



# **Liberty Defense**

**Liberty Defense Holdings, Ltd.**

**Condensed Interim Consolidated Financial Statements  
(Unaudited)**

**For the three Months Ended March 31, 2025 and 2024**

**Prepared by Management**

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

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# **LIBERTY DEFENSE HOLDINGS, LTD.**

Condensed Interim Consolidated Financial Statements

For the three Months Ended March 31, 2025 and 2024

## **NOTICE OF NO AUDITOR REVIEW**

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

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

May 27, 2025

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

	Note	March 31, 2025 \$	December 31, 2024 \$
<b>Assets</b>			
Current assets:			
Cash		2,657,011	1,153,229
Accounts receivable, prepaids and deposits	4	2,269,467	1,664,376
Inventories	5	343,589	868,314
Contract costs	16	—	268,952
		5,270,067	3,954,871
Non-current assets:			
Property and equipment	6	823,850	759,937
Intangible assets	7	2,428,553	2,571,693
		3,252,403	3,331,630
<b>Total assets</b>		<b>8,522,470</b>	<b>7,286,501</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	18	3,303,080	4,155,890
Loans payable	8 & 18	—	100,907
Parabilis term-loan	9	1,232,939	983,476
Factoring liability	10	1,030,374	983,671
Deferred revenue	15	120,000	180,000
Lease liabilities	11	234,229	203,443
		5,920,622	6,607,387
Non-current liabilities:			
Non-current lease liabilities	11	407,851	505,382
Non-current Parabilis term loan	9	759,588	938,211
<b>Total liabilities</b>		<b>7,088,061</b>	<b>8,050,980</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	12	45,966,833	40,717,157
Equity reserves	13	5,451,007	4,872,472
Accumulated other comprehensive income (loss)		126,476	(28,896)
Deficit		(50,109,907)	(46,325,212)
Total shareholders' equity (deficiency)		1,434,409	(764,479)
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>8,522,470</b>	<b>7,286,501</b>

Nature of operations and going concern (note 1)  
Subsequent events (note 22)

Approved on behalf of the Board of Directors:

"William Frain"  
Director

"Jason Burinescu"  
Director

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

# Liberty Defense Holdings, Ltd.

## Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

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

	Note	Three months ended Mach 31,	
		2025	2024
		\$	\$
<b>Revenue</b>			
HEXWAVE revenue	15 & 16	780,358	99,000
Contract revenue		275,000	533,056
<b>Total revenue</b>		1,055,358	632,056
<b>Cost of revenue</b>			
HEXWAVE cost of revenue		602,642	235,373
Contract cost of revenue		743,190	252,045
<b>Total cost of revenue</b>		1,345,832	487,418
<b>Gross (loss) income</b>		(290,474)	144,638
<b>Engineering and Research and Development Expenses</b>			
Product development & technology Costs		58,365	40,710
Salaries and consulting fees	19	571,940	263,879
Stock-based compensation	13 & 19	14,744	24,097
Depreciation	6	85,530	81,764
Office, rent & administration, travel, and miscellaneous		30,220	9,676
<b>General &amp; Administration Expenses</b>			
Salaries and consulting fees	19	618,858	290,885
Legal and professional fees		136,401	55,882
Stock-based compensation	13 & 19	569,061	13,804
Office, rent & administration, travel, and miscellaneous		1,235,998	563,184
		3,321,117	1,343,881
<b>Loss from operations</b>		<b>(3,611,591)</b>	<b>(1,199,243)</b>
<b>Other expense</b>			
Other income, net of other expenses	12	(108)	-
Interest expense		154,424	175,190
Foreign exchange loss		18,788	3,483
		173,104	178,673
<b>Net loss for the period</b>		<b>(3,784,695)</b>	<b>(1,377,916)</b>
<b>Other comprehensive loss</b>			
Items that may be reclassified subsequently to profit or (loss)			
Foreign currency translation adjustment		155,372	10,514
<b>Total loss and comprehensive loss for the period</b>		<b>(3,629,323)</b>	<b>(1,367,402)</b>
Weighted average number of common shares outstanding			
Basic and diluted		48,257,260	15,455,660
Loss per share			
Basic and diluted loss per common share	14	(0.08)	(0.09)

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)

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

	Note	Number of common shares	Share capital	Equity reserves	Accumulated other comprehensive (loss) income	Deficit	Total
		#	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2023</b>		<b>14,542,812</b>	<b>32,565,254</b>	<b>4,146,489</b>	<b>(221,071)</b>	<b>(37,480,049)</b>	<b>(764,462)</b>
Private placement, net of share issue cost	12	1,599,157	1,717,044	4,508	—	—	1,496,637
Residual value allocated to warrants	12	—	(358,691)	358,691	—	—	—
Restricted share units exercised	12	5,000	8,371	(8,371)	—	—	—
Stock based compensation	13	—	—	47,272	—	—	47,272
Fair value of warrants allocated to share capital on expiry	13	—	312,816	(312,816)	—	—	—
Foreign currency translation adjustment		—	—	—	10,514	—	10,514
Net loss for the period		—	—	—	—	(1,377,916)	(1,377,916)
<b>Balance as at March 31, 2024</b>		<b>16,146,969</b>	<b>34,244,794</b>	<b>4,235,773</b>	<b>(210,557)</b>	<b>(38,857,965)</b>	<b>(587,955)</b>
<b>Balance as at December 31, 2024</b>		<b>43,331,347</b>	<b>40,717,157</b>	<b>4,872,472</b>	<b>(28,896)</b>	<b>(46,325,212)</b>	<b>(764,479)</b>
Private placement, net of share issue cost	12	3,031,000	3,157,007	—	—	—	3,157,007
Residual value allocated to warrants	12	—	(263,584)	263,584	—	—	—
Fair value of broker warrants allocated to share capital	13	—	(84,183)	84,183	—	—	—
Warrants exercised for cash	12	5,414,275	2,075,556	—	—	—	2,075,556
Restricted shares units exercised	12	189,100	364,880	(364,880)	—	—	—
Stock based compensation	13	—	—	595,648	—	—	595,648
Foreign currency translation adjustment		—	—	—	155,372	—	155,372
Net loss for the period		—	—	—	—	(3,784,695)	(3,784,695)
<b>Balance as at March 31, 2025</b>		<b>51,965,722</b>	<b>45,966,833</b>	<b>5,451,007</b>	<b>126,476</b>	<b>(50,109,907)</b>	<b>1,434,409</b>

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

# Liberty Defense Holdings, Ltd.

## Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - Expressed in U.S. dollars)

	Note	Three Months Ended March 31,	
		2025	2024
		\$	\$
<b>Cash (used in) provided by:</b>			
<b>Operating activities:</b>			
Net loss for the period		(3,784,695)	(1,377,916)
Items not affecting cash:			
Lease liability interest	11	14,942	19,146
Accrued interest	8	70,840	14,761
Depreciation	6	104,044	119,233
Depreciation in cost of revenue	6	2,016	
Amortization recorded in cost of revenue	7	143,140	228,524
Loss on disposal of lease	6	(18,514)	29,233
Stock based compensation	13	595,648	47,273
Impairment of inventory	5	(29,807)	18,549
Factoring fees	10	46,703	142,873
Net changes in non-cash working capital	17	(697,639)	149,431
<b>Cash used in operating activities</b>		<b>(3,553,322)</b>	<b>(608,893)</b>
<b>Investing activities:</b>			
Additions to property and equipment	6	(151,460)	(1,945)
<b>Cash used in investing activities</b>		<b>(151,460)</b>	<b>(1,945)</b>
<b>Financing activities:</b>			
Proceeds from issuance of units, net of share issue costs	12	3,157,007	1,496,637
Repayment of working capital loans	8	(74,658)	(228,355)
Proceeds from working capital loans	8	(26,250)	-
Repayments on factoring	10	-	(217,574)
Proceeds from warrants exercised	12	2,071,851	-
Lease receivable collected	11	-	7,010
Repayment of leases liabilities	11	(81,687)	(61,452)
<b>Cash provided by financing activities</b>		<b>5,046,263</b>	<b>996,266</b>
Effect of foreign exchange rate changes on cash		162,300	10,926
<b>Effect of foreign exchange rate changes on cash</b>		<b>162,300</b>	<b>10,926</b>
<b>Increase in cash</b>		<b>1,503,782</b>	<b>396,354</b>
<b>Cash, beginning of the period</b>		<b>1,153,229</b>	<b>963</b>
<b>Cash, end of the period</b>		<b>2,657,011</b>	<b>397,317</b>

Supplemental cash flow information (Note 17)

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

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

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## 1. Nature of operations and going concern

Liberty Defense Holdings, Ltd. ("Liberty" or the "Company") is a publicly traded company listed on the TSX Venture Exchange (TSXV: SCAN), the Frankfurt Stock Exchange (Frankfurt: L2D), and the OTCQB (OTCQB: LDDFF). The Company was incorporated under the Business Corporations Act (Ontario) on June 8, 2012. On July 27, 2020, Liberty continued its jurisdiction of incorporation from Ontario to British Columbia and is now governed by the Business Corporations Act (British Columbia).

The Company's registered and records office is located at 1055 West Georgia Street, Suite 1500, Royal Centre, P.O. Box 11117, Vancouver, British Columbia, V6E 4N7, Canada. Its head office is located at 187 Ballardvale Street, Suite 110, Wilmington, Massachusetts, 01887, USA.

The Company is engaged in the development and commercialization of advanced security detection technologies. Liberty's flagship product, HEXWAVE, utilizes millimeter wave technology and advanced 3D imaging to detect concealed threats. In addition to HEXWAVE, the Company has licensed High-Definition Advanced Imaging Technology (HD-AIT) for body and shoe scanning.

### Going concern

These condensed consolidated interim financial statements have been prepared using IFRS Accounting Standards ("IFRS") 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, 2025, of \$3,784,695 and had cash outflows from operating activities of \$3,571,835. Given the current stage of operations, the Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. These events and conditions indicate that a material uncertainty exists that may cast significant doubt upon the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and condensed interim consolidated statement of financial position 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 consolidated interim financial statements have been prepared in conformity with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the same accounting policy information as detailed in the Company's audited annual consolidated financial statements for the year ended December 31, 2024, and do not include all the information required for full annual financial statements in accordance with IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). It is suggested that these financial statements be read in conjunction with the annual audited consolidated financial statements.

The Board of Directors approved these condensed consolidated interim financial statements for issue on May 27, 2025.

### (b) Basis of measurement

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

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 2. Basis of presentation (continued)

### (c) Functional and presentation currency

The functional currency of the Company is the Canadian dollar and the functional currencies of its subsidiaries are outlined in Note 2(d), and the presentation currency of these condensed consolidated interim financial statements is the U.S. dollar ("USD"); therefore, references to \$ means USD and CAD\$ are to Canadian dollars.

### (d) Basis of consolidation

These condensed consolidated interim 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. ("LDT")	United States	USD	100%
DrawDown Detection, Inc. ("DDD")	Canada	CAD	100%
DrawDown Technologies, Inc. ("DDT")	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 consolidated interim financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

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

The Company's critical accounting judgements and estimates were presented in Note 2 of the annual audited consolidated financial statements and have been consistently applied in the preparation of these condensed consolidated interim financial statements. No new estimates and judgements were applied for the period ended March 31, 2025.

## 3. Material Accounting Policy Information

These condensed consolidated interim 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 financial statements for the year ended December 31, 2024. 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, 2025, are not necessarily indicative of the results that may be expected for the year ending December 31, 2025.



# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 4. Accounts Receivable, Prepaids and Deposits

		<b>March 31, 2025</b>		<b>December 31, 2024</b>
Accounts receivables	\$	1,064,339	\$	255,148
Prepaids and deposits		1,205,128		1,409,228
	\$	<b>2,269,467</b>	\$	<b>1,664,376</b>

## 5. Inventory

		<b>March 31, 2025</b>		<b>December 31, 2024</b>
Raw materials	\$	265,390	\$	211,553
Work-in-progress		13,199		128,761
Finished Goods		65,000		-
Right of return on finished goods		-		528,000
	\$	<b>343,589</b>	\$	<b>868,314</b>

The Company reclassified work in process assemblies of \$nil (December 31, 2024, \$48,185) to property and equipment related to the engineering prototype HEXWAVE unit. The engineering prototype HEXWAVE unit was disassembled and upgraded to be used for testing and development of enhanced algorithms.

As of March 31, 2025, the Company recognized an impairment expense of \$29,807 (December 31, 2024 - \$233,568).

During the three months ended March 31, 2025, the Company expensed \$674,191 of inventory to cost of revenue (December 31, 2024, \$1,799,930).

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 6. Property and Equipment

	Equipment	Right of Use Asset	Prototype	Construction in Process	Total
<b>Cost</b>					
At December 31, 2023	\$222,954	\$ 1,186,874	\$ 843,314	\$ 51,205	\$ 2,304,347
Additions	25,241	-	48,185	68,183	141,609
Disposals	-	-	(116,933)	-	(116,933)
At December 31, 2024	\$ 248,195	\$ 1,186,874	\$ 774,566	\$ 119,388	\$ 2,329,023
Additions	-	-	-	151,460	151,460
Disposals	-	-	-	-	-
<b>At March 31, 2025</b>	<b>\$ 248,195</b>	<b>\$ 1,186,874</b>	<b>\$ 774,566</b>	<b>\$ 270,848</b>	<b>\$ 2,480,483</b>
<b>Accumulated Depreciation</b>					
At December 31, 2023	\$ 130,776	\$ 427,563	\$ 702,191	\$ -	\$ 1,260,530
Depreciation for disposal	-	-	(87,700)	-	(87,700)
Depreciation for the year	58,788	189,499	148,028	-	396,315
At December 31, 2024	\$ 189,564	\$ 617,062	\$ 762,519	\$ -	\$ 1,569,145
Depreciation for disposal	-	(18,514)	-	-	(18,514)
Depreciation for the period	9,611	84,403	12,047	-	106,061
<b>At March 31, 2025</b>	<b>\$ 199,175</b>	<b>\$ 682,951</b>	<b>\$ 774,566</b>	<b>\$ -</b>	<b>\$ 1,656,692</b>
<b>Foreign exchange movement</b>					
At December 31, 2024	\$ -	\$ 59	\$ -	\$ -	\$ 59
<b>At March 31, 2025</b>	<b>\$ -</b>	<b>\$ 59</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 59</b>
<b>Net Book Value</b>					
At December 31, 2024	\$ 58,631	\$ 569,871	\$ 12,047	\$ 119,388	\$ 759,937
<b>At March 31, 2025</b>	<b>\$ 49,020</b>	<b>\$ 503,982</b>	<b>\$ -</b>	<b>\$ 270,848</b>	<b>\$ 823,850</b>

During the three months ended March 31, 2025, the Company was notified of the Atlanta lease being nulled due to the owners selling the building. This resulted in a disposal with a carrying value of \$18,514 for the right of use asset.

During the three months ended March 31, 2025, equipment depreciation recorded to cost of revenue was \$2,209 (December 31, 2024 - \$147,336). During the three months ended March 31, 2025, the Company accelerated the depreciation of a right of use asset in connection with a terminated lease with a carrying value of \$18,514 (December 31, 2023 - \$29,233) for \$nil proceeds (December 31, 2024 - \$nil).

## 7. Intangible Assets

	MIT licenses	Battelle license	Intellectual property	Total
Balance, December 31, 2023	\$ 407,117	\$ 223,250	\$ 2,636,436	\$ 3,266,803
Additions	-	227,111	-	227,111
Amortization	(34,108)	(450,361)	(437,752)	(922,221)
Balance, December 31, 2024	\$ 373,009	\$ -	\$ 2,198,684	\$ 2,571,693
Additions	-	-	-	-
Amortization	(8,527)	-	(134,613)	(143,140)
<b>Balance, March 31, 2025</b>	<b>\$ 364,482</b>	<b>\$ -</b>	<b>\$ 2,064,071</b>	<b>\$ 2,428,553</b>

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

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## 7. Intangible Assets (continued)

Intangible assets including MIT license and Battelle license, encompassing 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 10.75 years, Battelle license nil years, and intellectual property 3.75 years.

During the three months ended March 31, 2025, \$143,140 of amortization expense was allocated to cost of revenues (December 31, 2024 - \$922,221).

### (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 technology behind the HEXWAVE product.

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

During the three months ended March 31, 2025, the Company accrued royalty payments of \$31,350 (December 31, 2024, \$105,993). The Company shall also be required to achieve certain milestones.

### (b) Battelle Memorial License Agreement

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

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

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.

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

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 7. Intangible Assets (continued)

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

	Amounts
Year 2021 (paid)	\$ 50,000
Year 2022 (paid)	50,000
Year 2023 (paid)	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.

As at March 31, 2025, the Company has a balance of payable \$200,000 (December 31, 2024, \$290,566).

## 8. Loans Payable

### (a) Related Party Loans

During the three months ended March 31, 2025, and the fiscal year ended December 31, 2024, 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
<b>Balance, December 31, 2023</b>	<b>\$ 328,694</b>
Additions	82,000
Repayments	(336,036)
<b>Balance, December 31, 2024</b>	<b>\$ 74,658</b>
Additions	-
Repayments	(74,658)
<b>Balance, March 31, 2025</b>	<b>\$ -</b>

### (b) Short Term Loans

During the 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. During the year ended December 31, 2024, the Company borrowed \$11,900 (2023 - \$166,210) from this line of credit. The loan matured on June 25, 2024, and was fully repaid.

During the year ended December 31, 2023, the Company secured an unsecured business line of credit of \$83,036 from BlueVine Capital. The credit facility had a twenty-six-week term, an interest rate of 1.10%, and required weekly payments of \$3,906. The loan matured on June 5, 2024, and was fully repaid.

During the 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%. During the year ended December 31, 2024, the Company borrowed \$21,275 (2023 - \$83,350) from this line of credit. The loan matures on January 31, 2025. During the three months ended March 31, 2025, the Company fully repaid this loan.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 8. Loans Payable (continued)

### (b) Short Term Loans (continued)

During the year ended December 31, 2024, the Company obtained a secured business loan of \$420,000 from Blade Funding with a 32-week term. The loan carries an annual interest rate of 11.50%, requires weekly payments of \$13,125. It is scheduled to mature on January 19, 2025. During the three months ended March 31, 2025, the Company fully repaid this loan.

On July 2, 2024, the Company received a short-term loan of \$250,000 from 1087207 BC Ltd. The loan had a minimum upfront interest payment of \$20,000, in which the Company received \$230,000, net, and was fully repaid.

During the three months ended March 31, 2025, the Company received \$nil (December 31, 2024, \$350,394) in non-interest-bearing short-term loans. As of March 31, 2025, the Company fully repaid these loans.

	Total
<b>Balance, December 31, 2023</b>	<b>\$ 201,368</b>
Additions	1,053,569
Repayments	(1,260,419)
Accrued Interest	31,732
<b>Balance, December 31, 2024</b>	<b>\$ 26,250</b>
Additions	-
Repayments	(26,250)
Accrued Interest	-
<b>Balance, March 31, 2025</b>	<b>\$ -</b>

## 9. Parabilis Term Loan

On August 22, 2024, the Company secured a \$1,800,000 business term loan from PFF, LLC ("Parabilis"). The loan has a term of 104 weeks with an annual interest rate of 17.99% and is scheduled to mature on August 15, 2026. The agreement was amended on March 15, 2025, with amending the payment schedule. Repayments are set to commence in April 2025 with interest only payments through June 2025. The interest only payments consist of: April 2025 \$30,444; May 2025 \$29,462; June 2025 \$30,444. The monthly payments would then increase to \$158,860 for fourteen months. See Note 10(a) regarding collateral.

	Amounts
<b>Balance, December 31, 2023</b>	<b>\$ -</b>
Additions	1,800,000
Interest and fees	121,687
<b>Balance, December 31, 2024</b>	<b>\$ 1,921,687</b>
Accrued factoring Fee	70,840
<b>Balance, March 31, 2025</b>	<b>\$ 1,992,527</b>
Current	\$ 1,232,939
Non-current	759,588

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 10. Factoring Liability

### (a) Parabilis Credit Line

On August 22, 2024, the Company entered into a secured revolving credit line agreement with Parabilis for up to \$2,500,000. The borrowing base for the credit line is determined based on the following percentages: 90% of eligible billed receivables, 65% of eligible unbilled receivables, and 30% of eligible delivery orders. The aggregate of eligible billed and unbilled receivables, along with eligible delivery orders, establishes the Company's borrowing capacity under the credit line.

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

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

	Amounts
<b>Balance, December 31, 2023</b>	<b>\$ -</b>
Additions	1,551,166
Accrued factoring Fee	74,449
Repayments	(641,944)
<b>Balance, December 31, 2024</b>	<b>\$983,671</b>
Additions	-
Accrued factoring Fee	46,703
Repayments	-
<b>Balance, March 31, 2025</b>	<b>\$ 1,030,374</b>

### (a) Bengal Capital Factoring

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.

The factoring liability as at March 31, 2025, and December 31, 2024, is as follows:

	Amounts
<b>Balance, December 31, 2023</b>	<b>\$ 1,107,347</b>
Additions	-
Accrued factoring Fee	289,684
Repayments	(1,397,031)
<b>Balance, December 31, 2024 &amp; March 31, 2025</b>	<b>\$ -</b>

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

## 11. Leases

The Company's lease liabilities as at March 31, 2025, and December 31, 2024, are as follows:

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 11. Leases (continued)

		Right of use liability
Balance, December 31, 2023	\$	886,585
Finance costs		69,652
Lease payments		(247,412)
Balance, December 31, 2024	\$	708,825
Finance costs		14,942
Lease cancellation		(18,514)
Lease payments		(63,173)
<b>Balance, March 31, 2025</b>	<b>\$</b>	<b>642,080</b>

Minimum lease payments are as follows:

	March 31, 2025	December 31, 2024
Maturity analysis - contractual undiscounted cash flows		
One year or less	\$ 234,227	\$ 257,461
Two to five years	499,075	558,358
Six and thereafter	-	-
Total lease liabilities	\$ 733,302	\$ 815,819
<b>Lease liabilities included in the statement of financial position</b>	<b>\$ 642,080</b>	<b>\$ 708,825</b>
Current	\$ 234,229	\$ 203,443
Non-current	\$ 407,851	\$ 505,382

## 12. Share Capital

### (a) Common share transactions for the three months ended March 31, 2025

- i) On January 6, 2025, the Company received \$2,071,851 (CAD\$2,977,851) from the exercise of 5,414,275 share purchase warrants after electing, on December 31, 2024, to exercise its acceleration right for a total of 12,500,000 warrants granted on December 19, 2024, pursuant to a private placement. As a result, the remaining 7,085,725 unexercised warrants expired.
- ii) On March 20, 2025, the Company closed a non-brokered private placement for gross proceeds of \$3,479,351 (CAD\$5,001,150). The Company issued 3,031,000 units (each a "Unit") of the Company at a price of CAD\$1.65 per Unit. Each Unit comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$2.05 for a period of 24 months and is subject to an accelerated expiry at the Company's election under certain conditions. The warrants were allocated a residual value of \$263,584. In connection with the non-brokered private placement, the Company issued 212,170 finder warrants. Each finder's warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$1.65. The broker warrants were allocated a fair value of \$84,183. Additionally, the Company paid commissions and legal expenses of \$322,344.
- iii) During the three months ended March 31, 2024, a total of 189,100 common shares were issued pursuant to the exercise of RSUs with a fair value of \$364,880.

# Liberty Defense Holdings, Ltd.

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

For the three months ended March 31, 2025, and 2024

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## 12. Share Capital (continued)

### (b) Common share transactions for the year ended December 31, 2024

- i) On January 12, 2024, the Company closed the initial tranche of a Listed Issuer Financing Exemption (LIFE) private placement of units, raising gross proceeds of \$662,554 (CAD\$886,000). As of December 31, 2023, the Company had received \$224,915 of these proceeds. This tranche involved the issuance of 590,068 units at a price of CAD\$1.50 per unit. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD\$2.00 per share within 36 months. The warrants were allocated a residual value of \$154,596. Additionally, the Company issued 15,171 broker warrants to agents under identical terms and conditions with a fair value of \$4,508. Agent commissions totaling \$17,110 were paid.
- ii) Subsequently, on February 5, 2024, the Company closed the final tranche of the same non-brokered private placement, raising an additional \$112,285 (CAD\$150,000). This tranche involved the issuance of 100,000 units under the same terms and conditions as the initial tranche. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD\$2.00 per share within 36 months. The warrants were allocated a residual value of \$37,428.
- iii) On February 26, 2024, the Company closed an investment by Viken Detection Corp. ("Viken") pursuant to which Viken purchased 909,091 units of the Company at an issue price of CAD\$1.50 per unit for total gross proceeds of \$1,000,000 (CAD\$1,363,636). Each unit comprised one common share and one purchase warrant. Each warrant entitles Viken to purchase one additional common share of the Company at an exercise price of CAD\$2.00 for a period of 36 months. The warrants were allocated a residual value of \$166,667. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$27,116 were also paid. These warrants contain blocker language restricting the exercise of the warrants in the event such exercise results in Viken holding more than 9.9% of the outstanding voting securities of the Company.
- iv) On March 17, 2024, a total of 199,636 finder warrants expired with an exercise price of CAD\$3.30. These broker warrants had a fair value of \$312,815 and the reserve value was reclassified to share capital.
- v) During the year ended December 31, 2024, a total of 101,841 common shares were issued pursuant to the exercise of RSUs with a fair value of \$286,019.
- vi) During the year ended December 31, 2024, a total of 60,000 shares were issued pursuant to the exercise of 60,000 warrants, resulting in proceeds of \$87,367 (CAD\$120,000). Residual value in the amount of \$15,275 was reversed.
- vii) On August 13, 2024, the Company closed the first tranche of a non-brokered private placement for gross proceeds of \$508,864 (CAD\$697,550). The Company issued 465,035 special warrants of the Company at a price of CAD\$1.50 per Unit. Each special warrant will automatically convert into one Unit. Each Unit shall consist of one common share and one share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$2.00 within a period of 36 months. These special warrants were converted into one Unit on August 13, 2024. The warrants were allocated a residual value of \$203,560. The Company paid the agents 19,051 broker warrants with a fair value of \$5,757. Each broker warrant will be exercisable to purchase one common share for a period of 36 months at an exercise price of CAD\$2.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$30,995.



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For the three months ended March 31, 2025, and 2024

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## 12. Share Capital (continued)

### (b) Common share transactions for the year ended December 31, 2024 (continued)

- viii) On December 18, 2024, the Company closed a non-brokered private placement for gross proceeds of \$5,585,812 (CAD\$8,000,000). The Company issued 25,000,000 units (each a “Unit”) of the Company at a price of CAD\$0.32 per Unit. Each Unit comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.55 for a period of 24 months and are subject to an accelerated expiry at the Company’s election under certain conditions. The Company paid the agents \$274,123 in finders fees and issued 1,251,062 finder warrants with a fair value of \$382,873. Each finder’s warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.55. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$41,687.
- ix) The Company settled a total of \$363,336 (CAD\$520,947) of indebtedness with a certain creditor by issuing 1,562,500 units valued at \$927,332 and follows the same terms as the units issued on December 18, 2024, non-brokered private placement. The Company recognized a loss on extinguishment of debt totalling \$563,996 (included in other expenses (2023 - \$nil).

## 13. 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.

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For the three months ended March 31, 2025, and 2024

## 13. Equity Reserves (continued)

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

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

	Number of stock options	Weighted average exercise price
<b>Outstanding, December 31, 2023</b>	668,960	CAD\$ 4.94
Cancelled	(74,250)	4.35
Expired	(82,460)	12.42
Granted	2,715,000	0.80
<b>Outstanding, December 31, 2024</b>	<b>3,227,250</b>	<b>CAD\$ 1.29</b>
Cancelled	(18,750)	3.87
<b>Outstanding, March 31, 2025</b>	<b>3,208,500</b>	<b>CAD\$ 1.30</b>

As at March 31, 2025, the number of stock options outstanding and exercisable were:

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
7-Apr-26	108,000	CAD\$ 5.00	1.02	108,000
10-Jun-26	10,000	CAD\$ 5.00	1.19	10,000
28-Jul-26	12,500	CAD\$ 5.50	1.33	12,500
28-Jul-26	9,000	CAD\$ 6.50	1.33	9,000
1-Nov-26	46,500	CAD\$ 4.60	1.59	46,500
14-Jan-27	10,000	CAD\$ 3.60	1.79	10,000
26-Apr-27	153,500	CAD\$ 4.10	2.07	153,500
26-May-27	10,000	CAD\$ 3.80	2.15	10,000
16-Aug-27	12,500	CAD\$ 2.90	2.38	12,500
21-Nov-27	6,000	CAD\$ 2.20	2.64	6,000
26-Apr-28	9,500	CAD \$1.80	3.07	9,500
16-Oct-28	106,000	CAD \$1.90	3.55	79,500
30-Dec-29	2,715,000	CAD \$0.80	4.75	383,125
	<b>3,208,500</b>			<b>850,125</b>

During the three months ended March 31, 2025, the Company recognized stock-based compensation related to stock options totaling \$548,391 (March 31, 2024 – \$33,423). Of this amount, \$11,842 was recorded as stock-based compensation in the cost of revenue (March 31, 2024 – \$9,372).

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

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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For the three months ended March 31, 2025, and 2024

## 13. Equity Reserves (continued)

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

	March 31, 2025	December 31, 2024
Risk-free interest rate	-	3.04%
Expected dividend yield	-	Nil
Stock price volatility	-	145.18%
Expected life (in years)	-	5 years
Stock price	-	CAD\$0.80

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

#### Restricted share units granted for the year ended March 31, 2025:

- i) During the three months ended March 31, 2025, a total of 189,100 common shares were issued pursuant to the exercise of RSUs.

#### Restricted share units granted for the year ended December 31, 2024:

- i) On February 28, 2024, the Company granted 147,500 RSUs to employees of the Company; these RSUs shall be settled with common shares of the Company, have an exercise period that expires on 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.
- iii) During the three months ended March 31, 2024, a total of 1,122,475 RSUs were cancelled.

The following table summarizes the movements in outstanding RSUs:

	Number of equity settled	Grant Price
<b>Outstanding, December 31, 2023</b>	<b>592,914</b>	<b>CAD\$ 3.09</b>
Granted	177,500	1.22
Cancelled	(132,248)	2.82
Exercised	(101,841)	3.79
<b>Outstanding, December 31, 2024</b>	<b>536,325</b>	<b>CAD\$ 2.41</b>
Exercised	(189,100)	2.78
<b>Outstanding, March 31, 2025</b>	<b>347,225</b>	<b>CAD\$ 2.38</b>

A total of 347,225 RSU's were vested as at March 31, 2025.

The estimated fair value of the equity settled RSUs granted as of March 31, 2025, was \$nil (March 31, 2024 – \$141,576) 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, 2025, the Company recognized stock-based compensation related to RSUs in the amount of \$22,320 (March 31, 2024 – \$(19,380)).

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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For the three months ended March 31, 2025, and 2024

## 13. Equity Reserves (continued)

### (c) Share purchase warrants

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

	Warrants outstanding	Exercise Price
<b>Outstanding, December 31, 2023</b>	<b>5,301,970</b>	<b>CAD\$ 3.96</b>
Issued	16,630,724	0.73
Expired	(1,797,726)	4.81
Exercised	(60,000)	2.00
<b>Outstanding, December 31, 2024</b>	<b>20,074,968</b>	<b>CAD\$ 1.22</b>
Issued	1,727,670	2.00
Expired	(7,085,725)	0.55
Exercised	(5,417,775)	0.55
<b>Outstanding, March 31, 2025</b>	<b>9,299,138</b>	<b>CAD\$ 2.16</b>

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

	March 31, 2025	December 31, 2024
Risk-free interest rate	2.62%	3.52%
Expected dividend yield	Nil	Nil
Stock price volatility	82.17%	69.78%
Expected life (in years)	2 years	3 years
Share price on grant date	CAD\$1.40	CAD\$0.86
Fair value share purchase warrants	CAD\$0.53	CAD\$0.43

The outstanding number of share purchase warrants is as follows:

Expiry date	Number of warrants	Outstanding	
		Exercise price	Remaining contractual life (years)
13-Apr-25	356,828	CAD\$3.00	0.04
9-May-25	115,395	CAD\$3.00	0.11
8-Jun-25	85,525	CAD\$3.00	0.19
5-Oct-26	1,782,764	CAD\$3.00	1.52
5-Oct-26	60,723	CAD\$2.00	1.52
18-Dec-26	2,032,312	CAD\$0.55	1.72
12-Jan-27	541,737	CAD\$1.51	1.79
5-Feb-27	100,000	CAD\$2.00	1.85
28-Feb-27	909,091	CAD\$1.50	1.92
27-Jun-27	19,051	CAD\$1.50	2.24
27-Jun-27	465,033	CAD\$1.50	2.24
20-Mar-27	1,515,500	CAD\$2.05	1.97
20-Mar-27	212,170	CAD\$1.65	1.97
27-Oct-27	144,674	CAD\$2.75	2.58
27-Oct-27	958,335	CAD\$5.00	2.58
	<b>9,299,138</b>		

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 13. Equity Reserves (continued)

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

During the three months ended March 31, 2025, a total of 1,095,099 share purchase warrants with an original exercise price of CAD\$2.00 were repriced to CAD\$1.51. All other terms and conditions remained unchanged.

### (d) Performance Shares

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

All CMPS have been issued in previous years upon the completion of all required milestones.

#### Operational Performance Shares

As at March 31, 2025, none of the 200,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD\$800,000 which had an estimated vesting period between December 2024 and December 2025. The estimated vesting period has been adjusted to December 2025 and December 2026. During the fiscal year ended December 31, 2024, the Company recorded stock-based compensation in connection to OPS in the amounts of \$24,936 (March 31, 2024 – \$33,229).

	Number of equity settled	Weighted average price
Outstanding, December 31, 2023 and 2024	200,000	CAD\$ 4.00
Released from escrow	-	-
<b>Outstanding, March 31, 2025</b>	<b>200,000</b>	<b>CAD\$ 4.00</b>

## 14. Loss Per Share

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

	Three months ended March 31,	
	2025	2024
Loss attributable to common shareholders	\$ (3,784,695)	\$ (1,377,916)
Weighted average number of shares	48,257,260	15,455,660
Basic and diluted loss per share	\$ (0.08)	\$ (0.09)

The Company incurred net losses for the three months ended March 31, 2025, and 2024, 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.

## 15. Revenue

Revenue recognized for the three months ended March 31, 2025, and 2024, relates to contract revenue from the Transportation Security Administration (“TSA”) (Note 16), as well as sales of HEXWAVE units.

# Liberty Defense Holdings, Ltd.

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## 15. Revenue (continued)

Deferred revenue as of March 31, 2025, was \$120,000 (December 31, 2024 - \$180,000).

Revenue	Three months ended March 31,	
	2025	2024
TSA Contract Award HD-AIT	100,000	200,000
TSA OA Development	175,000	200,000
HD-AIT Phase II	-	133,056
HEXWAVE units	653,500	99,000
HEXWAVE Software & Warranty	126,858	
<b>Total Revenue</b>	<b>\$ 1,055,358</b>	<b>\$ 632,056</b>

## 16. Contract Awards

During the three months ended March 31, 2025, the Company recognized total contract revenue of \$275,000, recorded in revenue (three months ended March 31, 2024 – \$533,056). Future revenue related to these contracts will be recognized as performance obligations are satisfied. It is estimated that future revenues will be recognized on the same basis according to the following timelines:

Contract Award Revenue Expected in Future Years	Year ended December 31,	
	2025	2026
TSA Contract Award HD-AIT	\$ 357,905	-
TSA OA Development	71,944	-
HD-AIT Phase II A	150,000	-
<b>Total estimated contract revenues</b>	<b>\$ 579,849</b>	<b>\$ -</b>

### (a) TSA HD-AIT Upgrade

On September 30, 2022, the Company received a contract award of \$1,747,905 from the Transportation Security Administration (“TSA”) for the HD-AIT Wide Band Upgrade Kit. On September 28, 2023, the contract was modified to include an additional milestone, increasing the total contract value to \$1,922,905. The contract award supports the development of millimeter-wave imaging system prototypes to enhance and upgrade the current imaging technology used in passenger security screening applications. The project is scheduled to be completed over twenty-seven months, with invoices issued upon the achievement of specified milestones according to the agreed-upon timeline.

As of March 31, 2025, the Company had received \$nil and recorded a receivable of \$100,000 (three months ended March 31, 2024 – \$200,000 and \$nil, respectively). The remaining contract balance as of March 31, 2025, was \$357,905 (December 31, 2024 – \$457,905).

The Company is required to submit quarterly invoices as follows:

TSA HD-AIT Upgrade	Amounts	
<b>Year 2023</b>	\$	1,265,000
<b>Year 2024</b>		200,000
<b>Year 2025</b>		
Milestone 5B (Q1 2025) (payment receivable)		100,000
Milestone 6 (Q2 2025)		357,905
<b>Total Contract Value</b>	<b>\$</b>	<b>1,922,905</b>

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 16. Contract Awards (continued)

### (b) 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 twenty-one months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at March 31, 2025, the Company received \$nil and had a receivable of \$175,000 (three months ended March 31, 2024 – \$200,000 and \$nil, respectively). The balance remaining on the contract as of March 31, 2025, was \$71,944 (December 31, 2024 – \$246,944). The Company is required to submit quarterly invoices as follows:

<b>TSA Open Architecture</b>	<b>Amounts</b>
<b>Year 2023</b>	\$ 75,000
<b>Year 2024</b>	795,000
<b>Year 2025</b>	
Milestone 6 (Q1 2025) (payment receivable)	175,000
Milestone 7 (Q2 2025)	71,944
<b>Total Contract Value</b>	<b>\$ 1,116,944</b>

### (c) TSA HD-AIT Phase II

On September 29, 2023, the Company received a contract award of \$133,056 from the Transportation Security Administration ("TSA") for HD-AIT Phase II. This award is a follow-on option under the existing HD-AIT development program, aimed at advancing Phase II to finalize a hardware design that supports future compliance efforts. The project was scheduled to be completed over three months, with invoices issued upon reaching agreed-upon milestones. As of March 31, 2025, the Company had received the full contract amount of \$133,056 and recorded a receivable of \$nil (three months ended March 31, 2024 – \$133,056, respectively). The remaining contract balance as of March 31, 2025, was \$nil (December 31, 2024 – \$nil), as the agreement was completed on February 20, 2024.

### (d) TSA HD-AIT Phase II A

On September 5, 2024, the Company received a contract award for \$446,944 from TSA for the HD-AIT Phase II A option. The contract award is a follow-on option to the current HD-AIT development program to execute phase II to drive to a final hardware design capable of supporting future compliance efforts. The project will be performed over a period of twelve months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at March 31, 2025, the Company received \$nil and had a receivable of \$nil (three months ended March 31, 2024 - \$nil, respectively). The balance remaining on the contract as of March 31, 2025, was \$150,000 (December 31, 2024 - \$150,000).

<b>TSA HD-AIT Phase II A</b>	<b>Amounts</b>
<b>Year 2024</b>	\$ 296,944
<b>Year 2025</b>	
Milestone 2 (Q2 2025)	150,000
<b>Total Contract Value</b>	<b>\$ 446,944</b>

As of March 31, 2025, the Company recorded contract costs of \$nil, representing costs incurred for contract milestones not yet achieved (December 31, 2024, \$268,952). As of March 31, 2025, the Company recorded an impairment of the contract costs of \$nil (December 31, 2024, \$115,730).

# Liberty Defense Holdings, Ltd.

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For the three months ended March 31, 2025, and 2024

## 17. Supplemental Disclosure with Respect to Cash Flows

During the three months ended March 31, 2025, and 2024, the Company paid \$nil in income taxes in both periods, and paid interest of \$117,543 and \$17,071, respectively.

	Three months ended March 31,	
	2025	2024
<b>Net changes in non-cash working capital:</b>		
Amounts receivable and prepaids	\$ (605,091)	\$ (69,464)
Inventory	551,310	(173,411)
Contract costs	268,952	-
Accounts payable and accrued liabilities	(852,810)	(657,694)
Deferred revenue	(60,000)	1,050,000
<b>Total</b>	<b>\$ (697,639)</b>	<b>\$ 149,431</b>
<b>Supplemental cash flow information</b>		
Fair value of compensation brokers warrants	\$ 84,183	\$ 4,508
Residual value allocated to warrants	263,584	358,691
Fair value of warrants allocated to share capital on expiry	-	(312,816)
Restricted shares units exercised	364,880	-
Stock based compensation recorded in cost of revenue	11,842	-
Intangible assets included in accounts payable	286,280	-

## 18. 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,	
	2025	2024
G&A Salaries	\$ 355,017	\$ 141,857
G&A Stock-based compensation	312,337	(25,671)
G&A Consulting fees (1)	-	24,480
	<b>\$ 667,354</b>	<b>\$ 140,666</b>

(1) Consulting fees were paid or payable to the CFO of the Company.

As of March 31, 2025, the Company had a balance payable of \$176,537 to key management personnel (December 31, 2024, – \$421,319). 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, 2025, the Company received working capital loans in the amount of \$nil (December 31, 2024 – \$82,000) from directors, officers, or their related parties, and repaid \$74,658. As at March 31, 2025, the outstanding balance is \$nil (Note 8(a)) (December 31, 2024 – \$74,658).



# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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For the three months ended March 31, 2025, and 2024

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## 19. Financial Instruments

As at March 31, 2025, the Company's financial instruments comprise cash, accounts receivables, accounts payable and accrued liabilities, loans payable, term loan, lease liabilities and factoring liability. The fair values of the Company's financial instruments approximate their carrying values due to their short-term maturity or market interest rates.

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 GST receivable due from the Canadian government and trade receivables that the Company continues to collect. These trade receivables are primarily with continuing customers and are not subject to significant credit risk. As at March 31, 2025, the Company's trade receivables totalling \$984,172 are from four customers (December 31, 2024 - \$130,000). The Company's maximum exposure to credit risk is limited to the carrying amount of cash and accounts receivables.

### (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, 2025, the Company had cash of \$2,657,011 (December 31, 2024 – \$1,153,229) to settle current liabilities of \$5,920,622 (December 31, 2024 – \$6,607,387).

### (c) Market risk

This risk refers to the potential fluctuations in the fair value or future cash flows of a financial instrument due to changes in market prices. The Company is exposed to the following significant market risks:

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 factoring liability (Note 8, 9 and 10). The

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 19. Financial Instruments (continued)

### (c) Market risk (continued)

Company's exposure to interest rate risk is minimal as the interest rates are at a fixed percentage on the loans payable, term loans and factoring liability.

#### 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.

	<b>Amounts</b>
	<b>CAD dollars</b>
Financial assets denominated in foreign currencies	\$ 3,035,707
Financial liabilities denominated in foreign currencies	(594,104)
<b>Net exposure</b>	<b>\$ 2,441,603</b>

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by \$170,115.

#### 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.

## 20. Capital Risk Management

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

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

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

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.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three months ended March 31, 2025, and 2024

## 20. Capital Risk Management (continued)

The Company expects its current capital resources will be sufficient to carry its operations, and product development plans for the foreseeable future. Except for the security pledged in certain short-term loans and the factoring liability as outlined in Notes 8 and 9 respectively, 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, 2025.

## 21. Segmented Information

The Company operates through three distinct segments: Corporate, HEXWAVE and Contract. The operating segments of the Company are based on the reports which are reviewed by the chief operating decision maker ("CODM") in making strategic resource allocation decisions. The Company considers its CODM to be its CEO, who evaluate the operations of each reportable segment.

The CODM reviews the net income (loss) of each of these segments in allocating resources and evaluating operating performance. The corporate reporting segment covers the Company's non-allocated, general overhead expenses, such as legal, compliance, accounting, head-office staff, and other such items. This reporting segment is reviewed for cost control and budgetary considerations.

The following tables summarize the Company's segments for the months ended March 31, 2025, and 2024:

For the three months ended March 31, 2025				
	Corporate	HEXWAVE	Contract	Total
	\$	\$	\$	\$
Revenue	-	780,358	275,000	1,055,358
Cost of revenue	-	602,642	743,190	1,345,832
Net loss for the period	(1,999,039)	(650,254)	(1,409,329)	(4,058,622)

  

For the three months ended March 31, 2024				
	Corporate	HEXWAVE	Contract	Total
	\$	\$	\$	\$
Revenue	-	99,000	533,056	632,056
Cost of revenue	-	235,373	252,045	487,418
Net loss for the period	(272,063)	(661,579)	(444,274)	(1,377,916)

### Geographic Breakdown

As at March 31, 2025, and December 31, 2024, all non-current assets are in the United States.

All revenue from contract segment was earned from one customer in the United States (2024 – one customer).

For the three months ended March 31, 2025, revenue from four customers represented 97% of the HEXWAVE revenue (2024 – five customers represented 94%).

# **Liberty Defense Holdings, Ltd.**

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For the three months ended March 31, 2025, and 2024

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## **22. Subsequent Events**

- On April 1, 2025, the Company received CAD\$5,285 from the exercise of 3,500 warrants. As a result, a total of 3,500 common shares were issued.
- On April 2, 2025, the Company granted 150,000 stock options to consultants. Each stock option is exercisable for one common share of the Company at an exercise price CAD\$0.84 per share. These stock options vest 12.5% after three months from the grant date, and 12.5% every three months thereafter, expiring on April 2, 2030.
- On April 13, 2025, a total of 356,828 share purchase warrants expired.
- On April 15, 2025, the Company granted 50,000 stock options to a consultant. Each option entitles the holder to acquire one common share of the Company at an exercise price of CAD\$0.59 per share. The options vested immediately upon grant and will expire on April 15, 2027.