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.55 for a period of 24 months and are subject to an accelerated expiry at the Company's election under certain conditions. The Company paid the agents \$274,123 in finders fees and issued 1,251,062 finder warrants with a fair value of \$382,873. Each finder's warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.55.
- The Company settled a total of \$363,336 (CAD\$500,000) of indebtedness with a certain creditor by issuing 1,562,500 common shares.
- On January 13, 2025, the Company received CAD\$2,977,851 from the exercise of 5,414,275 warrants after electing, on December 31, 2024, to exercise its acceleration right for all 12,500,000 warrants granted on December 19, 2024, pursuant to a private placement. As a result, the remaining 7,085,725 unexercised warrants expired on January 9, 2025.

Liberty Defense Holdings, Ltd.

Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three and nine months ended September 30, 2024, and 2023

21. Subsequent Events (continued)

- On February 14, 2025, the Company announced an amendment to the exercise price of a total of 1,095,098 outstanding common share purchase warrants, as follows:
 - A total of 630,065 warrants were issued on January 12, 2024, and February 7, 2024. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$2.00 per share, with an expiration date of January 12, 2027.
 - A total of 465,033 warrants were issued on August 13, 2024. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$2.00 per share, expiring on August 13, 2027.

The Company amended the exercise price of these warrants from \$2.00 to \$1.51 per share. All other terms and conditions of these warrants remain unchanged.

- On February 28, 2025, the Company announced it plans to issue 3,031,000 Units at CAD\$1.65 per Unit, raising approximately CAD\$5 million in gross proceeds. Each Unit consists of one common share and one-half of a share purchase warrant, with each whole warrant exercisable at CAD\$2.05 per share for 24 months after closing.