



Liberty Defense

Liberty Defense Holdings, Ltd.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended March 31, 2024 and 2023

Prepared by Management

(Expressed in U.S. dollars)

LIBERTY DEFENSE HOLDINGS, LTD.

Interim Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2024, and 2023

Notice to Reader

On June 21, 2024, Liberty Defense Holdings, Inc. (the “Issuer”) filed the interim condensed consolidated financial statements for the three months ended March 31, 2024, of the Issuer (the “Interim Financial Statements”) in accordance with section 4.4 of the National Instrument 51-102 Continuous Disclosure Obligations.

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

1. Updated the board of director approval from May 24, 2024, to June 21, 2024;
2. Removed the “Notice of No Auditor Review” of Interim Financial Statements;
3. Reduction of impairment of inventory reduced by \$250,693 (Note 5);
4. Reduction of stock-based-compensation for RSUs forfeited \$281,107 (Note 12);
5. Other immaterial changes.

June 21, 2024

LIBERTY DEFENSE HOLDINGS, LTD.

Responsibility For Unaudited Condensed Interim
Consolidated Financial Statements for the Three Months Ended
March 31, 2024, and 2023

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

“William Frain”

Director, Chief Executive Officer

“Omar Garcia”

Chief Financial Officer

June 21, 2024

Liberty Defense Holdings, Ltd.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in U.S. dollars - Unaudited)

As at:	Note	March 31, 2024	December 31, 2023
		\$	\$
Assets			
Current assets:			
Cash		397,317	963
Accounts receivable, prepaids and deposits	4	327,349	257,885
Inventory	5	1,409,938	1,255,077
Lease receivable	10	–	7,048
		2,134,604	1,520,973
Non-current assets:			
Property and equipment	6	897,355	1,043,876
Intangible assets	7	3,038,279	3,266,803
		3,935,634	4,310,679
Total assets		6,070,238	5,831,652
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		3,204,981	3,862,675
Loans payable	8	316,468	530,062
Factoring liability	9	1,032,646	1,107,347
Deferred revenue	14	1,230,000	180,000
CEBA loan	8	29,819	29,445
Lease liabilities	10	249,438	247,412
		6,063,352	5,956,941
Non-current liabilities:			
Non-current lease liabilities	10	594,841	639,173
Total liabilities		6,658,193	6,596,114
Shareholders' deficiency			
Share capital	11	34,244,794	32,565,254
Share subscriptions received in advance	11	–	224,915
Equity reserves	12	4,235,773	4,146,489
Accumulated other comprehensive loss		(210,557)	(221,071)
Deficit		(38,857,965)	(37,480,049)
Total shareholders' deficiency		(587,955)	(764,462)
Total liabilities and shareholders' deficiency		6,070,238	5,831,652

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

Approved by the Board of Directors on June 21, 2024, and signed on the Company's behalf by:

"William Frain"
Director

"Daryl Rebeck"
Director

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

Liberty Defense Holdings, Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in U.S. dollars - Unaudited)

	Note	Three months ended March 31,	
		2024	2023
		\$	\$
Revenue	14 & 15	632,056	511,571
Cost of revenue		487,418	346,210
Gross income		144,638	165,361
Engineering and Research and Development Expenses:			
Product development & technology Costs		40,710	50,526
Salaries and consulting fees	17	263,879	785,027
Stock-based compensation	12 & 17	24,097	27,058
Depreciation	6	81,764	181,827
Amortization	7	–	158,636
Office, rent & administration, travel and miscellaneous		9,676	111,834
General and Administration Expenses:			
Salaries and consulting fees	17	290,885	445,142
Legal and professional fees		55,882	25,978
Stock-based compensation	12 & 17	13,804	193,528
Office, rent & administration, travel, and miscellaneous		563,184	291,799
		1,343,881	2,271,355
Other expense (income):			
Interest expense		175,190	18,828
Accretion expense	8	–	(1,757)
Foreign exchange loss		3,483	–
		178,673	17,071
Net loss for the period		(1,377,916)	(2,123,065)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or (loss)			
Foreign currency translation adjustment		10,514	(21,768)
Total loss and comprehensive loss for the period		(1,367,402)	(2,144,833)
Weighted average number of common shares outstanding			
Basic and diluted		154,556,600	116,839,406
Loss per share			
Basic and diluted loss per share	13	(0.01)	(0.02)

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

Liberty Defense Holdings, Ltd.

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

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

	Note	Number of common shares	Share capital	Equity reserves	Share subscriptions received in advance	Accumulated other comprehensive income (loss)	Deficit	Total
		#	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2022		116,839,406	28,936,296	3,518,365	-	(252,669)	(28,111,006)	4,090,986
Issue of private placement, net of share issue cost	11	-	6,099	-	-	-	-	6,099
Stock based compensation	12	-	-	220,586	-	-	-	220,586
Foreign currency translation adjustment		-	-	-	-	(21,768)	-	(21,768)
Loss for the period		-	-	-	-	-	(2,123,065)	(2,123,065)
Balance as at March 31, 2023		116,839,406	28,942,395	3,738,951	-	(274,437)	(30,234,071)	2,172,838
Balance as at December 31, 2023		145,428,102	32,565,254	4,146,489	224,915	(221,071)	(37,480,049)	(764,462)
Issue of private placement, net of share issue cost	11	15,991,572	1,717,044	4,508	(224,915)	-	-	1,496,637
Residual value allocated to warrants	11	-	(358,691)	358,691	-	-	-	-
Restricted share units issued	11	50,000	8,371	(8,371)	-	-	-	-
Stock based compensation	12	-	-	47,272	-	-	-	47,272
Fair value of warrants allocated to share capital on expiry	12	-	312,816	(312,816)	-	-	-	-
Foreign currency translation adjustment		-	-	-	-	10,514	-	10,514
Loss for the period		-	-	-	-	-	(1,377,916)	(1,377,916)
Balance as at March 31, 2024		161,469,674	34,244,794	4,235,773	-	(210,557)	(38,857,965)	(587,955)

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

Liberty Defense Holdings, Ltd.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in U.S. dollars - Unaudited)

	Note	Three months ended March 31,	
		2024	2023
		\$	\$
Cash (used in) provided by:			
Operating activities:			
Loss and comprehensive loss for the period		(1,377,916)	(2,123,065)
Items not involving cash:			
Lease liability interest	10	19,146	(3,572)
Accrued interest loans payable	8	14,761	–
Accretion expense CEBA loan	8	–	(1,826)
Depreciation	6	81,764	181,827
Depreciation recorded in cost of revenue		37,469	–
Amortization	7	–	158,636
Amortization recorded in cost of revenue	14 & 15	228,524	–
Loss on disposal of property and equipment	6	29,233	–
Stock based compensation	12	37,901	220,586
Stock based compensation in cost of revenue	12	9,372	–
Impairment of inventory	5	18,549	–
Factoring fees	9	142,873	–
Changes in non-cash working capital:			
Amounts receivable and prepaids		(69,464)	127,396
Inventory		(173,411)	(2,507)
Accounts payable and accrued liabilities		(657,694)	938,345
Deferred revenue		1,050,000	–
Cash used in operating activities		(608,893)	(504,180)
Investing activities:			
Additions to intangible assets	7	–	(3,324)
Additions to property and equipment	6	(1,945)	(28,676)
Cash used in investing activities		(1,945)	(32,000)
Financing activities:			
Proceeds from issuance of units, net of share issue costs	11	1,496,637	6,099
Repayments on factoring	9	(217,574)	–
Repayments of loans	8	(228,355)	–
Lease payments received	10	7,010	5,241
Repayment of leases	10	(61,452)	(23,699)
Cash provided by (used in) financing activities		996,266	(12,359)
Effect of foreign exchange rate changes on cash		10,926	(21,368)
Effect of foreign exchange rate changes on cash		10,926	(21,368)
Increase in cash		396,354	(569,907)
Cash, beginning of the period		963	677,473
Cash, end of the period		397,317	107,566

During the three months ended March 31, 2024 and 2023, the Company paid \$nil and \$nil in income taxes, and paid \$17,071 and \$nil in interest respectively.

Supplemental cash flow information

Fair value of compensation brokers warrants	11	\$	4,508	\$	307,878
Fair value of shares issued for corporate finance fee	11		–		79,029
Residual value allocated to warrants	11		358,691		–
Reclassification from reserves upon warrant exercise	11		–		21,479
Fair value of warrants allocated to share capital on expiry	11		(312,816)		–

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

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

1. Nature of operations and going concern

Liberty Defense Holdings, Ltd. (“Liberty” or the “Company”), is a public company (TSXV: SCAN, Frankfurt: L2D, OTCQB: LDDFF), that was incorporated under the Business Corporation Act of Ontario on June 8, 2012. The Company’s registered and records office is registered at 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117, Vancouver, British Columbia, V6E 4N7, Canada.

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

Going concern

These condensed interim consolidated financial statements have been prepared using IFRS Accounting Standards as issued by the International Accounting Standards Board applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred in a total loss during the three months ended March 31, 2024, of \$1,377,916 and cash outflows from operating activities of \$608,894. To continue the early production and commercialization of HEXWAVE, the Company requires additional funds. These funds will be pivotal in advancing the production of HEXWAVE. Additionally, the Company has certain committed development milestones over the next twelve months and based on the Company’s current forecasted operational and development spend, the Company will require additional funds to meet these milestones. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. This material uncertainty casts significant doubt upon the Company’s ability to continue as a going concern.

There are many external factors that can adversely affect global workforces, economies, and financial markets globally such as global health conditions and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of the adverse results of these factors and its effects on the Company's business or ability to raise funds.

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

2. Basis of presentation

(a) Statement of compliance

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

These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on June 21, 2024.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these 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.

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

2. Basis of presentation (continued)

(d) Basis of consolidation

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

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

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

(e) Critical accounting estimates and judgments

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

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

The Company's critical accounting judgements and estimates were presented in Note 3 of the annual audited consolidated financial statements and have been consistently applied in the preparation of these condensed interim consolidated financial statements. No new estimates and judgements were applied for the period ended March 31, 2024.

3. Material Accounting Policies

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

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

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current. The amendment clarified the guidance on whether a liability should be classified as either current or non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024.
- Amendments to IFRS 16 – Lease liability in a Sale and Leaseback. The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. These amendments are effective for annual periods beginning on or after January 1, 2024.

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

3. Material Accounting Policies (continued)

- Amendments to IAS 7 – Requiring entities to provide qualitative and quantitative information about their supplier finance arrangements. In connection with the amendments to IAS 7, the IASB also issued amendments to IFRS 7 requiring entities to disclose whether they have accessed, or have access to, supplier finance arrangements that would provide the entity with extended payment terms or the suppliers with early payment terms. These amendments are effective on January 1, 2024

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

4. Accounts Receivables, Prepaids and Deposits

	March 31, 2024	December 31, 2023
Accounts receivables	\$ 148,587	\$ 25,494
Prepaids and deposits	178,762	232,391
	\$ 327,349	\$ 257,885

5. Inventory

	March 31, 2024	December 31, 2023
Raw materials	\$ 896,624	\$734,824
Work-in-progress	513,314	467,940
Finished Goods	-	52,313
	\$ 1,409,938	\$1,255,077

The Company reclassified finished goods inventory of \$nil (December 31, 2023, \$86,556) to property and equipment related to a HEXWAVE prototype unit. The HEXWAVE unit will be used in live scenarios to promote the product and collect data to further improve HEXWAVE.

During the three months ended March 31, 2024, the Company recorded an impairment expense of \$18,549 (March 31, 2023 - \$nil).

During the three months ended March 31, 2024, the Company expensed \$94,404 of inventory to cost of sales (three months ended March 31, 2023, \$nil).

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

6. Property and Equipment

	Leasehold Improvement	Equipment	Right of Use Asset	Prototype	Construction in Process	Total
Cost						
At December 31, 2022	\$6,735	\$222,954	\$772,312	\$584,859	\$88,715	\$1,675,575
Additions	-	-	414,562	86,556	134,389	635,507
Transfers	-	-	-	171,899	(171,899)	-
At December 31, 2023	\$6,735	\$222,954	\$1,186,874	\$843,314	\$51,205	\$2,311,082
Additions	-	-	-	682	1,263	1,945
Disposals	-	-	-	(116,933)	-	(116,933)
At March 31, 2024	\$6,735	\$222,954	\$1,186,874	\$727,063	\$52,468	\$2,196,094
Accumulated Depreciation						
At December 31, 2022	\$6,735	\$71,717	\$234,982	\$360,662	\$-	\$674,096
Depreciation for the year	-	59,059	192,581	341,529	-	593,169
At December 31, 2023	\$6,735	\$130,776	\$427,563	\$702,191	\$-	\$1,267,265
Depreciation for disposal	-	-	-	(87,700)	-	(87,700)
Depreciation for the period	-	14,174	47,375	57,684	-	119,233
At March 31, 2024	\$6,735	\$144,950	\$474,938	\$672,175	\$-	\$1,298,798
Foreign exchange movement						
At December 31, 2023	\$-	\$-	\$59	\$-	\$-	\$59
At March 31, 2024	\$-	\$-	\$59	\$-	\$-	\$59
Net Book Value						
At December 31, 2023	\$-	\$92,178	\$759,370	\$141,123	\$51,205	\$1,043,876
At March 31, 2024	\$-	\$78,004	\$711,995	\$54,888	\$52,468	\$897,355

On February 1, 2023, the Company entered into a new office lease agreement for a period of thirty-six months whereby an initial right-of-use asset was recognized totaling \$58,386, using a 9.68% implicit interest rate.

On February 1, 2023, the Company entered into a new office lease agreement for a period of thirty-six months whereby an initial right-of-use asset was recognized totaling \$356,176, using a 9.81% implicit interest rate. The term of the additional lease is sixty-three months whereby an initial right-of-use asset was recognized on the commencement date of February 1, 2023.

During the three months ended March 31, 2024, equipment depreciation recorded to cost of sales was \$37,469 (three months ended March 31, 2023, \$nil). During the three months ended March 31, 2024, the Company disposed of assets with a carrying value of \$29,333 for \$nil proceeds (March 31, 2023 \$nil).

7. Intangible Assets

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

	MIT licenses	Battelle license	Intellectual property	Total
Balance, December 31, 2022	\$441,225	\$59,430	\$3,229,808	\$3,730,463
Additions	-	231,805	-	231,805
Amortization	(34,108)	(67,985)	(593,372)	(695,465)
Balance, December 31, 2023	\$407,117	\$223,250	\$2,636,436	\$3,266,803
Additions	-	-	-	-
Amortization	(8,527)	(52,905)	(167,092)	(228,524)
Balance, March 31, 2024	\$398,590	\$170,345	\$2,469,344	\$3,038,279

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

7. Intangible Assets (continued)

Intangible assets included as MIT licenses and Battelle licenses include payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the reverse take over (“RTO”) transaction closed during the year ended December 31, 2021, and became ready for use during the year ended December 31, 2022. The remaining useful life of the intangible assets are as follows: MIT license 11.75 years, Battelle license nine months, and intellectual property 4.75 years. During the three months ended March 31, 2024, \$228,524 of amortization was allocated to cost of sales (three months ended March 31, 2023, \$nil).

(a) MIT License Agreements

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

The obligations under the Technology Transfer Agreement and the CRADA have now been completed. Liberty may consider extending the CRADA (and therefore changing its scope) if it determines that additional MIT LL technical expertise related to active three-dimensional imaging technology is required. Pursuant to the License Agreement, LDT has been granted the exclusive rights to MIT’s patent in “multistatic sparse array topology for FFT-based field imaging” (MIT Case No. 1 8409L) (the “Patent”), which is being utilized in the development and application of the HEXWAVE product. The License Agreement is to be in effect until the expiration of the Patent, which is 11 years (December 2035). In granting LDT such patent rights, the Company shall pay MIT in addition to patent filing costs an annual 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 (payable), and \$350,000 for 2024 (payable) and thereafter; and 2) a royalty of 5.7% of all future net sales of the Company. As at March 31, 2024, the Company accrued no royalty payments (December 31, 2023, \$nil). The Company shall also be required to achieve certain milestones. The agreement was amended after the period-end. See Note 21.

(b) Battelle Memorial License Agreement

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

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

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

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

7. Intangible Assets (continued)

(b) Battelle Memorial License Agreement (continued)

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

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

8. Loans Payable

(a) Related Party Loans

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

	Amounts
Balance, December 31, 2022	\$ -
Additions	1,381,120
Repayments	(1,052,426)
Balance, December 31, 2023	\$ 328,694
Repayments	(111,394)
Balance, March 31, 2024	\$ 217,300

(b) Short Term Loans

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

During the fiscal year ended December 31, 2023, the Company received an unsecured business line of credit with BlueVine Capital for a twenty-six-week term with an interest rate of 1.10% and weekly payments of \$3,906. The loan is set to mature on June 5, 2024.

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

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

8. Loans Payable (continued)

(b) Short Term Loans (continued)

	Amounts
Balance, December 31, 2022	\$ -
Additions	332,596
Interest	30,312
Repayments	(161,540)
Balance, December 31, 2023	\$ 201,368
Interest	14,761
Repayments	(116,961)
Balance, March 31, 2024	\$ 99,168

(c) CEBA Loan

The Company acquired a CAD\$40,000 Canada Emergency Business Account loan ("CEBA") on May 5, 2020, carrying a 0% interest rate until January 18, 2024 ("Term Period"). This loan was utilized to cover payroll, rent, and utilities as per the loan agreement guidelines. According to the terms, if 75% of the advanced amount is repaid before the Term Period, the remaining 25% is forgiven.

The Company failed to repay the CEBA loan by the Term Period resulting in its conversion to a term facility, with interest accruing at 5% per annum on the current outstanding balance at March 31, 2024 of \$29,819 (December 31, 2023, \$29,445). The CEBA loan will now have the principal amount due by December 31, 2026 ("Extension Period").

The net present value of the CEBA loan as of December 31, 2023, is \$29,445 and was presented as a current liability. The Company also recognized an accretion income of \$nil for the period ended March 31, 2024 (March 31, 2023, \$(1,826)).

9. Factoring Liability

On June 22, 2023, the Company engaged in a factoring arrangement with Bengal Capital, Inc. (the "Factor"). Per the agreement, the Company submits invoices or purchase orders to the Factor after credit approval, receiving 80% of the gross amount. The Factor assumes ownership of these accounts with full recourse. Furthermore, the Company is subject to a 4% monthly factoring fee based on the face value of the accounts. No collateral is used per the agreement; however, the Company is obligated to pay the balance regardless of receiving payment for advanced orders. During the three months ended March 31, 2024, the Company received funds of \$nil and incurred factor fees of \$142,873 with repayments of \$217,574. During the comparative period, March 31, 2023, the Company received funds of \$nil and incurred factor fees of \$nil with repayments of \$nil. As at March 31, 2024, trade receivables in connection to the factoring arrangements is \$nil (December 31, 2023, \$nil).

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

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9. Factoring Liability (continued)

	Amounts
Balance December 31, 2022	\$ -
Additions	1,265,132
Factoring Fee	192,185
Repayments	(349,970)
Balance, December 31, 2023	\$ 1,107,347
Factoring Fee	142,873
Repayments	(217,574)
Balance, March 31, 2024	\$ 1,032,646

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

10. Leases

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

	Right of use liability
Balance, December 31, 2022	\$ 638,306
Additions	414,562
Finance costs	81,032
Lease payments	(247,189)
Foreign exchange movement	(126)
Balance, December 31, 2023	\$ 886,585
Finance costs	19,146
Lease payments	(61,452)
Balance, March 31, 2024	\$ 844,279
Less current portion	249,438
Non-current lease liability	\$ 594,841

During the three months ended March 31, 2024, the Company recorded a lease expense of \$nil (three months ended March 31, 2023 – \$23,317) related to short-term leases not meeting the criteria for capitalization under IFRS 16.

Minimum lease payments are as follows:

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For the three months ended March 31, 2024, and 2023

10. Leases (continued)

	March 31, 2024	December 31, 2023
Maturity analysis - contractual undiscounted cash flows		
One year or less	\$ 249,438	\$ 247,412
Two to five years	752,649	815,820
Six and thereafter	-	-
Total lease liabilities	\$ 1,002,087	\$ 1,063,232
Effect of discounting	(157,808)	(176,647)
Lease liabilities included in the statement of financial position	\$ 844,279	\$ 886,585
Current	\$ 249,438	\$ 247,412
Non-current	\$ 594,841	\$ 639,173

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

	Amounts
Balance, December 31, 2022	\$ 26,837
Accretion	983
Payments received	(20,827)
Foreign exchange movement	55
Balance, December 31, 2023	\$ 7,048
Accretion	80
Payments received	(7,010)
Foreign exchange movement	(118)
Balance, March 31, 2024	\$ -

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

11. Share Capital

(a) Common share transactions for the three months ended March 31, 2024

- i) On January 15, 2024, the Company closed the initial tranche of a Listed Issuer Financing Exemption (LIFE) private placement of units, raising gross proceeds of \$662,554 (CAD\$886,000). As of December 31, 2023, the Company had received \$224,915 of these proceeds. This tranche involved the issuance of 5,900,663 units at a price of CAD\$0.15 per unit. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD\$0.20 per share within 36 months. The warrants were allocated a residual value of \$154,596. Additionally, the Company issued 151,713 broker warrants to agents under identical terms and conditions with a fair value of \$4,508. Agent commissions totaling \$17,035 were paid. All securities issued are subject to a hold period expiring four months and one day after the closing date of the private placement.

Subsequently, on February 7, 2024, the Company closed the final tranche of the same non-brokered private placement, raising an additional \$112,285 (CAD\$150,000). This tranche involved the issuance of 1,000,000 units under the same terms and conditions as the initial tranche. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD\$0.20 per share within 36 months. The warrants were allocated a residual value of \$37,428.

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11. Share Capital (continued)

(a) Common share transactions for the three months ended March 31, 2024 (continued)

- ii) On February 28, 2024, the Company closed an investment by Viken Detection Corp. (“Viken”) pursuant to which Viken purchased 9,090,909 units of the Company at an issue price of CAD\$0.15 per unit for total gross proceeds of \$1,000,000 (CAD\$1,363,636). Each unit comprised one common share and one purchase warrant. Each warrant entitles Viken to purchase one additional common share of the Company at an exercise price of CAD\$0.20 for a period of 36 months. The warrants were allocated a residual value of \$166,667. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$36,252 were also paid. These warrants contain blocker language restricting the exercise of the warrants in the event such exercise results in Viken holding more than 9.9% of the outstanding voting securities of the Company.
- iii) On March 17, 2024, a total of 1,996,363 finder warrants expired with an exercise price of CAD\$0.33. These broker warrants had a fair value at \$312,816 and the reserve value was reclassified to share capital.
- iv) On March 22, 2024, a total of 50,000 common shares were issued pursuant to the exercise of RSUs with a fair value of \$8,371 (CAD\$11,363).

(b) Common share transactions for the three months ended March 31, 2023

- i) On March 11, 2023, a total of 1,098,125 finder warrants expired with an exercise price of CAD\$0.40. These broker warrants had a fair value at \$188,021 and the reserve value was reclassified to share capital.

12. Equity Reserves

(a) Share-based compensation

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

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

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

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

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

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For the three months ended March 31, 2024, and 2023

12. Equity Reserves (continued)

(a) Share-based compensation (continued)

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2022	5,654,597	CAD\$ 0.54
Cancelled	(210,000)	0.43
Granted	1,245,000	0.19
Outstanding, December 31, 2023	6,689,597	CAD\$ 0.48
Cancelled	(25,000)	0.41
Outstanding, March 31, 2024	6,664,597	CAD\$ 0.48

As at March 31, 2024, the number of stock options outstanding and exercisable were:

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
1-May-24	50,000	CAD\$ 0.50	0.08	50,000
15-Jun-24	37,500	CAD\$ 0.50	0.21	37,500
1-Jul-24	75,000	CAD\$ 0.50	0.25	75,000
8-Jul-24	75,000	CAD\$ 0.50	0.27	75,000
31-Jul-24	50,000	CAD\$ 0.50	0.33	50,000
23-Aug-24	37,500	CAD\$ 0.50	0.40	37,500
25-Sep-24	37,500	CAD\$ 0.50	0.49	37,500
29-Sep-24	75,000	CAD\$ 0.50	0.50	75,000
Apr 9 and Jul 2, 2024	137,097	CAD\$ 4.96	0.25	137,097
7-Apr-26	1,550,000	CAD\$ 0.50	2.02	1,550,000
10-Jun-26	100,000	CAD\$ 0.50	2.19	100,000
28-Jul-26	125,000	CAD\$ 0.55	2.33	125,000
28-Jul-26	90,000	CAD\$ 0.65	2.33	90,000
1-Nov-26	465,000	CAD\$ 0.46	2.59	465,000
14-Jan-27	100,000	CAD\$ 0.36	2.79	100,000
26-Apr-27	1,795,000	CAD\$ 0.41	3.07	1,795,000
26-May-24	250,000	CAD\$ 0.50	0.15	218,750
26-May-27	125,000	CAD\$ 0.38	3.15	109,375
16-Aug-27	185,000	CAD\$ 0.29	3.38	138,750
21-Nov-27	60,000	CAD\$ 0.22	3.64	37,500
26-Apr-28	110,000	CAD \$0.18	4.07	41,250
16-Oct-28	1,135,000	CAD \$0.19	4.55	141,875
March 31, 2024	6,664,597			5,487,097

During the three months ended March 31, 2024, the Company recognized stock-based compensation related to stock options totaling \$33,423 (three months ended March 31, 2023 – \$81,378). Of this amount, \$9,372 was recorded as stock-based compensation in the cost of revenue (three months ended March 31, 2023 – \$nil).

Subsequent to the three months ended March 31, 2024, the Company had 87,500 stock options expire.

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

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12. Equity Reserves (continued)

(a) Share-based compensation (continued)

	March 31, 2024	December 31, 2023
Risk-free interest rate	-	4.16%
Expected dividend yield	-	Nil
Stock price volatility	-	80.98%
Expected life (in years)	-	5 years
Stock price	-	CAD\$0.11

(b) Restricted share units (“RSU”)

Restricted share units granted for the three months ended March 31, 2024:

- i) On February 28, 2024, the Company granted 1,475,000 RSUs to employees; these RSUs shall be settled with common shares of the Company, are restricted until February 28, 2029, and vest at 100% on February 28, 2025.
- ii) On March 25, 2024, a total of 50,000 common shares were issued pursuant to the exercise of RSUs.

No RSUs were granted during the three months ended March 31, 2023.

The following table summarizes the movements in outstanding RSUs:

	Number of equity settled RSUs	Deemed Grant Price
Outstanding, December 31, 2022	2,472,155	CAD\$ 0.50
Granted	3,456,975	0.17
Outstanding, December 31, 2023	5,929,130	CAD\$ 0.21
Granted	1,475,000	0.13
Cancelled	(1,122,475)	0.31
Exercised	(50,000)	0.22
Outstanding, March 31, 2024	6,231,655	CAD\$ 0.27

The estimated fair value of the equity settled RSUs granted as of March 31, 2024, was \$141,576 (three months ended March 31, 2023 – \$nil) and will be recognized as an expense over the vesting period of the RSUs. The fair value of the equity settled RSUs as at the grant date was determined with reference to the market value of the common shares of the Company at the grant date.

During the three months ended March 31, 2024, the Company recognized stock-based compensation related to RSUs in the amount of \$(19,380) (three months ended March 31, 2023, – \$87,038).

(c) Share purchase warrants

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

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12. Equity Reserves (continued)

(c) Share purchase warrants (continued)

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2022	46,917,380	CAD\$ 0.40
Issued	24,012,344	0.30
Expired	(17,910,025)	0.64
Outstanding, December 31, 2023	53,019,699	CAD\$ 0.40
Issued	16,143,285	0.20
Expired	(17,977,269)	0.48
Outstanding, March 31, 2024	51,185,715	CAD\$ 0.31

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

	March 31, 2024	December 31, 2023
Risk-free interest rate	3.76%	3.53%
Expected dividend yield	Nil	Nil
Stock price volatility	71.94%	63.89%
Expected life (in years)	3 years	2 years
Share price on grant date	CAD\$0.12	CAD\$0.18
Fair value share purchase warrants	CAD\$0.05	CAD\$0.04

The outstanding number of share purchase warrants is as follows:

Expiry date	Outstanding		
	Number of warrants	Exercise price	Remaining contractual life (years)
13-Apr-25	3,353,030	CAD\$0.30	1.04
13-Apr-25	215,250	CAD\$0.30	1.04
9-May-25	1,015,000	CAD\$0.30	1.11
9-May-25	138,950	CAD\$0.30	1.11
8-Jun-25	762,500	CAD\$0.30	1.19
8-Jun-25	92,750	CAD\$0.30	1.19
5-Oct-26	17,827,635	CAD\$0.30	2.52
5-Oct-26	607,229	CAD\$0.20	2.52
12-Jan-27	3,733,332	CAD\$0.20	2.79
12-Jan-27	2,167,331	CAD\$0.20	2.79
12-Jan-27	151,713	CAD\$0.20	2.79
5-Feb-27	1,000,000	CAD\$0.20	2.85
28-Feb-27	9,090,909	CAD\$0.15	2.92
27-Oct-27	1,446,736	CAD\$0.28	3.58
27-Oct-27	9,345,850	CAD\$0.50	3.58
27-Oct-27	237,500	CAD\$0.50	3.58
	51,185,715		

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12. Equity Reserves (continued)

(d) Performance Shares

On March 17, 2021, Liberty deposited into escrow, and held in escrow, Operational Performance Shares (“OPS”) and Capital Market Performance Shares (“CMPS”) for certain directors, officers, and consultants of the Company upon the Company achieving certain performance milestones. Once these milestones were achieved the shares would be released. These performance shares included 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.

Operational Performance Shares

During the three months ended March 31, 2024, and 2023, 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 which had an estimated vesting period between December 2024 and December 2025. During the three months ended March 31, 2024, the Company recorded stock-based compensation in connection to OPS in the amounts of \$33,229 (three months ended March 31, 2023, \$52,170).

	Number of equity settled performance	Weighted average price
Outstanding, December 31, 2022 and 2023	2,000,000	CAD\$ 0.40
Released from escrow	-	0.00
Outstanding, March 31, 2024	2,000,000	CAD\$ 0.40

Capital Market Performance Shares

During the year ended December 31, 2021, the Company issued 2,193,250 of the total 8,773,000 CMPS upon achieving one of the four established milestones. During the year ended December 31, 2022, an additional 6,579,750 CMPS were issued as the remaining three milestones were met. The Company estimated the probability of the number of CMPS to be issued and an estimated vesting period between June 2021 and September 2022. The total estimated fair value of the CMPS was \$2,696,688, which has been fully expensed.

13. Loss Per Share

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

		Three months ended March 31,	
		2024	2023
Loss attributable to common shareholders	\$	(1,377,916)	\$ (2,123,065)
Weighted average number of shares		154,556,600	116,839,406
Basic and diluted loss per share	\$	(0.01)	\$ (0.02)

The Company incurred net losses for the three months ended March 31, 2024, and 2023, therefore all outstanding stock options share purchase warrants, restricted share units, and performance share units, if any, have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

14. Revenue

Revenue recognition during the three months ended March 31, 2024, relates to the contract revenue (note 16) from the Transportation Security Administration (“TSA”), as well as HEXWAVE units sales.

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14. Revenue (continued)

As at March 31, 2024 and December 31, 2023, accounts receivable for work completed on contract awards was \$nil. As at March 31, 2024, the Company has recognized \$1,230,000 as deferred revenue (December 31, 2023 – \$180,000). As at March 31, 2024, the Company has recognized \$632,056 as revenue (three months ended March 31, 2023, – \$511,571).

Revenue	Three months ended March 31,	
	2024	2023
TSA Contract Award HD-AIT	\$ 200,000	\$ 490,000
TSA OA Development	200,000	-
HD-AIT Phase II	133,056	-
TSA Hexwave	-	21,571
HEXWAVE units	99,000	-
Total Revenue	\$ 632,056	\$ 511,571

15. Contract Awards

During the three months ended March 31, 2024, the Company recognized total contract revenue of \$533,056 recorded in revenue (three months ended March 31, 2023, – \$511,571). 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:

Contract Award Revenue Expected	Year ended December 31,	
	2024	2025
TSA Contract Award HD-AIT	\$ 457,905	\$ -
TSA OA Development	841,944	-
Total estimated contract revenues	\$ 1,299,849	\$ -

(a) Battelle HD-AIT Shoe Scanner

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

(b) TSA HD-AIT Upgrade

On September 30, 2022, the Company received a contract award for \$1,747,905 from Transportation Security Administration ("TSA") for the HD-AIT Wide Band Upgrade Kit. On September 28, 2023, the contract was modified adding an additional milestone. The new contract award with the modification is \$1,922,905. The contract award is to develop a series of millimeter-wave imaging system prototypes to advance and upgrade the current state-of-the-art imaging technology for the current passenger security screening applications. The project will be performed over a period of eighteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. During the three months ended March 31, 2024, the Company received \$200,000 and had a receivable of \$nil (three months ended March 31, 2023, – \$490,000 and \$nil). The balance remaining on the contract as of March 31, 2024, was \$457,905 (December 31, 2023, – \$657,905). The Company is required to submit quarterly invoices as follows:

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15. Contract Awards (continued)

(b) TSA HD-AIT Upgrade

TSA HD-AIT Upgrade	Amounts
Year 2023	\$ 1,265,000
Year 2024	
Milestone 5 A (Q1 2024) (payment received)	200,000
Milestone 5B (Q2 2024)	100,000
Milestone 6 (Q3 2024)	357,905
Total	\$ 1,922,905

(c) TSA Open Architecture

On September 29, 2023, the Company received a contract award for \$1,116,944 from TSA for the Open Architecture Development. The contract award is to develop a system-level approach that addresses TSA's request for implementation of a Checkpoint Open Architecture for On-Person Screening (OPS) systems that enable modularity and enhances security effectiveness. The project will be performed over a period of thirteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. During the three months ended March 31, 2024, the Company received \$200,000 and had a receivable of \$nil (three months ended March 31, 2023, – \$nil and \$nil). The balance remaining on the contract as of March 31, 2024, was \$841,944 (December 31, 2023, – \$1,041,944). The Company is required to submit quarterly invoices as follows:

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

(d) TSA HD-AIT Phase I

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

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16. Collaboration Agreements

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

On October 20, 2021, the Company received a contract award for \$500,000 from TSA as part of the TSA On-Person Screening Capability Program. The contract award is for the demonstration and evaluation of the Company's HEXWAVE technology and its expanded capabilities for screening aviation workers to enhance detection and throughput performance. In order for the Company to draw down on this award, Liberty is required to have its HEXWAVE technology working at certain locations to collect and share data with TSA on identified threats to further develop algorithms to improve the recognition of threats with desired probability of detection. During the three months ended March 31, 2024, the Company received \$nil in connection with this award and had a receivable of \$nil (three months ended March 31, 2023, - \$33,33 and \$21,571). The balance remaining on the contract as of March 31, 2024, was \$nil, (December 31, 2023, \$nil) as the agreement was completed on November 30, 2023.

17. Related Party Transactions

Compensation of key management personnel:

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

	Three months ended March 31,	
	2024	2023
G&A Salaries	\$ 141,857	\$ 236,643
G&A Stock-based compensation	(25,671)	161,329
G&A Consulting fees (1)	24,480	43,555
	\$ 140,666	\$ 441,527

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

As of March 31, 2024, the Company had a balance payable of \$653,593 to key management personnel (December 31, 2023, - \$614,547). This payable balance includes accounts payable and accrued liabilities relating to compensation to directors, officers, or their related companies, included in compensation of key management personnel. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

During the three months ended March 31, 2024, the Company paid Nicole Ridgedale Communications, a related party to the Company and amount of \$3,668 (three months ended March 31, 2023, \$20,392) for consulting services and stock-based compensation. As at March 31, 2024 the balance owing to Nicole Ridgedale Communications is \$19,672 (December 31, 2023 - \$23,340). This related party balance is unsecured, non-interest bearing and have no specific terms of settlement.

During the three months ended March 31, 2024, the Company received working capital loans (note 8) in the amount of \$nil (three months ended March 31, 2023 - \$719,207) from directors, officers, or their related parties. As at March 31, 2024, the outstanding balance is \$217,300 (December 31, 2023 - \$328,694).

Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2024, and 2023

18. Financial Instruments

As at March 31, 2024, the Company's financial instruments comprise cash, accounts receivables, accounts payable and accrued liabilities, loans payable, factoring liability and the CEBA loan. The fair values of the Company's financial instruments approximate their carrying values due to their short-term maturity.

Fair value of financial instruments:

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 – Inputs that are not based on observable market data.

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, including accounts receivable terms. The Company's cash is held through large Canadian, international, and foreign national financial institutions. The Company's receivables primarily consist of trade receivables that the Company continues to collect. These trade receivables are primarily with government agencies and are not subject to significant credit risk. The Company's maximum exposure to credit risk is limited to the carrying amount of cash and accounts receivables of \$545,904.

(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 March 31, 2024, the Company had cash of \$397,317 (December 31, 2023 – \$963) to settle current liabilities of \$6,063,352 (December 31, 2023 – \$5,956,941). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

(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:

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

For the three months ended March 31, 2024, and 2023

18. Financial Instruments (continued)

(c) Market risk (continued)

Interest rate risk

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

Foreign currency risk

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

		Amounts
		US dollars
Financial assets denominated in foreign currencies	\$	15,116
Financial liabilities denominated in foreign currencies		(1,066,391)
Net exposure	\$	(1,051,275)

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by \$105,128.

Price risk

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

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

19. Capital Risk Management

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

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

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Notes to the Condensed Interim Consolidated Financial Statements

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For the three months ended March 31, 2024, and 2023

19. Capital Risk Management (continued)

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

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

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

There has been no change to the Company's approach to capital management during the three months ended March 31, 2024.

20. Geographic Information

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

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

All revenues earned during the three months ended March 31, 2024, and 2023 were generated in the United States.

21. Subsequent Events

- Subsequent to March 31, 2024, a total of 600,000 shares were issued pursuant to the exercise of 600,000 warrants, resulting in proceeds of CAD\$120,000. Additionally, on May 23, 2024, a total of 113,405 shares were issued pursuant to the exercise of 113,405 RSUs.
- Subsequent to March 31, 2024, the Company entered into an amendment to the MIT License Agreement whereby the existing payable of \$550,000 related to annual maintenance fees was waived. Under the amended agreement, the Company shall pay MIT the following in annual maintenance fees: \$40,000 for 2024, \$200,000 for 2025, and \$350,000 for 2026 and thereafter. The annual maintenance fee shall be applied to royalty payments payable on any net sales in the respective calendar year.