



# Liberty Defense

**Liberty Defense Holdings, Ltd.**

**Interim Condensed Consolidated Financial Statements**

**For the Three Months Ended March 31, 2022 and 2021**

**UNAUDITED  
Prepared by Management**

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

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# **LIBERTY DEFENSE HOLDINGS, LTD.**

Interim Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2022 and 2021

## **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim condensed consolidated financial statements of Liberty Defense Holdings, Ltd., (the "Company") have been prepared by and are the responsibility of Company's management and approved

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by CPA Canada for a review of interim financial

May 20, 2022.

**Liberty Defense Holdings, Ltd.**  
**Interim Condensed Consolidated Statements of Financial Position**

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	March 31, 2022	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash	\$ 5,134,869	\$ 1,341,573
Amounts receivable, prepaids and deposits (note 5) Available	188,773	205,312
Lease receivable current portion (note 9)	21,793	20,159
	5,345,435	1,567,044
Non-current assets:		
Property & equipment (note 6)	729,677	768,771
Intangible assets (note 4 and 7)	4,157,161	4,135,452
Lease receivable (note 9)	22,627	28,675
	4,909,465	4,932,898
<b>Total assets</b>	<b>\$ 10,254,900</b>	<b>\$ 6,499,942</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 614,215	\$ 681,991
CEBA loan (note 8)	29,026	27,986
Lease liabilities (note 9)	114,901	106,885
	758,142	816,862
Non-current liabilities:		
Non-current lease liabilities (note 9)	610,165	640,080
Battelle patent expense (note 13)	-	25,000
<b>Total liabilities</b>	<b>\$ 1,368,307</b>	<b>\$ 1,481,942</b>
<b>Shareholders' equity</b>		
Share capital (note 10)	\$ 24,695,115	\$ 18,284,177
Equity reserves (note 11)	2,834,159	2,743,825
Accumulated other comprehensive loss ("AOCL")	(189,693)	(58,410)
Deficit	(18,452,988)	(15,951,592)
Total shareholders' equity	8,886,593	5,018,000
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,254,900</b>	<b>\$ 6,499,942</b>

Nature of operations and going concern (note 1)

Subsequent events (note 17)

Approved by the Board of Directors on May 20, 2022, and signed on the Company's behalf by:

"William Frain"  
 Director

"Daryl Rebeck"  
 Director

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

# Liberty Defense Holdings, Ltd.

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	Three months ended March 31,	
	2022	2021
<b>Research and development:</b>		
Product development	\$ 67,579	\$ 180,279
Technology costs	183,559	–
Legal fees	1,430	17,550
Salaries & Consulting Fees (note 14)	1,066,122	(328,998)
Stock-based Compensation (note 11 and 14)	7,681	790
Office, rent and administration	86,102	1,871
Travel and miscellaneous	64,100	–
Depreciation (note 5)	53,361	11,143
Amortization (note 7)	80,712	2,062
<b>General Expenses:</b>		
Consulting fees, salaries and benefits (note 14)	199,210	69,687
Depreciation (note 5)	–	3,958
Legal and professional fees	137,684	83,001
Stock based compensation (note 14)	416,948	4,578
Office, rent and administration	33,752	13,922
Regulatory and shareholder information	2,694	12,419
Travel, promotion and investor relations	180,424	43,120
RTO transaction related costs and listing expense (note 4)	–	807,615
	2,581,358	922,997
<b>Other expense (income):</b>		
Interest income	–	(54,375)
interest expense	14,003	38,967
Accretion expense	700	39,292
Foreign exchange (gain) loss	(94,665)	22,636
	(79,962)	46,520
<b>Net loss for the period</b>	<b>\$ (2,501,396)</b>	<b>\$ (969,517)</b>
<b>Other comprehensive loss</b>		
Items that may be reclassified subsequently to profit or (loss)		
Foreign currency translation adjustment	(131,283)	(24,924)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(131,283)</b>	<b>(24,924)</b>
<b>Total loss and comprehensive loss for the period</b>	<b>\$ (2,632,679)</b>	<b>\$ (994,441)</b>
Weighted average number of common shares outstanding		
Basic and diluted	68,058,999	19,315,712
Loss per share		
Basic and diluted loss per share (note 12)	\$ (0.04)	\$ (0.05)

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

## Liberty Defense Holdings, Ltd.

### Interim Condensed Consolidated Statements of Changes in Shareholder' Equity

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	Number of common shares*	Share capital	Equity reserves	AOCL	Deficit	Total
<b>Balance as at December 31, 2020</b>	<b>13,680,836</b>	<b>\$ 2,866,502</b>	<b>\$ 108,276</b>	<b>\$ 59,746</b>	<b>\$ (3,562,043)</b>	<b>(527,519)</b>
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	5,825,467	1,495,507	–	–	–	1,495,507
Issue of subscription receipts and private placement, net of share issue cost (note 10)	17,250,000	5,535,499	–	–	–	5,535,499
Stock based compensation (note 11)	–	–	5,368	–	–	5,368
Warrants exercised (note 14)	–	–	–	–	–	–
Fair value of warrants allocated to share capital issued on exercise (note 14)	–	–	–	–	–	–
Fair value of performance shares allocated to share capital upon vesting (note 15 (d))	–	–	–	–	–	–
Stock based compensation on performance shares granted (note 15)	–	–	–	–	–	–
Foreign currency translation adjustment	–	–	–	(24,924)	–	(24,924)
Loss for the period	–	–	–	–	(969,517)	(969,517)
<b>Balance as at March 31, 2021</b>	<b>47,490,095</b>	<b>13,341,966</b>	<b>113,644</b>	<b>34,822</b>	<b>(4,531,560)</b>	<b>8,958,872</b>
<b>Balance as at December 31, 2021</b>	<b>63,993,345</b>	<b>18,284,177</b>	<b>2,743,825</b>	<b>(58,410)</b>	<b>(15,951,592)</b>	<b>5,018,000</b>
Issue of subscription receipts and private placement, net of share issue cost (note 10)	26,439,375	6,018,063	–	–	–	6,018,063
Fair value of compensation brokers warrants (note 10)	–	312,816	(312,816)	–	–	–
Stock based compensation (note 11)	–	–	424,629	–	–	424,629
Warrants exercised (note 11)	246,600	58,580	–	–	–	58,580
Fair value of warrants allocated to share capital issued on exercise (note 11)	–	21,479	(21,479)	–	–	–
Foreign currency translation adjustment	–	–	–	(131,283)	–	(131,283)
Loss for the period	–	–	–	–	(2,501,396)	(2,501,396)
<b>Balance as at March 31, 2022</b>	<b>90,679,320</b>	<b>24,695,115</b>	<b>2,834,159</b>	<b>(189,693)</b>	<b>(18,452,988)</b>	<b>8,886,593</b>

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 interim condensed consolidated financial statements.

# Liberty Defense Holdings, Ltd.

## Interim Condensed Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	Three months ended March 31,	
	2022	2021
<b>Cash (used in) provided by:</b>		
<b>Operating activities:</b>		
Loss and comprehensive loss for the year	\$ (2,501,396)	\$ (969,517)
Items not involving cash:		
Lease Liabilities Interest (note 9)	8,698	–
Accretion expense CEBA loan (note 8)	700	39,292
Accrued interest on convertible debentures	–	(100,202)
Accrued interest income on loan receivable from Liberty (note 4)	–	(55,250)
Depreciation	53,361	15,101
Amortization	80,712	2,062
Government loans forgiven	–	(424,102)
Stock based compensation (note 11)	424,629	5,368
Changes in non-cash working capital:		
Amounts receivable and prepaids	(7,381)	3,495
Accounts payable and accrued liabilities	(67,776)	(381,899)
<b>Cash used in operating activities</b>	<b>(2,008,453)</b>	<b>(1,865,652)</b>
<b>Investing activities:</b>		
Additions to intangible assets	(102,421)	–
Additions to property and equipment	(14,267)	–
<b>Cash used in investing activities</b>	<b>(116,688)</b>	<b>–</b>
<b>Financing activities:</b>		
Proceeds from issuance of common shares, net of share issue costs (note 10)	6,018,063	5,535,499
Proceeds in connection to warrants exercised	58,580	–
Lease payments received	4,939	–
Fair value of warrants granted to brokers	–	(107,557)
Cash advanced to Liberty as part of the loan	–	(353,432)
Working capital loans repayment, net of proceeds received	–	(552,988)
Repayment of leases	(31,226)	–
<b>Cash provided by (used in) financing activities</b>	<b>6,050,356</b>	<b>4,521,522</b>
Effect of foreign exchange rate changes on cash	(131,919)	(4,227)
<b>Effect of foreign exchange rate changes on cash</b>	<b>(131,919)</b>	<b>(4,227)</b>
<b>Increase in cash</b>	<b>3,793,296</b>	<b>2,651,643</b>
<b>Cash, beginning of the period</b>	<b>1,341,573</b>	<b>57,047</b>
<b>Cash, end of the period</b>	<b>\$ 5,134,869</b>	<b>\$ 2,708,690</b>

During the period ended March 31, 2022 and 2021, the Company paid \$nil in income taxes

### Supplemental cash flow information

Fair value of brokers and finder's warrants (note 10)	\$ 307,878	\$ –
Fair value of shares issued for corporate finance fee	79,029	–
Fair value of shares retained by Liberty shareholders (note 4)	–	3,444,458
Convertible debentures converted into common shares (note 15 (a))	–	1,495,507
Reclassification from reserves upon warrant exercise	21,479	–

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

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three months ended March 31, 2022 and 2021

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## 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 has been identified as the accounting acquirer and, accordingly, the Company is considered to be a continuation of Drawdown, and the net assets of the Company at the date of the reverse acquisition are deemed to have been acquired by Drawdown. These interim condensed 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 interim condensed 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 three months ended March 31, 2022, of \$2,501,396 and cash outflows from operating activities of \$2,008,453. In order to fully commercialize 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 interim condensed 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.

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three months ended March 31, 2022 and 2021

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## 2. Basis of presentation

### (a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – Interim Financial Reporting using accounting policies consistent 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 interim condensed consolidated financial statements were approved for issuance by the Board of Directors on May 20, 2022.

### (b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this interim financial report be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2021. However, this interim financial report provides selected significant disclosures that are required in the annual audited consolidated financial statements under IFRS.

Except as described below, these interim condensed consolidated financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements for the year ended December 31, 2021. The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2022.

The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2022.

### (d) Functional and presentation currency

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

### (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 condensed 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.

The accounting judgements and estimates which have the most significant effect on these interim condensed consolidated financial statements were the same as those applied to the audited consolidated financial statements as at the period ended December 31, 2021.



# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2022 and 2021

## 3. Significant Accounting Policies

These interim condensed consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the annual financial statements for the year ended December 31, 2021. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three months ended March 31, 2022, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

## 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 a 6.2 old common shares to 1 new common share basis and DrawDown also completed a common share consolidation on a 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:

	<b>Amount</b>
<b>Assets acquired and liabilities assumed:</b>	
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)
<b>Net assets acquired</b>	<b>\$ 3,400,480</b>
<b>Consideration and transaction costs:</b>	
Fair value of shares retained by Liberty shareholders	3,444,458
Pre-existing liability settlement	2,203,846
Transaction related costs	298,667
<b>Total consideration and transaction costs</b>	<b>\$ 5,946,971</b>

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three months ended March 31, 2022 and 2021

## 4. Reverse Takeover of DrawDown (continued)

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 11 (d)). These securities are held in escrow until certain milestones are reached.

## 5. Amounts Receivables, Prepaids and Deposits

As of March 31, 2022, the Company had \$9,580 (March 31, 2021 – \$56,205) in amounts receivables current and non-current and \$179,193 (March 31, 2021 – \$26,476) in prepaids and deposits.

## 6. Property & Equipment

	Leasehold Improvements		Equipment		Right of Use Asset		Total
<b>Cost</b>							
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
Additions		-		14,267		-	14,267
<b>At March 31, 2022</b>	\$	6,735	\$	141,012	\$	772,312	\$ 920,059
<b>Accumulated Depreciation</b>							
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 period		-		11,022		42,339	53,361
<b>At March 31, 2022</b>	\$	6,051	\$	30,323	\$	154,067	\$ 190,441
<b>Foreign exchange movement</b>							
At December 31, 2021	\$	-	\$	-	\$	60	\$ 60
<b>At March 31, 2022</b>	\$	-	\$	-	\$	59	\$ 59
<b>Net Book Value</b>							
At December 31, 2021	\$	684	\$	107,444	\$	660,644	\$ 768,772
<b>At March 31, 2022</b>	\$	684	\$	110,689	\$	618,304	\$ 729,677

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 7.63% implicit interest rate.

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three months ended March 31, 2022 and 2021

## 7. Intangible Assets

### (a) MIT License Agreements

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

The obligations under the Technology Transfer Agreement and the CRADA have now been completed. Liberty may consider extending the CRADA (and therefore changing its scope) if it determines that additional MIT LL technical expertise related to active three-dimensional imaging technology is required. Pursuant to the License Agreement, LDT has been granted the exclusive rights to MIT's patent in "multistatic sparse array topology for FFT-based field imaging" (MIT Case No. 1 8409L) (the "Patent"), which is being utilized in the development and application of the HEXWAVE product. The License Agreement is to be in effect until the expiration of the Patent, which is 14 years (December 2035). In granting LDT such patent rights, the Company shall pay MIT in addition to patent filing 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 (accrued Q1, paid on May 11, 2022); \$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.

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

	MIT licenses		Intellectual property & goodwill		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		102,421		-	102,421
Amortization		(7,758)		(72,954)	(80,712)
<b>Balance March 31, 2022</b>	<b>\$</b>	<b>460,943</b>	<b>\$</b>	<b>3,696,218</b>	<b>\$ 4,157,161</b>

Intangible assets included as MIT 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).

## 8. 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, increases to a 5% interest rate per annum if the loan is not repaid in full on or before December 31, 2022 ("Term Period"). In the event that the loan is not repaid by the Term Period, it is extended from January 1, 2023, to December 31, 2025 ("Extension Period"). The Company used the loan to help fund payroll, rent, and utilities under the appropriate guidelines in the loan agreements.

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated and per share amounts)

For the three months ended March 31, 2022 and 2021

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

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.

The net present value of the CEBA Loan as of March 31, 2022, is \$29,026 (December 31, 2021 – \$27,986) and is recorded as a non-current liability. The Company also recognized an accretion expense of \$700 in connection to this loan during the three-month ended March 31, 2022 (March 31, 2021 – \$39,292).

## 9. Leases

The Company lease liabilities for the three months ended March 31, 2022 and 2021 are as follows:

		<b>Right of use liability</b>
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
Finance costs		8,698
Lease payments		(31,234)
Foreign exchange movement		637
Balance, March 31, 2022	\$	725,066
Less current portion		114,901
<b>Non-current lease liability</b>	<b>\$</b>	<b>610,165</b>

Minimum lease payments are as follows:

	<b>March 31,</b>		<b>December 31,</b>	
	<b>2022</b>		<b>2021</b>	
Maturity analysis - contractual undiscounted cash flows				
One year or less	\$	166,359	\$	160,693
Two to five years		586,316		590,859
Six and thereafter		152,618		190,409
Total lease liabilities	\$	905,293	\$	941,961
Effect of discounting		(180,227)		(194,996)
Lease liabilities included in the statement of financial position	\$	725,066	\$	746,965
Current	\$	114,901	\$	106,885
Non-current	\$	610,165	\$	640,080

The Company lease receivable for the three months ended March 31, 2022 and 2021 are as follows:

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
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For the three months ended March 31, 2022 and 2021

## 9. Leases (continued)

	<b>Amount</b>
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
Payments received	(4,939)
Currency translation adjustment	525
Balance, March 31, 2022	\$ 44,420
Less current portion	\$ 21,793
<b>Non-current lease receivable</b>	<b>\$ 22,627</b>

As a result of the completion of the RTO and under the new management's vision, the corporate office will now be located in Boston, MA. As a result, the Company subleased until the expiry of the headlease (April 2024) the office space located in Vancouver, BC., as it was not longer required. 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 are: \$21,793 during 2022 and \$29,815 during 2023.

## 10. Share Capital

### (a) Common share transactions for the three months ended March 31, 2022

- i) On March 3, 2022, a total of 246,600 share purchase warrants were exercised at CAD\$0.30 per share for total proceeds of \$58,580, of which 123,300 share purchase warrants were exercised in error and are in the process of being returned and canceled. The fair value of these exercised warrants was \$21,479 and was transferred from the equity reserves and recorded against share capital.
- 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 \$0.26 (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 paid the agents 1,996,363 broker warrants with a fair value of \$312,816 and 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 in other cash costs in connection to filing and legal expenses in the amount of \$277,532 and paid a corporate finance fee of CAD\$100,000 in 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) In connection to the March 17, 2022, financing, an additional two milestones were reached related to the capital market performance shares and a total of 4,386,500 common shares will be released from escrow.

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2022 and 2021

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## 10. Share Capital (continued)

### (b) Common share transactions for the year three months ended March 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 two 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 interim 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 filing and legal expenses of \$597,800 (CAD\$739,250).
- 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 11) 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.

## 11. Equity Reserves

### (a) Share-based compensation

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

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

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

# Liberty Defense Holdings, Ltd.

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

	March 31, 2022	December 31, 2021
Risk-free interest rate	2.55%	0.90%
Expected dividend yield	Nil	Nil
Stock price volatility	85.37%	73.18%
Expected life (in years)	5 years	5 years
Weighted average fair value per option	CAD\$0.23	CAD\$0.34

The continuity of the number of stock options issued and outstanding, adjusted for the share consolidation 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	(610,000)	0.48
Granted	100,000	0.36
<b>Outstanding, March 31, 2022</b>	<b>3,064,597</b>	<b>CAD\$ 0.69</b>

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

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
01-May-24	50,000	CAD\$ 0.50	2.21	50,000
15-Jun-24	37,500	CAD\$ 0.50	2.25	37,500
01-Jul-24	75,000	CAD\$ 0.50	2.27	75,000
08-Jul-24	75,000	CAD\$ 0.50	2.34	75,000
31-Jul-24	50,000	CAD\$ 0.50	2.40	50,000
23-Aug-24	37,500	CAD\$ 0.50	2.49	37,500
25-Sep-24	37,500	CAD\$ 0.50	2.50	37,500
29-Sep-24	75,000	CAD\$ 0.50	2.26	75,000
Apr 9 and Jul 2, 2024	137,097	CAD\$ 4.96	4.02	137,097
07-Apr-26	1,610,000	CAD\$ 0.50	4.20	603,750
10-Jun-26	100,000	CAD\$ 0.50	4.33	37,500
28-Jul-26	215,000	CAD\$ 0.50	4.59	53,750
01-Nov-26	465,000	CAD\$ 0.46	4.79	58,125
14-Jan-27	100,000	CAD\$ 0.36	4.79	-
	<b>3,064,597</b>			<b>1,327,722</b>

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## 11. Equity Reserves (continued)

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

Total stock-based compensation (recovery) expense as a result of options granted and vested during the period ended March 31, 2022, was (\$5,746) from stock options forfeited due to employee resignations (three months ended March 31, 2021 – \$5,368).

### (b) Restricted share units

During the three months ended March 31, 2022, the Company granted 150,000 RSUs to an employee; these RSUs will be restricted until April 26, 2027 and vest at 100% on April 26, 2024. During the year ended December 31, 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 and 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	Weighted average price
Outstanding, December 31, 2020	-	CAD\$ -
Granted	1,000,000	0.58
Outstanding, December 31, 2021	1,000,000	CAD\$ 0.58
Granted	150,000	0.50
<b>Outstanding, March 31, 2022</b>	<b>1,150,000</b>	<b>CAD\$ 0.57</b>

The estimated fair value of the equity settled RSUs granted during the three months ended March 31, 2022 was CAD\$31,096 (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.

Total stock-based compensation expense as a result of RSUs grants during the three months ended March 31, 2022, was \$118,084 (three months ended March 31, 2021 \$nil). The amount for three-month ended is significantly larger as the RSUs from July 10, 2021 were not ratified until April 25, 2022.

### (c) Share purchase warrants

As at March 31, 2022, 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
Cancelled	(1,423,650)	6.82
Exercised	(50,000)	0.50
Outstanding, December 31, 2021	21,345,561	CAD\$ 0.68
Issued	15,064,535	0.20
Cancelled	(314,516)	4.96
Exercised	(123,300)	0.30
<b>Outstanding, March 31, 2022</b>	<b>35,972,280</b>	<b>CAD\$ 0.56</b>



# Liberty Defense Holdings, Ltd.

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For the three months ended March 31, 2022 and 2021

## 11. Equity Reserves (continued)

### (c) Share purchase warrants (continued)

During the three months ended March 31, 2022, the Company issued share purchase warrants in connection to the following transactions:

- i) On March 17, 2022, the Company closed a brokered private placement and 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. As a result, the Company issued a total of 13,068,172 investors warrants. Additionally, the Company issued 1,996,363 broker warrants with a fair value of \$307,878; each broker warrant is exercisable to purchase one common share of the Company within a period of 24 months with an exercise price of CAD\$0.33.
- ii) On January 9, 2022, the Company cancelled 314,516 share purchase warrants without being exercised. They had an exercise price of CAD\$4.96.
- iii) On March 3, 2022, the Company exercised 123,300 warrants at an exercise price of CAD\$0.30.

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

	March 17, 2022	December 31, 2021
Risk-free interest rate	2.19%	0.32%
Expected dividend yield	Nil	Nil
Stock price volatility	92.03%	98.33%
Expected life (in years)	2 years	2 years
Fair value	CAD\$0.20	CAD\$0.25

The outstanding number of share purchase warrants is as follows:

Expiry date	Outstanding		
	Number of warrants	Exercise price	Remaining contractual life (years)
29-May-22	84,986	CAD\$0.40	0.16
11-Mar-23	1,098,125	CAD\$0.40	0.95
11-Mar-23	8,625,000	CAD\$0.60	0.95
17-Mar-24	2,912,734	CAD\$0.50	1.96
17-Jun-23	7,130,000	CAD\$0.75	1.21
17-Jun-23	1,056,900	CAD\$0.50	1.21
17-Mar-24	13,068,172	CAD\$0.50	1.96
17-Mar-24	1,996,363	CAD\$0.33	1.96
	35,972,280		

# Liberty Defense Holdings, Ltd.

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For the three months ended March 31, 2022 and 2021

## 11. Equity Reserves (continued)

### (d) Performance Shares

On March 17, 2021, Liberty deposited into escrow, and held in escrow, Operational Performance Shares (“OPS”) and Capital Market Performance Shares (“CMPS”) for certain directors, officers, and consultants of the Company upon the Company achieving certain performance milestones. Once these milestones were achieved the shares would be released. These performance shares included 2,000,000 of OPS and 8,773,000 of CMPS. In order to fair value these performance shares, management has run a probability analysis to estimate the number of shares the Company would be issued and its vesting period. Therefore, the fair value of these performance shares are based on the probability analysis and the share market price at grant date of CAD\$0.40 per share.

#### Operational Performance Shares

During the three months ended March 31, 2022 and as at December 31, 2021, none of the 2,000,000 OPS have been issued as neither of the two milestones have been met. The estimated vesting period of the OPS was set between March 2023 and September 2023. The estimated fair value of the OPS is CAD\$800,000, with \$56,404 (three months ended March 31, 2021 – \$nil) recognized as stock-based compensation in the consolidated statement of loss and comprehensive loss.

#### Capital Market Performance Shares

On July 21, 2021, the Company issued 2,193,150 from the total of 8,773,000 CMPS as the first established milestone was 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 has estimated a probability of the number of CMPS it will issue in addition to an estimated vesting period between Jun 2021 and Sep 2022. The estimated fair value of the CMPS is CAD\$3,509,200, with \$255,887 (three months ended March 31, 2021 – \$nil) recognized as stock-based compensation in the consolidated statement of loss and comprehensive loss.

During the three months ended March 31, 2022, no additional CMPS were issued. However, as a result of completing the Mach 17, 2022, financing, an additional two milestones were reached related to the CMPS and a total of 4,386,500 common shares will be released from escrow.

## 12. Loss Per Share

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

	Three months ended March 31,	
	2022	2021
Loss attributable to common shareholders	\$ (2,501,396)	\$ (969,517)
Weighted average number of shares	68,058,999	19,315,712
Basic and diluted loss per share	\$ (0.04)	\$ (0.05)

The Company incurred net losses for the three months ended March 31, 2022, and 2021, therefore all outstanding stock options and share purchase warrants, if any, have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
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## 13. Licensing Agreements

### (a) 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, 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 the certain patents which will convert to a non-exclusive license for the remaining life of the patents. The agreement also provides the Company with non-exclusive license for certain patents for life.

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

Under the Battelle License Agreement, the Company shall pay a five percent royalty on net sales and a twenty-five percent in all sublicensing revenues if permitted. The Company is also required to pay a minimum royalty amount as follows, unless the agreement is terminated:

	<b>Amounts</b>
Year 2021 (paid on March 25, 2022)	\$ 50,000
Year 2022	50,000
Year 2023	100,000
Year 2024 and each year thereafter	200,000

The Company is obligated to achieve certain milestones in the next twelve to thirty-six months and reimburse Battelle for ongoing patenting expenses, as well as past patenting expenses in the total amount of \$50,000, which are payable as follows: 1) \$25,000 (paid), and 2) \$25,000 due on or before February 28, 2023. The outstanding balance of patent expense reimbursements of \$25,000 has been accrued at March 31, 2022.

### (b) DKL License Agreement

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”).

Pursuant to the last amendment to the Licensing Agreement DKL on February 6, 2020, DKL agreed to surrender back to DrawDown, 1,500,000 common shares in the capital of the Company with a fair value of \$230,982 that were issued to DKL on April 2, 2019 as part of the consideration for the Licensing Agreement DKL. In addition to returning those shares, it was also agreed to cancel the cash portion of the consideration for an amount of \$80,000 and the obligation to issue 500,000 common shares with an estimated value of \$188,126 for a total of \$268,126 recorded as a recovery in the statement of loss.

During the prior year ended December 31, 2020, DrawDown Detection agreed to pay a non-refundable license fee of \$250,000 of which \$18,500 was paid during the year 2020 and \$175,000 paid in 2019. The remaining outstanding balance of \$56,500 was recorded within accounts payable and accrued liabilities in the consolidated statement of financial position.

# Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements  
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## 13. Licensing Agreements (continued)

### (b) DKL License Agreement (continued)

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.

## 14. 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 direct family member of a directors.

### 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:

	Three months ended March 31,	
	2022	2021
Short-term benefits	\$ 235,862	\$ 106,930
Share-based compensation	380,164	-
Consulting services (1)	51,385	71,056
	<b>\$ 667,411</b>	<b>\$ 177,986</b>

(1) Includes fees paid or payable to: 1214852 B.C. LTD and Nicole Ridgedale Communications.

As of March 31, 2022, the Company had a balance payable of \$33,000 to related parties (March 31, 2021 – \$100,000). 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.

## 15. Financial Instruments

As of March 31, 2022, the Company's financial instruments comprise cash, amounts receivables, and accounts payable and accrued liabilities, none of which are valued at fair value. The fair values of amounts receivables and 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.

# Liberty Defense Holdings, Ltd.

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## 15. 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 significant 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. 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. The Company believes it is not exposed to significant 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 taking into account existing cash balances, expected exercise of share purchase warrants, and stock options.

### 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.

# Liberty Defense Holdings, Ltd.

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## 15. 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	\$ 226,060
Financial liabilities denominated in foreign currencies	(391,271)
<b>Net exposure</b>	<b>\$ (165,211)</b>

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$16,521.

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.

## 16. Geographic information

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

Geographic segmentation of assets and liabilities are as follows:

	Canada	United States	Total
Non-current assets			
Property & equipment	\$ -	\$ 729,677	\$ 729,677
Intangible assets	-	4,157,161	4,157,161
Lease receivable	22,627	-	22,627
<b>Balance, March 31, 2022</b>	<b>\$ 22,627</b>	<b>\$ 4,886,838</b>	<b>\$ 4,909,465</b>
Non-current liabilities			
Lease liability	\$ -	\$ 610,165	\$ 610,165
<b>Balance, March 31, 2022</b>	<b>\$ -</b>	<b>\$ 610,165</b>	<b>\$ 610,165</b>

# Liberty Defense Holdings, Ltd.

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## 16. Geographic information (continued)

		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
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>28,675</b>	<b>\$ 4,904,223</b>	<b>\$ 4,932,898</b>
Non-current liabilities				
Lease liability	\$	27,677	\$ 612,403	\$ 640,080
Battelle patent expense		-	25,000	25,000
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>27,677</b>	<b>\$ 637,403</b>	<b>\$ 665,080</b>

## 17. Subsequent Events

- a) On April 26, 2022, the Company granted 1,915,000 stock options to directors, officers, employees and consultants of the Company. Each stock option is exercisable for one common share of the Company at an exercise price of CAD\$0.41 per share. All Options vest at 12.5% after three months from the grant date, and 12.5% every three months thereafter, expiring on April 26, 2027.
- b) On April 26, 2022, the Company issued 800,000 restricted share units of the Company to directors, officers, and an employee of the Company. These instruments will fully vest on April 26, 2024 and will expire on April 26, 2027.
- c) On May 12, 2022, Pacific Northwest National Laboratory granted a \$212,697 contract for the High-Definition Advanced Imaging Technology (HA-AIT) project to develop a series of millimeter-wave imaging system prototypes to advance and upgrade the current state-of-the-art concealed threat detection technology for the current passenger security screening applications.