# Liberty Defense Holdings, Ltd.

**Consolidated Financial Statements**

**Years Ended December 31, 2022 and 2021**

**(Expressed in U.S. dollars)**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Liberty Defense Holdings Ltd.

***Opinion***

We have audited the accompanying consolidated financial statements of Liberty Defense Holdings Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $12,159,414 during the year ended December 31, 2022 and, cash outflows from operating activities of $8,855,940. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, prepared under the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*Assessment of Impairment Indicators of Intangible Assets*

As described in Note 8 to the consolidated financial statements, the carrying amount of the Company's intangible assets was $3,730,463 as of December 31, 2022. As more fully described in Notes 2 and 3 to the consolidated financial statements, management assesses intangible assets for indicators of impairment at each reporting period.

The principal consideration for our determination that the assessment of impairment indicators of the intangible assets is a key audit matter is that there was judgment made by management when assessing whether there were indicators of impairment for the intangible assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to develop these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the intangible assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Obtaining an understanding of the key controls associated with evaluating the intangible assets for indicators of impairment.
- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the intangible assets through discussion and communication with management.
- Examining management's qualitative assessment for signs of management bias.
- Reviewing underlying agreements for compliance with terms.
- Performing retrospective review of prior year estimates and judgments.

*Classification of Intellectual Property as Ready for Use*

As described in Note 8 to the consolidated financial statements, the carrying amount of the Company's intellectual property was $3,229,808 as of December 31, 2022. As more fully described in Notes 2 and 3 to the consolidated financial statements, management assesses intellectual property for indications that it is ready for use.

The principal consideration for our determination that the classification of intellectual property as ready for use is a key audit matter is that there was judgment made by management when assessing whether the asset was ready for use, specifically relating to the assets' commercial potential which is impacted by the Company's intent and ability to continue to develop these assets and bring them to market. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment that the intellectual property was ready for use.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures include, among others:

- Obtaining an understanding of the key controls associated with evaluating the intellectual property as ready for use.
- Reviewing, discussing and obtaining support for management's assumptions in developing and applying judgements.
- Reviewing and summarizing significant agreements.
- Examining management's qualitative assessment for consistency with results of operations.
- Evaluating management's estimate of the future economic benefits of these assets.
- Testing the adequacy and correctness of the amortization period used.
- Reviewing IFRS to ensure all criteria have been met for classification and presentation.

***Other Information***

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

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

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

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

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 24, 2023

# Liberty Defense Holdings, Ltd.
## Consolidated Statements of Financial Position
(Expressed in U.S. dollars)
Unaudited - Prepared by Management

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash | $ | 677,473 | $ | 1,341,573 |
| Amounts receivable, prepaids and deposits (note 5) | | 312,135 | | 205,312 |
| Inventory (note 6) | | 485,592 | | – |
| Lease receivable current portion (note 13) | | 19,941 | | 20,159 |
| | | 1,495,141 | | 1,567,044 |
| Non-current assets: | | | | |
| Property and equipment (note 7) | | 1,001,538 | | 768,771 |
| Intangible assets (note 4 and 8) | | 3,730,463 | | 4,135,452 |
| Lease receivable (note 13) | | 6,896 | | 28,675 |
| | | 4,738,897 | | 4,932,898 |
| **Total assets** | **$** | **6,234,038** | **$** | **6,499,942** |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ | 1,475,934 | $ | 756,991 |
| CEBA loan (note 10) | | 28,812 | | 27,986 |
| Lease liabilities (note 13) | | 123,911 | | 106,885 |
| | | 1,628,657 | | 891,862 |
| Non-current liabilities: | | | | |
| Non-current lease liabilities (note 13) | | 514,395 | | 640,080 |
| Battelle Memorial patent expense (note 8) | | – | | 25,000 |
| **Total liabilities** | $ | 2,143,052 | $ | 1,556,942 |
| **Shareholders’ equity** | | | | |
| Share capital (note 14) | $ | 28,936,296 | $ | 18,284,177 |
| Equity reserves (note 15) | | 3,518,365 | | 2,743,825 |
| Accumulated other comprehensive loss | | (252,669) | | (133,410) |
| Deficit | | (28,111,006) | | (15,951,592) |
| Total shareholders’ equity | | 4,090,986 | | 4,943,000 |
| **Total liabilities and shareholders’ equity** | **$** | **6,234,038** | **$** | **6,499,942** |

Nature of operations and going concern (note 1)
Commitments (note 21)
Subsequent events (note 26)

Approved by the Board of Directors on April 24, 2023, and signed on the Company’s behalf by:

*"William Frain"* — Director

*"Daryl Rebeck"* — Director

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

## Liberty Defense Holdings, Ltd.
### Consolidated Statements of Loss and Comprehensive Loss
(Expressed in U.S. dollars)

Unaudited - Prepared by Management

| | Year ended December 31, 2022 | 2021 |
|---|---|---|
| **Research and development:** | | |
| Product development | $ 282,741 | $ 398,930 |
| Technology costs | 421,493 | 513,057 |
| Legal fees | 5,474 | 159,791 |
| Salaries and consulting fees (note 20) | 4,854,000 | 3,148,134 |
| Stock-based compensation (note 15 and 20) | 237,041 | 275,740 |
| Office, rent and administration | 554,960 | 72,139 |
| Travel and miscellaneous | 283,831 | 107,343 |
| Depreciation (note 7) | 537,016 | 130,252 |
| Amortization (note 8) | 587,087 | 19,899 |
| **General Expenses:** | | |
| Salaries and consulting fees (note 20) | 1,017,287 | 573,381 |
| Depreciation (note 7) | – | 13,670 |
| Legal and professional fees | 478,168 | 698,476 |
| Stock-based compensation (note 15 and 20) | 1,749,805 | 2,627,300 |
| Office, rent and administration | 197,591 | 208,036 |
| Regulatory and shareholder information | 110,362 | 51,639 |
| Travel, promotion and investor relations | 857,974 | 772,425 |
| RTO transaction related costs and listing expense (note 4) | – | 2,546,491 |
| | 12,174,830 | 12,316,703 |
| **Other (income) expense:** | | |
| Interest income | – | (54,934) |
| Other income and expenses | (42,993) | – |
| Interest expense | 53,603 | 48,030 |
| Accretion expense (note 10) | 2,726 | 41,819 |
| Foreign exchange (gain) loss | (28,752) | 37,931 |
| | (15,416) | 72,846 |
| **Net loss for the year** | **$ (12,159,414)** | **$ (12,389,549)** |
| **Other comprehensive loss** | | |
| Items that may be reclassified subsequently to profit or (loss) | | |
| Foreign currency translation adjustment | $ (119,259) | $ (193,156) |
| **Total items that may be reclassified subsequently to profit or loss** | (119,259) | (193,156) |
| **Total loss and comprehensive loss for the year** | **$ (12,278,673)** | **$ (12,582,705)** |
| Weighted average number of common shares outstanding | | |
| Basic and diluted | 91,659,543 | 49,242,082 |
| Loss per share | | |
| Basic and diluted loss per share (note 16) | $ (0.13) | $ (0.25) |

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

## Liberty Defense Holdings, Ltd.

### Consolidated Statements of Changes in Shareholder' Equity

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

| | Number of common shares* | Share capital | Equity reserves | Accumulated other comprehensive income (loss) | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance as at December 31, 2020** | **13,680,836** | **$ 2,866,502** | **$ 108,276** | **$ 59,746** | **$ (3,562,043)** | **$ (527,519)** |
| Common shares retained by Liberty shareholders on RTO (note 4) | 10,733,792 | 3,444,458 | – | – | – | 3,444,458 |
| Convertible debentures converted into common shares (note 12) | 5,825,467 | 1,495,507 | – | – | – | 1,495,507 |
| Issue of subscription receipts and private placement, net of share issue cost (note 14) | 31,510,000 | 10,190,334 | – | – | – | 10,190,334 |
| Fair value of compensation brokers warrants (note 15) | – | (435,218) | 435,218 | – | – | – |
| Stock based compensation (note 14 & 15) | – | – | 631,619 | – | – | 631,619 |
| Fair value of performance shares allocated to share capital upon vesting (note 14 & 15) | 2,193,250 | 691,986 | (691,986) | – | – | – |
| Warrants exercised (note 15) | 50,000 | 19,885 | – | – | – | 19,885 |
| Fair value of warrants allocated to share capital issued on exercise (note 14) | – | 10,723 | (10,723) | – | – | – |
| Stock based compensation on performance shares granted (note 14 & 15) | – | – | 2,271,421 | – | – | 2,271,421 |
| Foreign currency translation adjustment | – | – | – | (193,156) | – | (193,156) |
| Loss for the year | – | – | – | – | (12,389,549) | (12,389,549) |
| **Balance as at December 31, 2021** | **63,993,345** | **$ 18,284,177** | **$ 2,743,825** | **$ (133,410)** | **$ (15,951,592)** | **$ 4,943,000** |
| Issue of private placement, net of share issue cost (note 14) | 45,969,711 | 9,381,233 | – | – | – | 9,381,233 |
| Fair value of compensation brokers warrants (note 14) | – | (463,164) | 463,164 | – | – | – |
| Warrants exercised (note 14) | 246,600 | 58,580 | – | – | – | 58,580 |
| Fair value of warrants allocated to share capital issued on exercise (note 14) | – | 21,479 | (21,479) | – | – | – |
| Performance shares issued (note 14) | 6,579,750 | 2,017,198 | (2,017,198) | – | – | – |
| Restricted share units issued (note 15) | 50,000 | 20,894 | (20,894) | – | – | – |
| Residual value allocated to warrants | – | (384,101) | 384,101 | – | – | – |
| Stock based compensation (note 15) | – | – | 1,986,846 | – | – | 1,986,846 |
| Foreign currency translation adjustment | – | – | – | (119,259) | – | (119,259) |
| Loss for the year | – | – | – | – | (12,159,414) | (12,159,414) |
| **Balance as at December 31, 2022** | **116,839,406** | **$ 28,936,296** | **$ 3,518,365** | **$ (252,669)** | **$ (28,111,006)** | **$ 4,090,986** |

*Number of common share information has been updated retroactively to reflect the share consolidation, please refer to note 1 and 4.

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

## Liberty Defense Holdings, Ltd.

**Consolidated Statements of Cash Flows**

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

| | | Year ended December 31, 2022 | | 2021 |
|---|---|---|---|---|
| **Cash (used in) provided by:** | | | | |
| **Operating activities:** | | | | |
| Loss and comprehensive loss for the year | $ | (12,159,414) | $ | (12,389,549) |
| Items not involving cash: | | | | |
| Lease liability interest (note 13) | | 51,457 | | 16,912 |
| Accretion expense CEBA loan (note 10) | | 2,726 | | 2,831 |
| Accretion expense convertible debentures (note 12) | | – | | 38,988 |
| Accrued interest on convertible debentures (note 12) | | – | | 36,973 |
| Accrued interest income on loan receivable from Liberty (note 11) | | – | | (60,920) |
| Depreciation (note 7) | | 537,016 | | 143,922 |
| Amortization (note 8) | | 587,087 | | 19,899 |
| Stock based compensation (note 15) | | 1,986,846 | | 2,903,040 |
| Impairment of inventory (note 6) | | 39,359 | | – |
| Government loans forgiven | | – | | (67,588) |
| Acquistition of subsidiary acquired in RTO (note 1 and 4) | | – | | 2,546,491 |
| Changes in non-cash working capital: | | | | |
| Amounts receivable and prepaids (note 5) | | (90,658) | | (99,107) |
| Inventory (note 6) | | (524,951) | | – |
| Accounts payable and accrued liabilities | | 714,592 | | (311,396) |
| **Cash used in operating activities** | | (8,855,940) | | (7,206,513) |
| **Investing activities:** | | | | |
| Additions to intangible assets (note 8) | | (155,696) | | (187,065) |
| Additions to property and equipment (note 7) | | (769,783) | | (94,335) |
| RTO transaction costs, net of cash acquired | | – | | (290,428) |
| **Cash used in investing activities** | | (925,479) | | (571,828) |
| **Financing activities:** | | | | |
| Proceeds from issuance of units, net of share issue costs (note 14) | | 9,381,233 | | 10,190,334 |
| Proceeds in connection to warrants exercised (note 14) | | 58,580 | | 19,885 |
| Additions to leases | | – | | – |
| Lease payments received (note 13) | | 21,786 | | 13,191 |
| Repayment of leases (note 13) | | (159,959) | | (125,963) |
| Cash advanced to Liberty as part of the loan | | – | | (179,747) |
| Working capital loans repayment, net of proceeds received | | – | | (512,611) |
| Interest on convertible debentures (note 12) | | – | | (137,175) |
| **Cash provided by financing activities** | | 9,301,640 | | 9,267,914 |
| Effect of foreign exchange rate changes on cash | | (184,321) | | (205,047) |
| **Effect of foreign exchange rate changes on cash** | | (184,321) | | (205,047) |
| **Increase in cash** | | (664,100) | | 1,284,526 |
| **Cash, beginning of the year** | | 1,341,573 | | 57,047 |
| **Cash, end of the year** | **$** | **677,473** | **$** | **1,341,573** |

During the year ended December 31, 2022 and 2021, the Company paid $nil in income taxes.

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **Suplemental cash flow information** | | | | |
| Fair value of compensation brokers warrants (note 14) | $ | 463,164 | $ | 435,218 |
| Fair value of shares issued for corporate finance fee (note 14) | | 151,902 | | – |
| Fair value of shares retained by Liberty shareholders (note 4 and 14) | | – | | 3,444,458 |
| Convertible debentures converted into common shares (note 12 & 14) | | – | | 1,495,507 |
| Performance shares released from escrow (note 14 & 15) | | 2,017,198 | | 691,986 |
| Reclassification from reserves upon warrant exercise | | 21,479 | | 10,723 |
| Intangible assets included in accounts payable | | 41,834 | | 15,432 |
| Restricted share units issued | | 20,894 | | – |

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

## 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 located registered address is 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117. Vancouver, British Columbia, V6E 4N7, Canada.

The Company undertook a reverse takeover ("RTO") transaction with DrawDown Detection, Inc. ("DrawDown" or "DD") on March 17, 2021, (Note 4) in which Liberty acquired all of the issued and outstanding common shares of DrawDown on a post-DrawDown consolidation basis in exchange for common shares of Liberty on a one to one basis post-Liberty consolidation. As described, to undertake this transaction, Liberty completed a share consolidation on a 6.2 old shares to 1 new share basis and DrawDown also completed a share consolidation on a 2 old shares to 1 new share basis. Drawdown was identified as the accounting acquirer and, accordingly, the Company was considered to be a continuation of Drawdown, and the net assets of the Company at the date of the reverse acquisition were deemed to have been acquired by Drawdown. These consolidated financial statements include the results of operations of the Company from March 17, 2021.

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

**Going concern**

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred in a total loss during the year ended December 31, 2022, of $12,159,414 and cash outflows from operating activities of $8,855,940. In order to continue the commercialization of the HEXWAVE, the Company will require additional funds to achieve its development timeline and bring HEXWAVE to market. 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

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

## 2. Basis of presentation

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved for issuance by the Board of Directors on April 24, 2023.

**(b) Basis of measurement**

These 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 consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**(c) Functional and presentation currency**

The functional currency of the Company is the Canadian dollar, and the presentation currency of these 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 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 Incorporat | 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 interim condensed consolidated 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.

## 2. Basis of presentation (continued)

**(e) Critical accounting estimates and judgments** (continued)

Business combination
Determination of whether a set of assets acquired, and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 - Business Combinations. Based on an assessment of the relevant facts and circumstances, the Company concluded that the reverse takeover (Note 4) met the criteria of an asset acquisition.

Functional currency
The functional currency for the Company is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of the Company as the Canadian dollar (CAD$). Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsider the functional currency if there is a change in events and conditions that determined the primary economic environment.

Estimated useful lives and depreciation and amortization of property and equipment and intangible assets
Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of economic useful lives, which are determined through the exercise of judgment. Should the economic useful life, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statement of loss and comprehensive loss on a prospective basis.

Impairment of goodwill, intangible assets, and other long-lived assets
Significant estimates and judgments are required in testing goodwill, intangible assets, and other long-lived assets, including right-of-use assets, for impairment. Management uses estimates or exercises judgment in assessing indicators of impairment, defining a CGU, forecasting future cash flows, estimating replacement cost models, and in determining other key assumptions such as discount rates and earnings multipliers used for assessing fair value (less costs of disposal) or value in use.

Stock based compensation
The Company determines the fair value of stock options granted using the Black-Scholes option pricing model. This option pricing model requires the development of market-based subjective inputs, including the risk-free interest rate, expected price volatility and expected life of the option. Changes in these inputs and the underlying assumption used to develop them can materially affect the fair value estimate.

Treatment of development costs
Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Management will use significant judgement to determine if the intangible asset it either in the research, development, or commercialization phase. As the asset moves from the research to development phase, criteria are required to prove that the asset is in the development phase. This includes the intangible asset being technically, and economically feasible, the intangible asset is intended to be complete, has the ability to be sold, show that it will generate future economic benefits, the Company has adequate technical, financial, and other resources to complete the development, and the intangible asset has the ability to measure reliability the expenditure attribute to the intangible asset during its development. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible and is in the development phase. Costs associated in the development phase that would be considered additions include labor associated with the design, construction, and testing of the pre-production or pre-use of the prototypes and models, tools, dies involving new technology, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services.

## 2. Basis of presentation (continued)

### (f) Critical accounting estimates and judgments (continued)

Provisions
Provisions recognized in the financial statements involve estimates on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience, and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

Lease
The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

Income taxes
The provision for income taxes and composition of income tax assets and liabilities requires management's judgment. The application of income tax legislation also requires judgment to interpret legislation and to apply those findings to the Company's transactions.

Deferred tax assets and liabilities
Management judgment and estimates are required in assessing whether deferred tax assets and deferred tax liabilities are recognized in the consolidated statements of financial position. Judgements are made as to whether future taxable profits will be available to recognize deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, prices, operating costs, and other capital management transactions. These judgments and estimates are subject to risk and uncertainty and changes in circumstances may alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the consolidated statements of financial position and the benefit of other tax losses and temporary differences not yet recognized.

Going concern of operations
These consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

Purchase price allocations
The consideration transferred and acquired assets and assumed liabilities are recognized at fair value on the date the Company effectively obtains control. The measurement of each acquisition is based on the information available on the acquisition date. The estimate of fair value of the consideration transferred and acquired intangible assets, property and equipment, other assets and the liabilities assumed are based on estimates and assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

Contract revenue recognition
Contract revenue is recognized once the Company transfers control of goods and services and satisfies performance obligations. The continuous transfer of control of goods and services to the customer is often supported by the customer's physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date. As a result, significant assumptions are used to determine revenue over time as these performance obligations are satisfied. Changes to these assumptions could impact the revenue recognized during the reported period.

## 3. Significant Accounting Policies

### (a) Cash

Cash consists of cash on hand and demand deposits.

### (b) Foreign currency transactions

The financial statements of entities with functional currencies other than U.S. dollars are translated into U.S. dollars for presentation purposes as follows:

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

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

### (c) Inventory

The Company's inventory consists of raw materials, work-in-process ("WIP") and finished goods. The costing method the Company uses is weighted average. Inventories are measured at the lower of cost and net realizable value. The cost of WIP and finished goods includes the cost of raw materials, direct labor, and overhead. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. At each reporting period, management evaluates the provision for obsolete and slow-moving inventory which may be reversed in subsequent periods, should the value subsequently be recovered.

### (d) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation, and accumulated impairment losses, if any. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Property and equipment with an original cost of $5,000 or less is expensed on acquisition. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

| Asset | Life |
|---|---|
| Leasehold improvements | Fourteen years |
| Equipment | Three to seven years |
| Prototypes | One year |

Prototypes are internally generated assets used as a preliminary model for development of the Company's product. Incurred costs on these prototypes are initially accounted for as construction in process ("CIP") and includes directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Once the prototypes being built are completed and functional, the CIP is transferred to fixed assets and begins depreciation on a straight-line basis over the estimated useful life.

Depreciation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

## 3. Significant Accounting Policies (continued)

**(d) Property and equipment** (continued)

If any, gains, and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income (expense) in the Consolidated Statement of Loss.

**(e) Intangible assets**

Intangible assets can be acquired by separate purchase, as part of a business combination, by government grant, by exchange of assets and by self-creation.

Research and development costs

Expenditure in research and development activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in the Consolidated Statement of Loss as an expense when incurred.

Expenditure in development activities where research results are used in planning and designing the production of new or substantially improved products and processes is recognized as an intangible asset if the product or process is technically and commercially feasible, if there is an intention and ability to complete the project and then use or sell it and expect economic benefits from the project, if the Company has sufficient resources to complete development and if it is able to measure reliably the cost during development. The recognized expenditure incurred includes not only the costs caused by its production and indirect costs that can be attributed to it and recognized by the market but also the cost of borrowing in relation to its acquisition.

On initial recognition, an intangible asset is measured at cost. After initial recognition, the Company monitors intangible assets according to the cost model, whereby their cost is decreased by any accumulated depreciation and any accumulated impairment losses.

Amortization

Intangible assets are classified as those with finite useful lives and those with indefinite useful lives. The carrying amount of an intangible asset with a finite useful life is reduced by depreciation and impairments. Depreciation of intangible fixed assets begins to be calculated when the asset is available for use. The adequacy of the depreciation period and the depreciation method are reviewed at least at each financial year-end. Any adjustments necessary are accounted as a change in an accounting estimate.

Depreciation is calculated on a straight-line basis, beginning the following day in the month when the asset is available for use over the life of the asset. The useful lives of the assets will vary depending on the analysis conducted and comparable assets will be taken into consideration. The current useful lives are as follows:

| Asset | Life |
|---|---|
| MIT License | Fourteen years |
| Battelle License | Three years |
| Intellectual Property | Seven years |

Intangible assets with indefinite useful life are tested for impairment at least on the balance sheet date. These assets are not subject to amortization. The useful life is reassessed to determine whether the assets need not be treated as having finite useful life, and the effect is accounted as a change in an accounting estimate.

## 3. Significant Accounting Policies (continued)

### (f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

### (g) Impairment of non-financial assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

Intangible assets with indefinite useful lives, or intangible assets that are not yet available for use are tested for impairment annually as at December 31, as appropriate, and when circumstances indicate that the carrying value may be impaired.

### (h) Financial instruments

The Company recognizes financial assets and liabilities on its financial statements when it becomes a party to the contract creating the asset or liability.

## 3. Significant Accounting Policies (continued)

**(h) Financial instruments** (continued)

*Classification*

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

On initial recognition, all financial assets and liabilities are recorded by the Company at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as FVTPL for which transaction costs are expensed in the period in which they are incurred. The classification of the Company's financial instruments is as follows:

| Financial assets/liabilities | Classification IFRS 9 |
|---|---|
| Cash | Amortized cost |
| Amounts receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| CEBA loan | Amortized cost |

Amortized cost

Financial assets that meet the following conditions are measured subsequently at amortized cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

Fair value through other comprehensive income ("FVTOCI")

Financial assets that meet the following conditions are measured at FVTOCI:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not have any financial assets classified as FVTOCI.

## 3. Significant Accounting Policies (continued)

### (h) Financial instruments (continued)

Fair value through profit or loss ("FVTPL")

By default, all other financial assets are measured subsequently at FVTPL.

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using effective interest method.

Financial instruments designated as hedging instruments

The Company does not currently apply nor have a past practice of applying hedge accounting to financial instruments.

Impairment

The Company recognizes a loss allowance for expected credit losses on its financial assets. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

### (i) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

## 3. Significant Accounting Policies (continued)

**(i) Income taxes** (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(j) Investment tax credits**

The Company is entitled to certain Canadian federal and provincial tax incentives for Scientific Research and Experimental Development ("SRED"), US federal tax incentives for increasing research activities, and US state research and development tax credits. None of these incentives have been received for the years presented. These ITCs are available to the Company to reduce actual income taxes payable. Any credits that are not used in the year in which they are earned are recorded as a deferred income tax asset when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management estimates the amount of ITCs based on eligible SRED expenditures for the year and assesses the probability of usage based upon forecast results.

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

**(k) Share capital**

Common shares are classified as equity. Transactions costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effect.

**(l) Share-based payments**

The Company grants restricted share units, deferred share units, and stock options to directors, officers, and consultants pursuant to a stock option plan described in Note 15. The Company uses the fair value method to account for all share-based awards granted, modified, or settled, and the Black-Scholes Option Pricing Model to determine the fair value of stock options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in contributed surplus will be transferred to share capital on the exercise of stock options. The amounts remain in contributed surplus for stock options which expire unexercised. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively. Options issued to non-employees are valued based on the fair value of the services provided unless the fair value of the services provided cannot be measured reliably, in which case, the fair value is measured by reference to the fair value of the equity instruments granted.

## 3. Significant Accounting Policies (continued)

**(m) Warrants issued in equity financial transactions**

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants on exercise is recorded as equity. If warrants issued are subsequently cancelled or expire without being exercised, then the historical fair value of the equity reserve is transferred from reserve to share capital. If the warrants are exercised the related reserves are reclassified from reserves to share capital.

**(n) Earnings (loss) per share**

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period adjusted for own shares held. Diluted EPS per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants on loss per share would be anti-dilutive.

**(o) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether it has the right to obtain substantially all of the economic benefits from and to direct the use of the identified asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

## 3. Significant Accounting Policies (continued)

**(o) Leases** (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option, or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of loss and comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases for which the Company is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(p) Revenue recognition contracts**

When determining the proper revenue recognition methods for contracts, the Company will evaluate each contract to determine if it meets the recognition criteria. A contract will be identified if both parties to the contract have approved the contract and are committed to perform their respective obligations, each party's rights and payment terms can be identified regarding the goods or services to be transferred, and collectability of consideration is probable.

Performance obligations are determined throughout each contract. The Company's contracts are based on a specific set of tasks that are identified and agreed upon, as well as the transaction price is determined and agreed upon between both parties. Each contract accounts for the timing of these tasks at different points, either on completion of a task or on a monthly/quarterly basis. The total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The satisfaction of the performance obligations is typically measured with either the input method or the output method.

## 3. Significant Accounting Policies (continued)

### (p) Revenue recognition contracts (continued)

The Company typically transfers control of goods and services, and satisfies performance obligations, over time. Therefore, the Company recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date. These costs include labor, materials, other direct and allocations of indirect costs.

The transaction price is determined by considering the terms of the contract. Typically, the contracts the Company enters into are contracts that already have a fixed price set to them. These contracts still go through a significant amount of consideration and estimates to provide the transaction price. When determining the transaction price, or work to be completed in the transaction price, estimates of labor, material, travel, other direct costs, and indirect costs are considered. At times a percentage fee may be added. Costs that the Company will recognize as expense are general and administrative costs (besides the costs explicitly chargeable to the contract), costs of wasted materials labor and other resources, costs related to satisfied performance obligations, and all costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations.

### (q) Changes in accounting standards

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

- The IASB has published Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) to guide companies in applying materiality judgements to accounting policies disclosures. The amendment is effective for annual periods beginning on or after January 1, 2023.
- Amendments to IAS 8 – Definition of Accounting Estimates. The amendments introduce a definition of accounting estimates and are intended to help entities distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". This distinction is important because changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. The amendment is effective for annual periods beginning on or after January 1, 2023.
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments narrow the scope of the initial recognition exemption to clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is effective for annual periods beginning on or after January 1, 2023.
- 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. The amendment is effective for annual periods beginning on or after January 1, 2024

The Company does not expect these amendments to have a significant impact on its consolidated financial statements.

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

## 4. Reverse Takeover of DrawDown

On March 16, 2021, the Company acquired all of the issued and outstanding common shares of DrawDown on a post DrawDown consolidation basis in exchange for common shares of Liberty on a one-to-one basis post-Liberty consolidation. This transaction constituted a reverse takeover ("RTO") through the issuance of 19,506,303 common shares, including the 5,825,468 common shares issued as a result of the conversion of the DrawDown debenture, of the Company to the shareholders of DrawDown. As a result, the former shareholders of DrawDown acquired control of Liberty.

As required by the RTO transaction, Liberty completed a common share consolidation on 6.2 old common shares to 1 new common share basis and DrawDown also completed a common share consolidation on 2 old common shares to 1 new common share basis. All references to common shares have been affected by this share consolidation.

In connection with the RTO transaction, each outstanding share purchase warrant and stock option of DrawDown will automatically become exercisable for post-Liberty consolidation common shares, subject to all necessary adjustments to reflect the terms of the RTO transaction and subject to the terms governing the warrants and stock options, as applicable resulting in the issuance of 437,500 stock options and 208,286 share purchase warrants.

The RTO transaction was accounted with the net assets acquired of Liberty recorded at fair value at the date of acquisition. Furthermore, for accounting purposes, DrawDown was treated as the accounting parent company (legal subsidiary) and Liberty will be treated as the accounting subsidiary (legal parent). As DrawDown was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in these interim condensed consolidated financial statements at their historical carrying value.

The total consideration and transaction costs of $5,946,971 have been allocated as follows:

| | | Amount |
|---|---|---|
| **Assets acquired and liabilities assumed:** | | |
| Cash | $ | 8,239 |
| Receivables & prepaids | | 55,298 |
| Property and equipment | | 240,749 |
| Intangible assets | | 183,682 |
| HEXWAVE technology | | 3,769,172 |
| Accounts payable and accrued liabilities | | (655,056) |
| Lease obligation | | (201,604) |
| **Net assets acquired** | **$** | **3,400,480** |
| | | |
| **Consideration and transaction costs:** | | |
| Fair value of shares retained by Liberty shareholders | | 3,444,458 |
| Pre-existing liability settlement (Note 9) | | 2,203,846 |
| Transaction related costs | | 298,667 |
| **Total consideration and transaction costs** | **$** | **5,946,971** |
| | | |
| **Listing expense** | **$** | **2,546,491** |

The consideration was measured at the fair value of the shares that DrawDown would have had to issue to the shareholders of Liberty, being 10,733,792 common shares, to give the shareholders of Liberty the same percentage equity interest in the combined entity that results from the RTO had it taken the legal form of Drawdown acquiring Liberty.

Additionally, upon closing of the RTO transaction Liberty granted a total of 8,773,000 capital market performance shares ("CMPS") and 2,000,000 operational performance shares ("OPS") to certain directors, officers, and consultants (Note 15). These securities are held in escrow until certain milestones are reached.

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

## 5. Amounts Receivables, Prepaids and Deposits

As of December 31, 2022, the Company had $55,053 (December 31, 2021, – $48,935) in amounts receivables and $257,082 (December 31, 2021, – $156,377) in prepaids and deposits.

## 6. Inventory

The Company's inventory consists of raw materials that will be used to produce HEXWAVE units.

During the year ended December 31, 2022, the Company reclassified raw materials inventory in the amount of $61,164 (December 31, 2021 -$nil) to CIP, as part of property and equipment, to build beta units which are now being used in live scenarios to promote the product and collect data to further improve the product. During the year ended December 31, 2022, the Company wrote-off $39,359 in obsolete spare parts to technology expense (December 31, 2021, $nil).

## 7. Property & Equipment

| | Leasehold Improvements | Equipment | Right of Use Asset | Prototype | Construction in Process | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At December 31, 2020 | $ - | $ - | $ - | $ - | $ - | $ - |
| Additions RTO transaction (note 4) | 6,735 | 32,410 | 201,604 | - | - | 240,749 |
| Additions | - | 94,335 | 655,578 | - | - | 749,913 |
| Derecognition right of use asset | - | - | (84,870) | - | - | (84,870) |
| At December 31, 2021 | $ 6,735 | $ 126,745 | $ 772,312 | $ - | $ - | $ 905,792 |
| Derecognition right of use asset | - | - | - | - | | - |
| Additions | - | 96,209 | - | 584,859 | 88,715 | 769,783 |
| **At December 31, 2022** | $ 6,735 | $ 222,954 | $ 772,312 | $ 584,859 | $ 88,715 | $ 1,675,575 |
| **Accumulated Depreciation** | | | | | | |
| At December 31, 2020 | $ - | $ - | $ - | $ - | $ - | $ - |
| Depreciation for the year | 6,051 | 19,301 | 118,570 | - | - | 143,922 |
| Derecognition right of use asset | - | - | (6,842) | - | - | (6,842) |
| At December 31, 2021 | $ 6,051 | $ 19,301 | $ 111,728 | $ - | $ - | $ 137,080 |
| Depreciation for the year | 684 | 52,416 | 123,254 | 360,662 | - | 537,016 |
| **At December 31, 2022** | $ 6,735 | $ 71,717 | $ 234,982 | $ 360,662 | $ - | $ 674,096 |
| **Foreign exchange movement** | | | | | | |
| At December 31, 2021 | $ - | $ - | $ 59 | $ - | $ - | $ 59 |
| **At December 31, 2022** | $ - | $ - | $ 59 | $ - | $ - | $ 59 |
| **Net Book Value** | | | | | | |
| At December 31, 2021 | $ 684 | $ 107,444 | $ 660,643 | $ - | $ - | $ 768,771 |
| **At December 31, 2022** | **$ -** | **$ 151,237** | **$ 537,389** | **$ 224,197** | **$ 88,715** | **$ 1,001,538** |

On July 2, 2021, the Company entered into a new office lease agreement for a period of seventy-six months whereby an initial right-of-use asset was recognized totaling $655,578, using a 7.83% implicit interest rate.

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

## 8. Intangible Assets

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

| | MIT licenses | Battelle license | Intellectual property | Total |
|---|---|---|---|---|
| Balance, December 31, 2020 | $ - | $ - | $ - | $ - |
| Additions RTO transaction (note 4) | 183,682 | - | 3,769,172 | 3,952,854 |
| Additions | 202,497 | - | - | 202,497 |
| Amortization | (19,899) | - | - | (19,899) |
| Balance, December 31, 2021 | $ 366,280 | $ - | $ 3,769,172 | $ 4,135,452 |
| Additions | 108,134 | 73,964 | - | 182,098 |
| Amortization | (33,189) | (14,534) | (539,364) | (587,087) |
| **At December 31, 2022** | **$ 441,225** | **$ 59,430** | **$ 3,229,808** | **$ 3,730,463** |

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 RTO transaction (Note 4) and became ready for use during the month of February 2022. The remaining useful life of the intangible assets are as follows: MIT license thirteen years, Battelle license two years, and intellectual property six years.

### (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. l 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 14 years (December 2035). In granting LDT such patent rights, the Company shall pay MIT in addition to patent filling costs an annual maintenance fees as follows: 1) $20,000 for 2019 (paid); $50,000 for 2020 (paid); $60,000 for 2021 (paid); $100,000 for 2022 (paid); $200,000 for 2023, and $350,000 for 2024 and thereafter; and 2) a royalty of 5.7% of all future net sales of the Company. 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.

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

## 8. Intangible Assets (continued)

**(b) Battelle Memorial License Agreement** (continued)

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

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. The Company is also required to pay a minimum royalty amount as follows, unless the agreement is terminated:

| | | Amounts |
|---|---|---|
| Year 2021 (paid) | $ | 50,000 |
| Year 2022 | | 50,000 |
| Year 2023 | | 100,000 |
| Year 2024 and each year after | | 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 $25,000 has been paid and the balance remains payable.

## 9. Working Capital Loans

During the year ended December 31, 2022, the Company received and repaid in full working capital loans in the amount of $438,117 (December 31, 2021, – $394,384). These loans were received from directors and were unsecured and non-interest bearing.

| | | Amounts |
|---|---|---|
| Balance December 31, 2020 | $ | 550,525 |
| Additions | | 394,384 |
| Fees | | 7,976 |
| Repayments | | (914,971) |
| Foreign exchange movement | | (37,914) |
| **Balance December 31, 2021** | **$** | **-** |
| Additions | | 438,117 |
| Repayments | | (438,117) |
| **Balance December 31, 2022** | **$** | **-** |

## 10. Canada Emergency Business Account Loan (“CEBA”)

As a result of closing the RTO transaction (Note 4), the Company acquired a CAD$40,000 Canada Emergency Business Account loan (“CEBA”) which was received by Liberty on May 5, 2020, and carries a 0% interest rate per annum, however, the interest rate increases to a 5% per annum if the loan is not repaid in full on or before December 31, 2023 (“Term Period”). The original Term Period was through December 31, 2022, however in October 2022 the Term Period was extended to December 31, 2023. Additionally, in the event that the loan is not fully repaid by the Term Period, it could be extended from January 1, 2024, to December 31, 2025 (“Extension Period”). The Company used the CEBA loan to help fund payroll, rent, and utilities under the appropriate guidelines in the loan agreements.

On December 31, 2020, the CEBA loan converted to a term facility and if the Company pays 75% of the aggregate amount advanced to the credit facility on or before the Term Period, the remaining 25% of the amount advanced will be forgiven.

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

## 10. Canada Emergency Business Account Loan ("CEBA") (continued)

The net present value of the CEBA loan as of December 31, 2022, is $28,812 (December 31, 2021, – $27,986) and is presented as a current liability. The Company also recognized an accretion expense of $2,726 in connection to this loan during the year ended December 31, 2022 (December 31, 2021, – $2,831).

## 11. Loan Receivable from Liberty

Before the completion of the RTO (Note 4), the Company had a loan agreement with DrawDown which provided for a maximum financing of $2,000,000 with a minimum of 12 months funding bearing 12% interest per annum. As March 17, 2021, when the RTO transaction was completed, the outstanding balance under the loan agreement was $2,203,846 which formed part of the consideration on the RTO, including interest receivable of $203,846.

## 12. Convertible Debentures

In connection with the RTO, the Company issued convertible debentures through its wholly owned subsidiary DrawDown on March 5 and May 29, 2020, with a total face value of $1,371,098 (CAD$1,864,810). The instrument was unsecured, had a maturity of one year from its date of issuance and has an interest rate of 10% per annum payable at the end of the term or up on conversion. On March 17, 2021, the RTO was completed, and the debenture converted into DrawDown Units at CAD$0.32 per DrawDown Unit on a pre-share consolidation basis. Each DrawDown Unit was comprised of one common share and one-half of one DrawDown warrant on a pre-share consolidation basis. The shares issued upon conversion of the DrawDown Units were exchanged for Liberty shares on a one for one basis along with the warrants and finder's warrants with the same economic terms and conditions. These instruments were also affected by the share consolidation (Note 14 (b)).

The continuity of the outstanding balance for the convertible debentures was as follows:

| | | **Amount** |
|---|---|---|
| Balance December 31, 2020 | $ | 1,531,309 |
| Accrued interest | | 36,973 |
| Accretion expense | | 38,988 |
| Interest paid | | (137,175) |
| Foreign exchange movement | | 25,412 |
| Converted to common shares | | (1,495,507) |
| **Balance December 31, 2021 and December 31, 2022** | **$** | **-** |

## 13. Leases

The Company's lease liabilities for the years ended December 31, 2022 and December 31, 2021, are as follows:

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

## 13. **Leases** (continued)

| | | Right of use liability |
|---|---|---|
| Balance, December 31, 2020 | $ | - |
| Additions RTO transaction (note 4) | | 201,604 |
| Additions | | 655,578 |
| Finance costs | | 16,912 |
| Lease payments | | (125,963) |
| Foreign exchange movement | | (1,166) |
| Balance, December 31, 2021 | $ | 746,965 |
| Additions | | - |
| Finance costs | | 53,603 |
| Lease payments | | (159,959) |
| Foreign exchange movement | | (2,303) |
| Balance, December 31, 2022 | $ | 638,306 |
| Less current portion | | 123,911 |
| **Non-current lease liability** | **$** | **514,395** |

As of December 31, 2022, the Company recorded an expense of $231,937 (December 31, 2021, – $nil) related to short-term leases not meeting the criteria for capitalization under IFRS 16.

Minimum lease payments are as follows:

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Maturity analysis - contractual undiscounted cash flows | | | | |
| One year or less | $ | 161,707 | $ | 160,693 |
| Two to five years | | 579,947 | | 590,859 |
| Six and thereafter | | 38,881 | | 190,409 |
| Total lease liabilities | $ | 780,535 | $ | 941,961 |
| Effect of discounting | | (142,229) | | (194,996) |
| Lease liabilities included in the statement of financial position | | 638,306 | | 746,965 |
| Current | $ | 123,911 | $ | 106,885 |
| Non-current | $ | 514,395 | $ | 640,080 |

The Company’s lease receivable for the years ended December 31, 2022, and December 31, 2021, are as follows:

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

## 13. **Leases** (continued)

| | | Amount |
|---|---|---|
| Balance, December 31, 2020 | $ | - |
| Additions | | 63,227 |
| Accretion | | 1,810 |
| Payments received | | (13,191) |
| Currency translation adjustment | | (3,012) |
| Balance, December 31, 2021 | $ | 48,834 |
| Accretion | | 2,146 |
| Payments received | | (21,786) |
| Currency translation adjustment | | (2,357) |
| Balance, December 31, 2022 | $ | 26,837 |
| Less current portion | | 19,941 |
| **Non-current lease receivable** | **$** | **6,896** |

As a result of the completion of the RTO, 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. Minimum undiscounted sublease payments receivable is: $21,786 for the next twelve months and $7,262 thereafter.

## 14. Share Capital

**(a) Common share transactions for the year ended December 31, 2022**

i) On March 3, 2022, a total of 123,300 share purchase warrants were exercised at CAD$0.40 per share for total proceeds of $39,101 (CAD$49,320). The fair value of the exercised warrants was $21,479 (CAD$27,126) and was transferred from the equity reserves and recorded against share capital. Also, an additional 123,300 common shares were issued for total proceeds of $19,479 (CAD$24,600).

ii) On March 17, 2022, the Company closed a brokered private placement for gross proceeds of $6,816,237 (CAD$8,624,994). The Company issued 26,136,345 units (each a "Unit") of the Company at a price of CAD$0.33 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$0.50 within a period of 24 months. The Company issued the agents 1,996,363 warrants ("broker warrants") with a fair value of $312,816 and paid cash commission of $520,642. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD$0.33. Additionally, the Company also incurred cash costs in connection to filling and legal expenses in the amount of $274,581 and paid a corporate finance fee of CAD$100,000 with common shares of the Company (303,030 common shares issued with a fair value of $79,029). 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 25, 2022, the Company released from escrow a total of 4,386,500 common shares in connection to capital performance shares' milestones reached. The estimated fair value of these capital performance shares was $1,377,886 (CAD$1,754,600) which was transferred from equity reserves.

iv) On September 14, 2022, a total of 50,000 common shares were issued in connection with the settlement of restricted shares units. The estimated fair value of these instruments was $20,894 (CAD$27,500) which was transferred from equity reserves.

## 14. **Share Capital** (continued)

**(a) Common share transactions for the year ended December 31, 2022** (continued)

v) On October 27, 2022, the Company closed a brokered private placement for gross proceeds of $3,745,817 (CAD$5,140,218). The Company issued 18,691,700 units (each a "Unit") of the Company at a price of CAD$0.275 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$0.50 within a period 60 months. The Company paid the agents 1,446,736 broker warrants with a fair value of $150,348 and cash commissions of $289,926. Each whole broker warrant will be exercisable to purchase one common share for a period of 60 months at an exercise price of CAD$0.275. Additionally, the Company also incurred in other cash issuing costs such as filling, legal and other in the amount of $190,792 and paid a corporate finance fee of CAD$100,000 by issuance of common shares of the Company (363,636 common shares issued with a fair value of $72,873). Concurrent with the brokered private placement, the Company also completed a private placement offering of 475,000 Units of the Company under the same terms and conditions at the price of $0.275 for gross proceeds of $95,120 (CAD$130,625). Bill Frain, the Company's Chief Executive Officer, subscribed for 400,000 Units for an aggregate amount of CAD$110,000. Mr. Frain is a related party of the Company. Additionally, all securities issued under these financings are subject to a hold period expiring four months and one day after the closing date.

Additionally, the Company allocated a residual value of $384,101 to the investor warrants issued on this private placement.

vi) On October 28, 2022, the Company released from escrow a total of 2,193,250 common shares in connection to the capital market performance shares' milestone reached. The estimated fair value of these capital performance shares was $639,312 (CAD$877,300) which was transferred from equity reserves.

**(b) Common share transactions for the year ended December 31, 2021**

i) On March 17, 2021, Liberty completed a share consolidation equivalent to 6.2 old common shares to 1 new common share and DrawDown also completed a share consolidation of 2 old common shares for one new common share in connection to the completion of the RTO transaction (Note 1 and 4). All common shares and per share data presented in the Company's condensed consolidated financial statements have been retroactively adjusted to reflect the share consolidation unless otherwise noted.

ii) As part of the RTO transaction on March 12, 2021, the Company closed a financing with a total of 17,250,000 subscription receipts for one Unit (the "March Unit") at a price of $0.3209 (CAD$0.40) per Unit for total proceeds of $5,535,499 (CAD$6,900,000). Each March Unit is comprised of one common share and one-half of one purchase warrant (each whole warrant, a "March Warrant"). Each whole purchase March Warrant entitles the holder thereof to purchase one common share at CAD$0.60 per common share for a period of two years. The Company issued 1,098,125 compensation warrants to the agents (the "Compensation March Warrants"). Each Compensation March Warrant entitles the agents to acquire one common share of the Company at a price of CAD$0.40 per common share within 24 months with a fair value of $197,832. The Company also incurred a cash commission and other filling and legal expenses of $597,800 (CAD$739,250).

## 14. Share Capital (continued)

**(b) Common share transactions for the year ended December 31, 2021** (continued)

iii) A total of 10,733,792 common shares were issued upon completion of the RTO transaction on March 17, 2021, with a fair value of $3,444,458. Also, the convertible debentures issued in connection to the RTO transaction (Note 4 and 10) were converted into DrawDown Units and immediately exchanged for Liberty shares on a one for one basis along with the warrants and finder's warrants. Each DrawDown Unit is comprised of one common share and one-half of one purchase warrant (each whole warrant, a "CD Warrant"). Each whole purchase CD Warrant entitles the holder thereof to purchase one common share at CAD$0.50 per common share for a period of two years. A total of 5,825,467 common shares were issued with a fair value of $1,495,507 in connection with the convertible debentures.

Also, as part of the convertible debentures' transaction, the Company issued a total of 208,286 finder's warrants at a price of CAD$0.40 per share for a period of 24 months with an estimated fair value of $31,884.

iv) On June 17, 2021, the Company closed a brokered private placement of 14,260,000 units ("Units") at a price of $0.4052 (CAD$0.50) per Unit for gross proceeds of $5,777,490 (CAD$7,130,000). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant "). Each Warrant entitles the holder thereof to acquire one additional common share of the Company at a price of CAD$0.75 per Common Share within 24 months. The Company paid to the agent a cash commission of $448,464 (CAD$553,450) and issued to the agent 1,106,900 non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant entitles the Agent to acquire one common share of the Company at a price of CAD$0.50 per common share within 24 months with a fair value of $237,386. The Company also incurred $76,391 (CAD$94,380) in legal and filling fees.

v) On July 15, 2021, the Company issued 50,000 common shares for gross proceeds of $19,885 in connection with warrants exercised. The fair value of these warrants exercised was $10,723 and was transferred from the equity reserves and recorded against share capital.

vi) On July 21, 2021, the Company issued 2,193,250 capital markets performance shares (Note 14 (d)) to certain employees and a consultant of the Company at a fair value of $691,986.

## 15. 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.

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

## 15. 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, adjusted for the share consolidation (Note 1 and 4) is as follows:

| | Number of stock options | Weighted average exercise price |
|---|---|---|
| Outstanding, December 31, 2020 | 437,500 | CAD$ 0.50 |
| RTO transaction | 230,645 | 4.96 |
| Cancelled | (93,548) | 4.96 |
| Granted | 3,000,000 | 0.49 |
| Outstanding, December 31, 2021 | 3,574,597 | CAD$ 0.67 |
| Cancelled | (605,000) | 0.51 |
| Granted | 2,685,000 | 0.40 |
| **Outstanding, December 31, 2022** | **5,654,597** | **CAD$ 0.54** |

As at December 31, 2022, the number of stock options outstanding and exercisable, adjusted for the share consolidation were:

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| Expiry date | Number of stock options | Exercise price | Remaining contractual life (years) | Number of stock options |
| 1-May-24 | 50,000 | CAD$ 0.50 | 1.33 | 50,000 |
| 15-Jun-24 | 37,500 | CAD$ 0.50 | 1.46 | 37,500 |
| 1-Jul-24 | 75,000 | CAD$ 0.50 | 1.50 | 75,000 |
| 8-Jul-24 | 75,000 | CAD$ 0.50 | 1.52 | 75,000 |
| 31-Jul-24 | 50,000 | CAD$ 0.50 | 1.58 | 50,000 |
| 23-Aug-24 | 37,500 | CAD$ 0.50 | 1.65 | 37,500 |
| 25-Sep-24 | 37,500 | CAD$ 0.50 | 1.74 | 37,500 |
| 29-Sep-24 | 75,000 | CAD$ 0.50 | 1.75 | 75,000 |
| Apr 9 and Jul 2, 2024 | 137,097 | CAD$ 4.96 | 1.50 | 137,097 |
| 7-Apr-26 | 1,615,000 | CAD$ 0.50 | 3.27 | 1,413,125 |
| 10-Jun-26 | 100,000 | CAD$ 0.50 | 3.44 | 75,000 |
| 28-Jul-26 | 125,000 | CAD$ 0.55 | 3.58 | 78,125 |
| 28-Jul-26 | 90,000 | CAD$ 0.65 | 3.58 | 56,250 |
| 1-Nov-26 | 465,000 | CAD$ 0.46 | 3.84 | 232,500 |
| 14-Jan-27 | 100,000 | CAD$ 0.36 | 4.04 | 37,500 |
| 26-Apr-27 | 1,915,000 | CAD$ 0.41 | 4.32 | 478,750 |
| 26-May-24 | 250,000 | CAD$ 0.50 | 1.40 | 62,500 |
| 26-May-27 | 175,000 | CAD$ 0.38 | 4.40 | 43,750 |
| 16-Aug-27 | 185,000 | CAD$ 0.29 | 4.63 | 23,125 |
| 21-Nov-27 | 60,000 | CAD$ 0.22 | 4.89 | - |
| **Outstanding, December 31, 2022** | **5,654,597** | | | **3,075,222** |

During the year ended December 31, 2022, the Company recognized stock-based compensation related to stock options in the amount of $558,556 (December 31, 2021 – $519,914).

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

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

## 15. Equity Reserves (continued)

### (a) Share-based compensation (continued)

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Risk-free interest rate | 2.60% | 0.90% |
| Expected dividend yield | Nil | Nil |
| Stock price volatility | 84.32% | 73.18% |
| Expected life (in years) | 5 years | 5 years |
| Share price on grant date | CAD$0.42 | CAD$0.57 |
| Fair value per option | CAD$0.28 | CAD$0.34 |

### (b) Restricted share units ("RSU")

**Restricted share units granted for the year ended December 31, 2022**:

i) On January 14, 2022, the Company granted 150,000 RSUs to an ex-employee; these RSUs shall be settled with common shares of the Company, are restricted until January 15, 2027, and vest at 100% on January 14, 2023.

ii) On April 25, 2022, the Company granted 408,750 RSUs to directors, officers, and consultants; these RSUs shall be settled with common shares of the Company, are restricted until April 26, 2027, and vested at 100% on June 10, 2022.

iii) On April 26, 2022, the Company granted 800,000 RSUs to directors and officers; these RSUs shall be settled with common shares of the Company, are restricted until April 26, 2027, and vest at 100% on April 26, 2024.

iv) On May 26, 2022, the Company granted 113,405 RSUs to an officer of the Company; these RSUs shall be settled with common shares of the Company, are restricted until May 27, 2027, and these RSUs vest 100% on May 26, 2023.

vi) On November 21, 2022, the Company granted 50,000 RSUs to a consultant; these RSUs shall be settled with common shares of the Company, are restricted until November 21, 2027, and these RSUs vest 100% on November 21, 2023.

**Restricted share units granted as of December 31, 2021**:

On April 7, 2021, the Company granted 1,000,000 RSUs to directors, officers, and an employee; these instruments shall be settled with common shares of the Company, are restricted until April 7, 2026, and vest at 100% on April 7, 2024.

The following table summarizes the movements in outstanding RSUs:

| | Number of equity settled restricted share units |
|---|---|
| Outstanding, December 31, 2020 | - |
| Granted | 1,000,000 |
| Outstanding, December 31, 2021 | 1,000,000 |
| Granted | 1,522,155 |
| Exercised | (50,000) |
| **Outstanding, December 31, 2022** | **2,472,155** |

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

## 15. Equity Reserves (continued)

### (b) Restricted share units ("RSU") (continued)

**Restricted share units granted as of December 31, 2021**: (continued)

The estimated fair value of the equity settled RSUs granted as of December 31, 2022, was CAD$691,394 (December 31, 2021 – CAD$580,000) 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.

On September 14, 2022, a total of 50,000 common shares of the Company with a fair value of $20,894 were issued in connection with the settlement of 50,000 RSUs.

During the year ended December 31, 2022, the Company recognized stock-based compensation related to RSUs in the amount of $486,888 (December 31, 2021, – $111,705).

### (c) Share purchase warrants

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

| | Warrants outstanding | Exercise Price |
|---|---|---|
| Outstanding, December 31, 2020 | 208,286 | CAD$ 0.40 |
| RTO transaction | 1,738,166 | 6.48 |
| Issued | 20,872,759 | 0.62 |
| Expired | (1,423,650) | 6.82 |
| Exercised | (50,000) | 0.50 |
| Outstanding, December 31, 2021 | 21,345,561 | CAD$ 0.68 |
| Issued | 26,094,621 | 0.47 |
| Expired | (399,502) | 3.97 |
| Exercised | (123,300) | 0.60 |
| **Outstanding, December 31, 2022** | 46,917,380 | **0.40** |

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Risk-free interest rate | 1.82% | 0.32% |
| Expected dividend yield | Nil | Nil |
| Stock price volatility | 90.31% | 98.33% |
| Expected life (in years) | 3.26 years | 2 years |
| Share price on grant date | CAD$0.31 | CAD$0.43 |
| Fair value per share purchase warrant | CAD$0.17 | CAD$0.25 |

The outstanding number of share purchase warrants is as follows:

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

## 15. Equity Reserves (continued)

**(c) Share purchase warrants** (continued)

| | | Outstanding | |
|---|---|---|---|
| **Expiry date** | **Number of warrants** | **Exercise price** | **Remaining contractual life (years)** |
| 11-03-2023 (1) | 1,098,125 | CAD$0.40 | 0.19 |
| 11-03-2023 (1) | 8,625,000 | CAD$0.60 | 0.19 |
| 17-Mar-24 | 2,912,734 | CAD$0.50 | 1.21 |
| 17-Jun-23 | 7,130,000 | CAD$0.75 | 0.46 |
| 17-Jun-23 | 1,056,900 | CAD$0.50 | 0.46 |
| 17-Mar-24 | 13,068,172 | CAD$0.50 | 1.21 |
| 17-Mar-24 | 1,996,363 | CAD$0.33 | 1.21 |
| 27-Oct-27 | 1,446,736 | CAD$0.28 | 4.82 |
| 27-Oct-27 | 9,345,850 | CAD$0.50 | 4.82 |
| 27-Oct-27 | 237,500 | CAD$0.50 | 4.82 |
| | 46,917,380 | | |

(1) Subsequent to the year end December 31, 2022, 9,723,125 share purchase warrants with an expiry date of March 11, 2023, expired.

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

| | **Warrants units outstanding** | **Exercise Price** |
|---|---|---|
| Outstanding, December 31, 2020 | - | - |
| RTO transaction | 81,280 | CAD$ 4.96 |
| Expired | (81,280) | CAD$ 4.96 |
| **Outstanding, December 31, 2021 and 2022** | - | |

**(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 2,000,000 of OPS and 8,773,000 of CMPS. In order to fair value these performance shares, management estimated the probability that the Company would issue the performance shares. Therefore, the fair value of these performance shares was based on the probability analysis and the share market price at grant date of CAD$0.40 per share.

<u>Operational Performance Shares</u>

During the years ended December 31, 2022, and December 31, 2021, none of the 2,000,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD$800,000 with an estimated vesting period between March 2023 and September 2023. During the year ended December 31, 2022, the Company recorded stock based compensation in connection to OPS in the amounts of $222,652 (CAD$289,803) (December 31, 2021, – $183,368 (CAD$229,461)).

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

## 15. Equity Reserves (continued)

**(d) Performance Shares** (continued)

Capital Market Performance Shares

During the year ended December 31, 2021, the Company issued 2,193,250 from the total of 8,773,000 CMPS as one of the established milestones was met. During the year ended December 31, 2022, an additional 6,579,750 CMPS were issued as the final three milestones were met. The Company set a total of four milestones with an equal number of CMPS to be issued when the Company achieves such milestones. The Company estimated a probability of the number of CMPS it will issue in addition to an estimated vesting period between June 2021, and September 2022. The total estimated fair value of the CMPS was CAD$3,509,200 and during the year ended December 31, 2022 the Company recorded stock based compensation in connection to CMPS in the amount of $718,750 (CAD$896,276) (December 31, 2021, – $2,088,053 (CAD$2,612,924)).

| | Number of equity settled performance share units | Weighted average price |
|---|---|---|
| Outstanding, December 31, 2020 | - | CAD$ - |
| Granted | 10,773,000 | 0.40 |
| Released from escrow | (2,193,250) | 0.40 |
| Outstanding, December 31, 2021 | 8,579,750 | CAD$ 0.40 |
| Released from escrow | (6,579,750) | 0.40 |
| **Outstanding, December 31, 2022** | **2,000,000** | **CAD$ 0.40** |

## 16. 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 year, adjusted for the share consolidation (Note 1 and 4).

| | Year ended December 31, 2022 | 2021 |
|---|---|---|
| Loss attributable to common shareholders | $ (12,159,414) | $ (12,389,549) |
| Weighted average number of shares | 91,659,543 | 49,242,082 |
| Basic and diluted loss per share | $ (0.13) | $ (0.25) |

The Company incurred net losses for the years ended December 31, 2022, and 2021, 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.

## 17. Contract Awards

During the year ended December 31, 2022, the Company recognized total revenue of $49,134 recorded in other income. Future revenues in connection with these contracts will be recognized as performance obligations are met. It is estimated that future revenues will be recognized under the same basis following these timelines:

| | Year ended December 31, | |
|---|---|---|
| **Contract Award Revenue** | **2023** | **2024** |
| Battelle Contract Award | 163,563 | - |
| TSA Contract Award HD-AIT | 1,090,000 | 657,905 |
| **Total estimated revenues** | **$ 1,253,563** | **$ 657,905** |

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

## 17. Contract Awards (continued)

### (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. With developing the HD-AIT Retrofit Kits, the Battelle Memorial License and patent will be utilized in the HD-AIT technology development. During the year ended December 31, 2022, as part of the contract award the Company received $35,194 and had a receivable of $13,940 (December 31, 2021, – $nil). As part of the terms of the contract award the Company is required to submit monthly invoices as follows:

| **Battelle HD-AIT Shoe Scanner** | | **Amounts** |
|---|---|---|
| **Year 2022** | | |
| Award payments received | $ | 35,194 |
| Award payments receivable | | 13,940 |
| **Year 2023** | | |
| Janaury | | 20,000 |
| February | | 30,000 |
| March | | 22,604 |
| April | | 22,453 |
| May | | 25,474 |
| June | | 25,474 |
| July | | 17,558 |
| **Total** | **$** | **212,697** |

The remaining $163,563 contract award has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

### (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 High Definitions – Advanced Imaging Technology (HD-AIT) Wide Band Upgrade Kit. 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. During the year ended December 31, 2022, the Company received $nil (December 31, 2021, – $nil). The Company is required to submit quarterly invoices as follows:

| **TSA HD-AIT Upgrade** | | **Amounts** |
|---|---|---|
| **Year 2023** | | |
| Milestone 1 (Q1 2023) | $ | 240,000 |
| Milestone 2 (Q2 2023) | | 250,000 |
| Milestone 3 (Q3 2023) | | 250,000 |
| Milestone 4a (Q4 2023) | | 175,000 |
| Milestone 4b (Q4 2023) | | 175,000 |
| **Year 2024** | | |
| Milestone 5 (Q1 2024) | | 300,000 |
| Milestone 6 (Q2 2024) | | 357,905 |
| **Total** | **$** | **1,747,905** |

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

## 18. Collaboration Agreements

### (a) 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 year ended December 31, 2022, the Company received $193,790 in connection with this award and had a receivable of $33,313 which have been as a reduction of related costs (December 31, 2021, – $nil). As part of the terms of the contract award the Company is required to submit quarterly invoices as follows:

| TSA On-Person Screening Capability Program Contract Award | | Amounts |
|---|---|---|
| **Year 2022** | | |
| Quarter 1 (payment received) | $ | 64,528 |
| Quarter 2 (payment received) | | 119,082 |
| Quarter 3 (payment received) | | 10,180 |
| Quarter 4 (payment receivable) | | 33,313 |
| **Year 2023** | | |
| Quarter 1 | | 116,746 |
| Quarter 2 | | 85,450 |
| Quarter 3 | | 64,857 |
| Quarter 4 | | 5,844 |
| **Total** | **$** | **500,000** |

The remaining amount of $272,897 from the contract award has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

## 19. DKL International, Inc ("DKL") Licensing Agreements

On October 11, 2018, the Company through its wholly owned subsidiary DrawDown Technologies, Inc ("DDT") entered into a license agreement ("the Licensing Agreement DKL") with DKL International, Inc ("DKL"), as amended on February 6, 2020, for the commercial development of DKL's passive detection techniques and products that detect smokeless gunpowder from a standoff distance (the "Detection Technology").

On March 23, 2021, DrawDown paid to DKL $70,000, which satisfied the payment of previously approved research and development costs of DKL for work performed until December 31, 2020.

On April 19, 2021, the Company gave notice of termination of the License Agreement DKL. Such notice of termination served as formal notice that the Licensing Agreement DKL was terminated in full effective six months following the date of this notice. Upon the effective date of the termination, the parties to the Licensing Agreement DKL will have no further rights and/or obligations pursuant thereto. In order to settle any and all outstanding amounts owed to DKL under the Licensing Agreement the Company paid $125,000 to DKL in the year ended December 2021.

## 20. Related Party Transactions

The Company's related parties consist of the Company's directors, officers and companies associated with them including 1214852 B.C. LTD., a company where Omar Garcia, the Chief Financial Officer is a shareholder and Nicole Ridgedale Communications, a company owned by Nicole Ridgedale, a direct family member of one of the directors.

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

## 20. Related Party Transactions (continued)

**Compensation of key management personnel:**

Key management personnel include members of the Board, the Chief Executive Officer, Chief Financial Officer, and Chief Technology Officer. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

| | Year ended December 31, 2022 | 2021 |
|---|---|---|
| Short-term benefits | $ 1,267,582 | $ 1,262,926 |
| Share-based compensation | 1,508,108 | 2,729,567 |
| Consulting services (1) | 101,422 | 475,687 |
| | **$ 2,877,111** | **$ 4,468,180** |

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

As of December 31, 2022, the Company had a balance payable of $275,773 to related parties (December 31, 2021, – $235,040). This payable balance includes accounts payable and accrued liabilities relating to consulting services from 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 year ended December 31, 2022, the Company received working capital loans (Note 9) in the amount of $438,117 (year ended December 31, 2021 - $394,384) from directors, officers or their related parties. During the years ended December 31, 2022, and 2021, all of these working capital loans were paid in full and the outstanding balance at December 31, 2022 is $nil, (December 31, 2021 - $nil).

During the year ended December 31, 2022, Nicole Ridgedale Communications incurred $140,498 in stock-based compensation and consulting services (December 31, 2021, - $44,962). These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

## 21. Commitments

On December 28, 2022, the Company entered into a new office lease agreement in Atlanta, GA for a period of thirty-six months whereby an initial right-of-use asset will be recognized on the commencement date of February 1, 2023. As at December 31, 2022, the Company has approximately $67,635 in lease commitments relating to this lease.

On November 7, 2022, the Company leased additional office space within its current Boston location. The term of the additional lease is sixty-three months whereby an initial right-of-use asset will be recognized on the commencement date of February 1, 2023. As at December 31, 2022, the Company has approximately $456,792 in lease commitments relating to this lease.

## 22. Financial Instruments

As of December 31, 2022, the Company's financial instruments comprise cash, amounts receivables, accounts payable and accrued liabilities and the CEBA loan. The fair values of cash, amounts receivables, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The carrying amount of the CEBA loan approximates fair value as it is discounted using a market rate of interest.

## 22. **Financial Instruments** (continued)

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 are held through large Canadian, international and foreign national financial institutions. The Company mitigates this risk by transacting only with reputable financial institutions. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

**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 December 31, 2022, the Company had cash of $677,473 (December 31, 2021 - $1,341,573) to settle current liabilities of $1,628,657 (December 31, 2021 - $891,862). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

**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 no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is not significant.

## 22. Financial Instruments (continued)

**c) Market risk** (continued)

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 US dollars** |
|---|---|---|
| Financial assets denominated in foreign currencies | $ | 620,114 |
| Financial liabilities denominated in foreign currencies | | (499,678) |
| **Net exposure** | **$** | **120,436** |

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by $12,044.

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.

## 23. 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.

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.

## 24. Income Tax

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.

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

## 24. **Income Tax** (continued)

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 year ended December 31, 2022. The reconciliation of income tax provision computed at Canadian federal and provincial statutory tax rates to the reported income tax provision is:

| | Year ended December 31, 2022 | 2021 |
|---|---|---|
| Loss for the year | $ (12,159,414) | $ (12,389,549) |
| Statutory tax rate | 26.5% | 26.5% |
| Expected income tax (recovery) | $ (3,222,000) | $ (3,283,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | (242,000) | (30,000) |
| Permanent differences | 749,000 | 1,454,000 |
| Impact of reverse takeover | - | (4,785,000) |
| Share issue cost | (520,000) | (408,000) |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | (48,000) | (12,000) |
| Change in unrecognized deductible temporary differences | 3,283,000 | 7,064,000 |
| **Total income tax expense (recovery)** | **$ -** | **$ -** |

The significant components of the Company's deferred tax assets and liabilities are as follows:

| | Year ended December 31, 2022 | 2021 |
|---|---|---|
| **Deferred tax assets (liabilities)** | | |
| Share issue costs | 661,000 | |
| Property and equipment | 115,000 | $ (33,000) |
| Non-capital losses | 10,363,000 | 33,000 |
| Unrecognized deferred tax assets | **$ 11,139,000** | **$ -** |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidation statement of financial position are as follows:

| | 2022 | Expiry Date Range | 2021 | Expiry Date Range |
|---|---|---|---|---|
| **Temporary Differences** | | | | |
| Property and equipment | 363,000 | No expiry date | 2,000 | No expiry date |
| Share issue costs | 2,494,000 | 2043 to 2047 | 1,417,000 | 2042 to 2046 |
| Non-capital losses | 34,804,000 | | 25,989,000 | |
| Canada | 12,029,000 | 2030 to 2042 | 10,344,000 | 2030 to 2041 |
| USA | 23,132,000 | No expiry date | 15,645,000 | No expiry date |

## 25. Geographic Information

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

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

## 25. Geographic Information (continued)

Geographic segmentation of assets and liabilities are as follows:

| | | Canada | | United States | | Total |
|---|---|---|---|---|---|---|
| Non-current assets | | | | | | |
| Property & equipment | $ | - | $ | 1,001,538 | $ | 1,001,538 |
| Intangible assets | | - | | 3,730,463 | | 3,730,463 |
| Lease receivable | | 6,896 | | - | | 6,896 |
| **Balance, December 31, 2022** | **$** | **6,896** | **$** | **4,732,001** | **$** | **4,738,897** |
| Non-current liabilities | | | | | | |
| Lease liability | $ | - | $ | 514,395 | $ | 514,395 |
| **Balance, December 31, 2022** | **$** | **-** | **$** | **514,395** | **$** | **514,395** |

| | | Canada | | United States | | Total |
|---|---|---|---|---|---|---|
| Non-current assets | | | | | | |
| Property & equipment | $ | - | $ | 768,771 | $ | 768,771 |
| Intangible assets | | - | | 4,135,452 | | 4,135,452 |
| Lease receivable | | 28,675 | | - | | 28,675 |
| **Balance, December 31, 2021** | **$** | **28,675** | **$** | **4,904,223** | **$** | **4,932,898** |
| Non-current liabilities | | | | | | |
| Lease liability | $ | 27,677 | $ | 612,403 | $ | 640,080 |
| Battelle patent expense | | - | | 25,000 | | 25,000 |
| **Balance, December 31, 2021** | **$** | **27,677** | **$** | **637,403** | **$** | **665,080** |

## 26. Subsequent Event

On April 14, 2023, the Company closed the first tranche of a non-brokered private placement for gross proceeds of CAD$1,341,412. The Company issued 6,707,061 units (each a "Unit") of the Company at a price of CAD$0.20 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$0.30 within a period of 24 months. The Company paid the agents 215,250 broker warrants. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD$0.30. 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.