



Liberty Defense

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2022 and 2021

Prepared by Management

(Expressed in U.S. dollars)

LIBERTY DEFENSE HOLDINGS, LTD.

Interim Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW

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

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

November 17, 2022

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

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash	\$ 379,273	\$ 1,341,573
Amounts receivable, prepaids and deposits (note 5)	176,271	205,312
Parts inventory	192,903	–
Lease receivable current portion (note 12)	19,454	20,159
	767,901	1,567,044
Non-current assets:		
Property & equipment (note 6)	1,046,266	768,771
Intangible assets (note 4 and 7)	3,861,306	4,135,452
Lease receivable (note 12)	11,855	28,675
	4,919,427	4,932,898
Total assets	\$ 5,687,328	\$ 6,499,942
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 788,261	\$ 756,991
Working capital loans (note 8)	146,039	–
CEBA loan (note 9)	27,851	27,986
Lease liabilities (note 12)	33,437	106,885
	995,588	891,862
Non-current liabilities:		
Non-current lease liabilities (note 12)	632,848	640,080
Battelle Memorial patent expense (note 7)	–	25,000
Total liabilities	\$ 1,628,436	\$ 1,556,942
Shareholders' equity		
Share capital (note 13)	\$ 25,549,044	\$ 18,284,177
Equity reserves (note 14)	3,203,192	2,743,825
Accumulated other comprehensive losses	(688,669)	(133,410)
Deficit	(24,004,675)	(15,951,592)
Total shareholders' equity	4,058,892	4,943,000
Total liabilities and shareholders' equity	\$ 5,687,328	\$ 6,499,942

Nature of operations and going concern (note 1)

Approved by the Board of Directors on November 17, 2022, and signed on the Company's behalf by:

"William Frain"
 Director

"Daryl Rebeck"
 Director

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

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Research and development:				
Product development	\$ 35,142	\$ (17,755)	\$ 155,951	\$ 613,050
Technology costs	203,104	278,325	403,579	312,265
Legal fees	–	67,083	5,474	139,522
Salaries & Consulting Fees (note 18)	1,086,957	943,358	2,994,108	1,489,373
Stock-based Compensation (note 14 and 18)	93,978	91,912	186,710	155,607
Office, rent and administration	149,970	29,428	362,971	40,672
Travel and miscellaneous	79,177	31,456	259,826	31,456
Depreciation (note 6)	192,323	31,184	422,793	75,757
Amortization (note 7)	148,008	2,684	435,997	6,808
General Expenses:				
Consulting fees, salaries and benefits (note 18)	164,176	913,445	671,583	1,324,627
Depreciation (note 6)	–	15,492	–	19,594
Legal and professional fees	83,654	85,824	229,357	203,528
Stock-based compensation (note 14 and 18)	361,034	146,678	1,380,100	221,860
Office, rent and administration	54,299	47,419	121,823	97,032
Regulatory and shareholder information	25,154	12,938	42,857	48,019
Travel, promotion and investor relations	333,823	183,368	687,050	664,032
RTO transaction related costs and listing expense (note 4)	–	(1,528)	–	889,593
	3,010,799	2,861,311	8,360,179	6,332,795
Other expense (income):				
Interest income	–	189	–	(55,021)
Other income	(41,340)	–	(41,340)	–
Interest expense	13,205	344	40,922	42,378
Accretion expense (note 9)	680	571	2,075	41,181
Foreign exchange (gain) loss	(164,570)	(107,428)	(308,753)	(53,019)
	(192,025)	(106,324)	(307,096)	(24,481)
Net loss for the period	\$ (2,818,774)	\$ (2,754,987)	\$ (8,053,083)	\$ (6,308,314)
Other comprehensive loss				
Items that may be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment	\$ (338,335)	\$ (257,104)	\$ (555,259)	\$ (216,610)
Total items that may be reclassified subsequently to profit or loss	(338,335)	(257,104)	(555,259)	(216,610)
Total loss and comprehensive loss for the period	\$ (3,157,109)	\$ (3,012,091)	\$ (8,608,342)	\$ (6,524,924)
Weighted average number of common shares outstanding				
Basic and diluted	95,074,516	62,783,872	85,322,508	44,034,831
Loss per share				
Basic and diluted loss per share (note 15)	\$ (0.03)	\$ (0.04)	\$ (0.09)	\$ (0.14)

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

Liberty Defense Holdings, Ltd.

Interim Condensed Consolidated Statements of Changes in Shareholder' Equity

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	Number of common shares*	Share capital	Equity reserves	Accumulated other comprehensive income (loss)	Deficit	Total
Balance as at December 31, 2020	13,680,836	\$ 2,866,502	\$ 108,276	\$ 59,746	\$ (3,562,043)	\$ (527,519)
Common shares retained by Liberty shareholders on RTO (note 4)	10,733,792	3,444,458	—	—	—	3,444,458
Convertible debentures converted into common shares (note 13)	5,825,467	1,495,507	—	—	—	1,495,507
Issue of subscription receipts and private placement, net of share issue cost (note 13)	31,510,000	10,408,864	—	—	—	10,408,864
Fair value of performance shares allocated to share capital upon vesting (note 14 (d))	2,193,250	1,045,317	—	—	—	1,045,317
Warrants exercised (note 14)	50,000	30,610	(10,723)	—	—	19,887
Fair value of finder's warrants (note 13)	—	—	379,270	—	—	379,270
Stock based compensation on performance shares granted (note 14)	—	—	377,467	—	—	377,467
Foreign currency translation adjustment	—	—	—	(216,610)	—	(216,610)
Loss for the period	—	—	—	—	(6,308,314)	(6,308,314)
Balance as at September 30, 2021	63,993,345	\$ 19,291,258	\$ 854,290	\$ (156,864)	\$ (9,870,357)	\$ 10,118,327
Balance as at December 31, 2021	63,993,345	\$ 18,284,177	\$ 2,743,825	\$ (133,410)	\$ (15,951,592)	\$ 4,943,000
Issue of private placement, net of share issue cost (note 13)	26,439,375	6,056,862	—	—	—	6,056,862
Fair value of compensation brokers warrants (note 13)	—	(312,816)	312,816	—	—	—
Warrants exercised (note 14)	123,300	58,580	—	—	—	58,580
Fair value of warrants allocated to share capital issued on exercise (note 14)	—	21,479	(21,479)	—	—	—
Performance shares issued (note 14)	4,386,500	1,377,886	(1,377,886)	—	—	—
Restricted share units issued (note 14)	50,000	20,894	(20,894)	—	—	—
Shares issued in excess (note 14)	123,300	41,982	—	—	—	41,982
Stock based compensation (note 14)	—	—	1,566,810	—	—	1,566,810
Foreign currency translation adjustment	—	—	—	(555,259)	—	(555,259)
Loss for the period	—	—	—	—	(8,053,083)	(8,053,083)
Balance as at September 30, 2022	95,115,820	\$ 25,549,044	\$ 3,203,192	\$ (688,669)	\$ (24,004,675)	\$ 4,058,892

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

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

Liberty Defense Holdings, Ltd.
Interim Condensed Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)
Unaudited - Prepared by Management

	Nine months ended September 30,	
	2022	2021
Cash (used in) provided by:		
Operating activities:		
Loss and comprehensive loss for the year	\$ (8,053,083)	\$ (6,308,314)
Items not involving cash:		
Lease liabilities interest (note 12)	8,698	-
Accretion expense CEBA loan (note 9)	2,075	2,127
Accretion expense convertible debentures (note 11)	-	39,054
Accrued interest on convertible debentures (note 11)	-	36,973
Accrued interest income on loan receivable from Liberty (note 4)	-	(55,021)
Unrealized foreign exchange	-	(53,019)
Depreciation (note 6)	422,793	95,351
Amortization (note 7)	435,997	6,808
Stock based compensation (note 14)	1,566,811	377,467
Government loans forgiven	-	(424,102)
Shares issued in excess (note 14)	41,982	-
Performance Shares issued	-	1,045,317
Changes in non-cash working capital:		
Amounts receivable and prepaids (note 5)	29,041	(296,984)
Accounts payable and accrued liabilities	227,309	(411,476)
Parts inventory	(192,903)	-
Cash used in operating activities	(5,511,280)	(5,945,819)
Investing activities:		
Additions to intangible assets (note 7)	(161,851)	(23,915)
Additions to property and equipment (note 6)	(700,287)	-
Cash used in investing activities	(862,138)	(23,915)
Financing activities:		
Proceeds from issuance of common shares, net of share issue costs (note 13)	6,056,861	10,788,134
Proceeds in connection to warrants exercised (note 13)	58,580	19,887
Lease payments received (note 12)	16,294	-
Repayment of leases (note 12)	(86,587)	(79,105)
Fair value of warrants granted to brokers (note 13)	-	(107,557)
Cash advanced to Liberty as part of the loan	-	(360,910)
Working capital loans repayment, net of proceeds received	-	(550,525)
Interest on convertible debentures (note 11)	-	(137,175)
Cash provided by financing activities	6,045,148	9,572,749
Effect of foreign exchange rate changes on cash	(634,030)	(132,033)
Effect of foreign exchange rate changes on cash	(634,030)	(132,033)
Increase in cash	(962,300)	3,470,982
Cash, beginning of the period	1,341,573	57,047
Cash, end of the period	\$ 379,273	\$ 3,528,029

During the period ended September 30, 2022 and 2021, the Company paid \$nil in income taxes

Supplemental cash flow information

Fair value of compensation brokers warrants (note 13)	\$ 312,816	\$ 379,270
Fair value of shares issued for corporate finance fee (note 13)	79,029	-
FV of Warrants allocated to Share Capital issued on exercise (note 13)	(21,479)	-
Fair value of shares retained by Liberty shareholders (note 4 and 13)	-	3,444,458
Convertible debentures converted into common shares (note 13)	-	1,495,507
Performance shares released from escrow (note 13)	(1,377,886)	1,045,317
Restricted shares units issued	(20,894)	-
Additions to right of use assets	-	701,274

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

1. Nature of operations and going concern

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

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

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

Going concern

These interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred in a total loss during the nine months ended September 30, 2022, of \$8,053,083 and cash outflows from operating activities of \$5,511,280. In order to fully commercialize HEXWAVE, the Company will require additional funds to achieve its development timeline and bring HEXWAVE to market. The Company has certain committed development milestones over the next twelve months and based on the Company’s current forecasted operational and development spend, the Company will require additional funds to meet these milestones. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. This material uncertainty casts significant doubt upon the Company’s ability to continue as a going concern.

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

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

2. Basis of presentation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These interim condensed consolidated financial statements were approved for issuance by the Board of Directors on November 17, 2022.

(b) Basis of presentation

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

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

(c) Functional and presentation currency

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

(d) Critical accounting estimates and judgments

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

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

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

2. Basis of presentation (continued)

(e) Basis of measurement

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

(f) Basis of consolidation

These consolidated financial statements include the financial statements of Liberty Defense Holdings, Ltd., and the entity controlled by the Company (its subsidiary), 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.

3. Significant Accounting Policies

These interim condensed consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the annual financial statements for the year ended December 31, 2021.

4. Reverse Takeover of DrawDown

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

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

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

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

4. Reverse Takeover of DrawDown (continued)

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

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

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

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

Additionally, upon closing of the RTO transaction Liberty granted a total of 8,773,000 capital market performance shares (“CMPS”) and 2,000,000 operational performance shares (“OPS”) to certain directors, officers, and consultants (Note 11 (d)). These securities are held in escrow until certain milestones are reached.

5. Amounts Receivables, Prepaids and Deposits

As of September 30, 2022, the Company had \$33,088 (December 31, 2021 – \$48,935) in amounts receivables and \$143,183 (December 31, 2021 – \$156,377) in prepaids and deposits.

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

6. Property & Equipment

	Leasehold Improvements	Equipment	Right of Use Asset	Prototype	Total
Cost					
At December 31, 2020	\$ -	\$ -	\$ -	\$ -	\$ -
Additions RTO transaction (note 4)	6,735	32,410	201,604	-	240,749
Additions	-	94,335	655,578	-	749,913
Derecognition right of use asset	-	-	(84,870)	-	(84,870)
At December 31, 2021	\$ 6,735	\$ 126,745	\$ 772,312	\$ -	\$ 905,792
Additions	-	91,940	-	608,348	700,288
At September 30, 2022	\$ 6,735	\$ 218,685	\$ 772,312	\$ 608,348	\$ 1,606,080
Accumulated Depreciation					
At December 31, 2020	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation for the year	6,051	19,301	118,570	-	143,922
Derecognition right of use asset	-	-	(6,842)	-	(6,842)
At December 31, 2021	\$ 6,051	\$ 19,301	\$ 111,728	\$ -	\$ 137,080
Depreciation for the period	684	36,931	93,678	291,500	422,793
At September 30, 2022	\$ 6,735	\$ 56,232	\$ 205,406	\$ 291,500	\$ 559,873
Foreign exchange movement					
At December 31, 2021	\$ -	\$ -	\$ 60	\$ -	\$ 60
At September 30, 2022	\$ -	\$ -	\$ 59	\$ -	\$ 59
Net Book Value					
At December 31, 2021	\$ 684	\$ 107,444	\$ 660,644	\$ -	\$ 768,772
At September 30, 2022	\$ -	\$ 162,453	\$ 566,965	\$ 316,848	\$ 1,046,266

On July 2, 2021, the Company entered into a new office lease agreement for a period of seventy-six months whereby an initial right-of-use asset was recognized totaling \$655,578, using a 7.63% implicit interest rate.

During the period, the Company capitalized materials and labor costs use to produced four Beta Unit Prototypes (the “Beta Units”) based on the Company’s Intellectual Property, which are being used for demonstrations and investor conferences. These units are being depreciated on a straight-line over a twelve-month period.

7. Intangible Assets

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

	MIT licenses	Battelle license	Intellectual property	Total
Balance, December 31, 2020	\$ -	\$ -	\$ -	\$ -
Additions RTO transaction (note 4)	183,682	-	3,769,172	3,952,854
Additions	202,497	-	-	202,497
Amortization	(19,899)	-	-	(19,899)
Balance, December 31, 2021	\$ 366,280	\$ -	\$ 3,769,172	\$ 4,135,452
Additions	104,691	57,130	-	161,821
Amortization	(24,671)	(7,456)	(403,840)	(435,967)
At September 30, 2022	\$ 446,300	\$ 49,674	\$ 3,365,332	\$ 3,861,306

Intangible assets included as MIT licenses and Battelle licenses include payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the RTO transaction (Note 4).

Liberty Defense Holdings, Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

7. Intangible Assets (continued)

(a) MIT License Agreements

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

The obligations under the Technology Transfer Agreement and the CRADA have now been completed. Liberty may consider extending the CRADA (and therefore changing its scope) if it determines that additional MIT LL technical expertise related to active three-dimensional imaging technology is required. Pursuant to the License Agreement, LDT has been granted the exclusive rights to MIT's patent in "multistatic sparse array topology for FFT-based field imaging" (MIT Case No. 1 8409L) (the "Patent"), which is being utilized in the development and application of the HEXWAVE product. The License Agreement is to be in effect until the expiration of the Patent, which is 14 years (December 2035). In granting LDT such patent rights, the Company shall pay MIT in addition to patent filing costs an annual maintenance fees as follows: 1) \$20,000 for 2019 (paid); \$50,000 for 2020 (paid); \$60,000 for 2021 (paid); \$100,000 for 2022 (paid); \$200,000 for 2023 and \$350,000 for 2024 and thereafter; and 2) a royalty of 5.7% of all future net sales of the Company. The Company shall also be required to achieve certain milestones.

(b) Battelle Memorial License Agreement

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

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

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

	Amounts
Year 2021 (paid on March 25, 2022)	\$ 50,000
Year 2022 (payable December 31, 2022)	50,000
Year 2023	100,000
Year 2024 and each year thereafter	200,000

Liberty Defense Holdings, Ltd.

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7. Intangible Assets (continued)

(b) Battelle Memorial License Agreement (continued)

The Company is obligated to achieve certain milestones in the next twelve to thirty-six months and reimburse Battelle for ongoing patenting expenses, as well as past patenting expenses in the total amount of \$50,000, which are payable as follows: 1) \$25,000 (paid), and 2) \$25,000 due on or before February 28, 2023. The outstanding balance of patent expense reimbursements of \$25,000 has been accrued at September 30, 2022.

8. Working Capital Loans

During the period ended September 20, 2022, the Company received working capital loans in the amount of \$146,039 (December 31, 2021 - \$394,384). These loans were unsecured and non-interest bearing.

	Amounts
Balance December 31, 2020	\$ 550,525
Additions	394,384
Fees	7,976
Repayments	(914,971)
Foreign exchange movement	(37,914)
Balance December 31, 2021	\$ -
Additions	146,039
Balance September 30, 2022	\$ 146,039

9. Canada Emergency Business Account Loan (“CEBA”)

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

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

The net present value of the CEBA Loan as of September 30, 2022, is \$27,851 (December 31, 2021 – \$27,986) and is presented as a current liability. The Company also recognized an accretion expense of \$2,075 in connection to this loan during the nine-month ended September 30, 2022 (September 30, 2021 – \$2,127).

10. Loan Receivable from Liberty

Before the completion of the RTO (Note 4), the Company had a loan agreement with DrawDown which provided for a maximum financing of \$2,000,000 with a minimum of 12 months funding bearing 12% interest per annum. As March 17, 2021 when the RTO transaction was completed, the outstanding balance under the loan agreement was \$2,203,846 (December 31, 2020 – \$1,963,179) which formed part of the consideration on the RTO, including interest receivable of \$203,846 (December 31, 2020 - \$142,926) (Note 4).

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11. Convertible Debentures

In connection with the RTO, the Company issued convertible debentures through its wholly owned subsidiary DrawDown on March 5 and May 29, 2020, with a total face value of \$1,371,098 (CAD\$1,864,810). The instrument was unsecured, had a maturity of one year from its date of issuance and has an interest rate of 10% per annum payable at the end of the term or up on conversion. On March 17, 2021, the RTO was completed, and the debenture converted into DrawDown Units at CAD\$0.32 per DrawDown Unit on a pre-share consolidation basis. Each DrawDown Unit was comprised of one common share and one-half of one DrawDown warrant on a pre-share consolidation basis. The shares issued upon conversion of the DrawDown Units were exchanged for Liberty shares on a one for one basis along with the warrants and finder's warrants with the same economic terms and conditions. These instruments were also affected by the share consolidation (Note 13 (b)).

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

	Amount
Balance December 31, 2020	\$ 1,531,309
Accrued interest	36,973
Accretion expense	38,988
Interest paid	(137,175)
Foreign exchange movement	25,412
Converted to common shares	(1,495,507)
Balance December 31, 2021 and September 30, 2022	\$ -

12. Leases

The Company lease liabilities for the nine months ended September 30, 2022 and the year ended December 31, 2021 are as follows:

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12. Leases (continued)

	Right of use liability
Balance, December 31, 2020	\$ -
Additions RTO transaction (note 4)	201,604
Additions	655,578
Finance costs	16,912
Lease payments	(125,963)
Foreign exchange movement	(1,166)
Balance, December 31, 2021	\$ 746,965
Finance costs	41,034
Lease payments	(118,510)
Foreign exchange movement	(3,204)
Balance, September 30, 2022	\$ 666,285
Less current portion	33,437
Non-current lease liability	\$ 632,848

As of September 30, 2022, the Company recorded an expense of \$163,220 (December 31, 2021, \$nil) related to a short-term lease not meeting the criteria for capitalization under IFRS16.

Minimum lease payments are as follows:

	September 30, 2022	December 31, 2021
Maturity analysis - contractual undiscounted cash flows		
One year or less	\$ 168,539	\$ 160,693
Two to five years	426,433	590,859
Six and thereafter	227,473	190,409
Total lease liabilities	\$ 822,445	\$ 941,961
Effect of discounting	(156,160)	(194,996)
Lease liabilities included in the statement of financial position	666,285	746,965
Current	\$ 33,437	\$ 106,885
Non-current	\$ 632,848	\$ 640,080

The Company lease receivable for the nine months ended September 30, 2022 and the year ended December 31, 2021 are as follows:

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12. Leases (continued)

	Amount
Balance, December 31, 2020	\$ -
Additions	63,227
Accretion	1,810
Payments received	(13,191)
Currency translation adjustment	(3,012)
Balance, December 31, 2021	\$ 48,834
Accretion	2,075
Payments received	(16,294)
Currency translation adjustment	(3,306)
Balance, September 30, 2022	\$ 31,309
Less current portion	19,454
Non-current lease receivable	\$ 11,855

As a result of the completion of the RTO and under the new management's vision, the corporate office will now be located in Boston, MA. As a result, the Company subleased until the expiry of the headlease (April 2024) the office space located in Vancouver, BC., as it was not longer required. The Company fair valued the lease receivable by present valuing the expected lease receivable payments over the life of the lease. The Company used an interest rate of 5.55%, the interest rate implicit in the lease. Minimum undiscounted sublease payments receivable are: \$20,701 for the next 12 months and \$12,076 for the following year.

13. Share Capital

(a) Common share transactions for the nine months ended September 30, 2022

- i) On March 3, 2022, a total of 123,300 share purchase warrants were exercised at CAD\$0.60 per share for total proceeds of \$58,580 (CAD\$73,980). The fair value of the exercised warrants was \$21,479 (CAD\$27,126) and was transferred from the equity reserves and recorded against share capital. Also, an additional 123,300 common shares were issued in excess with a fair value of \$41,982 (CAD\$53,019) recorded against other income.
- ii) On March 17, 2022, the Company closed a brokered private placement for gross proceeds of \$6,816,237 (CAD\$8,624,994). The Company issued 26,136,345 units (each a "Unit") of the Company at a price of \$0.2608 (CAD\$0.33) per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.50 within a period of 24 months. The Company issued the agents 1,996,363 warrants ("broker warrants") with a fair value of \$312,816 and paid cash commission of \$520,642. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.33. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$238,733 and paid a corporate finance fee of CAD\$100,000 in common shares of the Company (303,030 common shares issued with a fair value of \$79,029). All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.
- iii) On May 25, 2022, the Company released from escrow a total of 4,386,500 common shares in connection to capital performance shares' milestones reached. The estimated fair value of these capital performance shares was \$1,377,886 (CAD\$1,754,600) which was transferred from equity reserves.

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

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13. Share Capital (continued)

(a) Common share transactions for the nine months ended September 30, 2022 (continued)

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

(b) Common share transactions for the nine months ended September 30, 2021

- i) On March 17, 2021, Liberty completed a share consolidation equivalent to 6.2 old common shares to 1 new common share and DrawDown also completed a share consolidation of 2 old common shares for one new common share in connection to the completion of the RTO transaction (Note 1 and 4). All common shares and per share data presented in the Company's interim condensed consolidated financial statements have been retroactively adjusted to reflect the share consolidation unless otherwise noted.
- ii) As part of the RTO transaction on March 12, 2021, the Company closed a financing with a total of 17,250,000 subscription receipts for one Unit (the "March Unit") at a price of \$0.3209 (CAD\$0.40) per Unit for total proceeds of \$5,535,499 (CAD\$6,900,000). Each March Unit is comprised of one common share and one-half of one purchase warrant (each whole warrant, a "March Warrant"). Each whole purchase March Warrant entitles the holder thereof to purchase one common share at CAD\$0.60 per common share for a period of two years. The Company issued 1,098,125 compensation warrants to the agents (the "Compensation March Warrants"). Each Compensation March Warrant entitles the agents to acquire one common share of the Company at a price of CAD\$0.40 per common share within 24 months with a fair value of \$197,832. The Company also incurred a cash commission and other filing and legal expenses of \$597,800 (CAD\$739,250).
- iii) A total of 10,733,792 common shares were issued upon completion of the RTO transaction on March 17, 2021, with a fair value of \$3,444,458. Also, the convertible debentures issued in connection to the RTO transaction (Note 4 and 10) were converted into DrawDown Units and immediately exchanged for Liberty shares on a one for one basis along with the warrants and finder's warrants. Each DrawDown Unit is comprised of one common share and one-half of one purchase warrant (each whole warrant, a "CD Warrant"). Each whole purchase CD Warrant entitles the holder thereof to purchase one common share at CAD\$0.50 per common share for a period of two years. A total of 5,825,467 common shares were issued with a fair value of \$1,495,507 in connection with the convertible debentures.

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

- iv) On June 17, 2021, the Company closed a brokered private placement of 14,260,000 units ("Units") at a price of \$0.4052 (CAD\$0.50) per Unit for gross proceeds of \$5,777,490 (CAD\$7,130,000). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one additional common share of the Company at a price of CAD\$0.75 per Common Share within 24 months. The Company paid to the agent a cash commission of \$448,464 (CAD\$553,450) and issued to the agent 1,106,900 non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant entitles the Agent to acquire one common share of the Company at a price of CAD\$0.50 per common share within 24 months with a fair value of \$237,386. The Company also incurred \$76,391 (CAD\$94,380) in legal and filing fees.
- v) On July 15, 2021, the Company issued 50,000 common shares for gross proceeds of \$19,885 in connection with warrants exercised. The fair value of these warrants exercised was \$10,723 and was transferred from the equity reserves and recorded against share capital.

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13. Share Capital (continued)

(b) Common share transactions for the nine months ended September 30, 2021 (continued)

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

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

	September 30, 2022	December 31, 2021
Risk-free interest rate	2.46%	0.90%
Expected dividend yield	Nil	Nil
Stock price volatility	81.95%	73.18%
Expected life (in years)	5 years	5 years
Weighted average fair value per option	CAD\$0.23	CAD\$0.34

The continuity of the number of stock options issued and outstanding, adjusted for the share consolidation is as follows:

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14. Equity Reserves (continued)

(a) Share-based compensation (continued)

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2020	437,500	CAD\$ 0.50
RTO transaction	230,645	4.96
Cancelled	(93,548)	4.96
Granted	3,000,000	0.49
Outstanding, December 31, 2021	3,574,597	CAD\$ 0.67
Cancelled	(605,000)	0.51
Granted	2,625,000	0.41
Outstanding, September 30, 2022	5,594,597	CAD\$ 0.56

As at September 30, 2022, the number of stock options outstanding and exercisable, adjusted for the share consolidation was:

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
1-May-24	50,000	CAD\$ 0.50	1.59	50,000
15-Jun-24	37,500	CAD\$ 0.50	1.71	37,500
1-Jul-24	75,000	CAD\$ 0.50	1.75	75,000
8-Jul-24	75,000	CAD\$ 0.50	1.77	75,000
31-Jul-24	50,000	CAD\$ 0.50	1.84	50,000
23-Aug-24	37,500	CAD\$ 0.50	1.90	37,500
25-Sep-24	37,500	CAD\$ 0.50	1.99	37,500
29-Sep-24	75,000	CAD\$ 0.50	2.00	75,000
Apr 9 and Jul 2, 2024	137,097	CAD\$ 4.96	1.76	137,097
7-Apr-26	1,615,000	CAD\$ 0.50	3.52	1,211,250
10-Jun-26	100,000	CAD\$ 0.50	3.70	62,500
28-Jul-26	125,000	CAD\$ 0.55	3.83	62,500
28-Jul-26	90,000	CAD\$ 0.65	3.83	45,000
1-Nov-26	465,000	CAD\$ 0.46	4.09	174,375
14-Jan-27	100,000	CAD\$ 0.36	4.29	25,000
26-Apr-27	1,915,000	CAD\$ 0.41	4.57	239,375
26-May-24	250,000	CAD\$ 0.50	1.65	31,250
26-May-27	175,000	CAD\$ 0.38	4.65	21,875
16-Aug-27	185,000	CAD\$ 0.29	4.88	-
	5,594,597			2,447,722

Total stock-based compensation expense as a result of options granted and vested during the three and nine months ended September 30, 2022, was \$188,927 and \$428,721 respectively (three and nine months ended September 30, 2021 – \$189,859 and \$328,736 respectively).

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14. Equity Reserves (continued)

(b) Restricted share units (“RSU”)

Restricted share units granted for the nine months ended September 30, 2022:

- i) On January 15, 2022, the Company granted 150,000 RSUs to an employee; these RSUs vest at 100% on January 15, 2023.
- ii) On April 25, 2022, the Company granted 408,750 RSUs to directors and officers; these RSUs vested at 100% on June 10, 2022.
- iii) On April 26, 2022, the Company granted 800,000 RSUs to directors and officers; these RSUs vest at 100% on April 26, 2024.
- iv) On May 26, 2022, the Company granted 113,405 RSUs to one of its officers; these RSUs vest 100% on May 26, 2023.
- v) On September 14, 2022, a total of 50,000 common shares of the Company were issued in connection with the settlement of RSUs with a value of \$20,894.

Restricted share units granted as of December 31, 2021:

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

The following table summarizes the movements in outstanding RSUs:

	Number of equity settled restricted share units	Weighted average price
Outstanding, December 31, 2020	-	CAD\$ -
Granted	1,000,000	0.58
Outstanding, December 31, 2021	1,000,000	CAD\$ 0.58
Granted	1,472,155	0.38
Issued	(50,000)	0.32
Outstanding, September 30, 2022	2,422,155	CAD\$ 0.39

The estimated fair value of the equity settled RSUs granted as of September 30, 2022, was CAD\$562,083 (December 31, 2021: CAD\$580,000) and will be recognized as an expense over the vesting period of the RSUs. The fair value of the equity settled RSUs as at the grant date was determined with reference to the market value of the common shares of the Company at the grant date.

Total stock-based compensation expense as a result of RSUs grants during the three and nine months ended September 30, 2022, was \$98,133 and \$398,919 (three and nine months ended September 30, 2021, was \$48,731 and \$48,731).

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14. Equity Reserves (continued)

(c) Share purchase warrants

As at September 30, 2022, the continuity of the number of share purchase warrants outstanding is as follows:

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2020	208,286	CAD\$ 0.40
RTO transaction	1,738,166	6.48
Issued	20,872,759	0.62
Cancelled	(1,423,650)	6.82
Exercised	(50,000)	0.50
Outstanding, December 31, 2021	21,345,561	CAD\$ 0.68
Issued	15,064,535	0.48
Cancelled	(399,502)	3.99
Exercised	(123,300)	0.60
Outstanding, September 30, 2022	35,887,294	CAD\$ 0.56

During the nine months ended September 30, 2022, the following transactions occurred in connection to warrants:

- i) On January 9, 2022, the Company cancelled 314,516 share purchase warrants without being exercised.
- ii) On March 3, 2022, a total of 123,300 purchase warrants were exercised at a price of CAD\$0.60.
- iii) On May 29, 2022, the Company cancelled 84,986 share purchase warrants without being exercised.

During the nine months ended September 30, 2021, the following transactions occurred in connection to warrants:

- i) As part of the completion of the RTO transaction (Note 1) and the concurrent financing, the Company on March 12, 2021, issued 2,912,734 share purchase warrants as a result of converting all outstanding convertible debentures. These instruments had an exercise price of CAD\$0.40 and can be exercised within a period of 24 months.
- ii) As part of the RTO transaction (Note 1), the Company acquired 1,738,166 share purchase warrants with a weighted average exercise price of CAD\$6.48. Subsequently, on April 3, 2021 a total of 1,423,650 with an exercise price of CAD\$6.82 were cancelled without being exercised. Due to the short expiry period of these instruments and its high exercise price, management did not recognize any fair value associated to the share purchase warrants at the date of the acquisition

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

	September 30, 2022	December 31, 2021
Risk-free interest rate	2.19%	0.32%
Expected dividend yield	Nil	Nil
Stock price volatility	92.03%	98.33%
Expected life (in years)	2 years	2 years
Fair value	CAD\$0.20	CAD\$0.25

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14. Equity Reserves (continued)

(c) Share purchase warrants (continued)

The outstanding number of share purchase warrants is as follows:

Expiry date	Number of warrants	Outstanding	
		Exercise price	Remaining contractual life (years)
11-Mar-23	1,098,125	CAD\$0.40	0.44
11-Mar-23	8,625,000	CAD\$0.60	0.44
17-Mar-24	2,912,734	CAD\$0.50	1.46
17-Jun-23	7,130,000	CAD\$0.75	0.71
17-Jun-23	1,056,900	CAD\$0.50	0.71
17-Mar-24	13,068,172	CAD\$0.50	1.46
17-Mar-24	1,996,363	CAD\$0.33	1.46
	35,887,294		

(d) Performance Shares

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

Operational Performance Shares

During the nine months ended September 30, 2022 and the year ended December 31, 2021, none of the 2,000,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD\$800,000 with an estimated vesting period between March 2023 and September 2023. During the three and nine months ended September 30, 2022 the Company recorded stock based compensation in the amounts of \$55,978 (CAD\$73,046) and \$169,015 (CAD\$216,757) respectively (three and nine months ended September 30, 2021 – \$nil and \$nil respectively).

Capital Market Performance Shares

On July 21, 2021, the Company issued 2,193,150 from the total of 8,773,000 CMPS as the first established milestone was met. During the nine months ended September 30, 2022, an additional 4,386,500 CMPS were issued as two additional milestones were met. The Company set a total of four milestones with an equal number of CMPS to be issued when the Company achieves such milestones. The Company has estimated a probability of the number of CMPS it will issue in addition to an estimated vesting period between June 2021 and September 2022. The total estimated fair value of the CMPS is CAD\$3,509,200 and during the three and nine months ended September 30, 2022 the Company recorded stock based compensation in connection to CMPS of \$111,975 (CAD\$146,115) and \$570,155 (CAD\$692,531) respectively (three and nine months ended September 30, 2021 – \$nil and \$nil respectably).

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14. Equity Reserves (continued)

(d) Performance Shares (continued)

	Number of equity settled performance share units	Weighted average price
Outstanding, December 31, 2020	-	CAD\$ -
Granted	10,773,000	0.40
Released from escrow	(2,193,250)	0.40
Outstanding, December 31, 2021	8,579,750	CAD\$ 0.40
Released from escrow	(4,386,500)	0.40
Outstanding, September 30, 2022	4,193,250	CAD\$ 0.40

15. Loss Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Loss attributable to common shareholders	\$ (2,830,967)	\$ (2,754,987)	\$ (8,065,276)	\$ (6,308,314)
Weighted average number of shares	95,074,516	62,783,872	85,322,508	44,034,831
Basic and diluted loss per share	\$ (0.03)	\$ (0.04)	\$ (0.09)	\$ (0.14)

The Company incurred net losses for the three and six months ended September 30, 2022, and 2021, therefore all outstanding stock options and share purchase warrants, if any, have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

16. Contract Award

(a) Transportation Security Administration's (TSA)

On October 20, 2021, the Company received a contract award for \$500,000 from Transportation Security Administration's (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 the award, Liberty is required to have its HEXWAVE technology working at certain locations to collect and share data with TSA on identified threats to further develop algorithms to improve the recognition of threats with desire probability of detection. During the three and six months ended September 30, 2022 the Company received \$119,082 and \$183,610 respectively (three and nine months ended September 30, 2021 - \$nil and \$nil respectively). The Company is required to submit quarterly invoices as follows:

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16. Contract Award (continued)

(a) Transportation Security Administration's (TSA) (continued)

TSA Contract Award	Amounts
Year 2022	
Quarter 1 (payment received April 29, 2022)	\$64,528
Quarter 2 (payment received August 22, 2022)	119,082
Quarter 3 (invoice submitted as of October 10, 2022)	10,180
Quarter 4	20,900
Year 2023	-
Quarter 1	116,746
Quarter 2	85,450
Quarter 3	64,857
Quarter 4	18,257
Total	\$ 500,000

The contract award of \$500,000 has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

(b) Battelle (PNNL) HD-AIT Shoe Scanner

On May 12, 2022, the Company received a contract award for \$212,697 from Battelle Memorial Institute, Pacific Northwest Division's Contract. The contract award is to work hand in hand with Pacific Northwest National Labs ("PNNL") to develop the High Definition – Advanced Imaging Technology ("HD-AIT") Retrofit Kits. With developing the HD-AIT Retrofit Kits, the Battelle Memorial License and patent will be utilized in the HD-AIT technology development. During the three and nine months ended September 30, 2022 the Company received \$2,135 and \$5,821 respectively (three and nine months ended September 30, 2021 - \$nil and \$nil respectively)

The contract award of \$212,697 has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

(C) Transportation Security Administration's (TSA) HD-AIT Upgrade

On September 30, 2022, the Company received a contract award for \$1,747,905 from Transportation Security Administration's (TSA) for the High Definitions – Advanced Imaging Technology (HD-AIT) Wide Band Upgrade Kit. The contract award is to develop a series of millimeter-wave imaging system prototypes to advance and upgrade the current state-of-the-art imaging technology for the current passenger security screening applications. The project will be performed over a period of eighteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. During the three and six months ended September 30, 2022 the Company received \$nil and \$nil respectively (three and nine months ended September 30, 2021 - \$nil and \$nil respectively). The Company is required to submit quarterly invoices as follows:

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16. Contract Award (continued)

(C) Transportation Security Administration’s (TSA) HD-AIT Upgrade (continued)

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

17. DKL International, Inc (“DKL”) Licensing Agreements

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

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

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

18. Related Party Transactions

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

Compensation of key management personnel:

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Short-term benefits	\$ 360,135	\$ 526,151	\$ 851,845	\$ 953,015
Share-based compensation	292,256	152,809	1,135,235	247,439
Consulting services (1)	70,540	38,960	216,255	183,272
	\$ 722,932	\$ 717,920	\$ 2,203,336	\$ 1,383,726

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

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18. Related Party Transactions (continued)

As of September 30, 2022, the Company had a balance payable of \$15,327 to related parties (September 30, 2021 – \$145,789). This payable balance includes accounts payable and accrued liabilities relating to consulting services from directors, officers or their related companies, included in compensation of key management personnel. For the three and nine month ended period September 30, 2022, Nicole Ridgedale Communications incurred \$29,211 respectively and \$126,284 in stock-based compensation and consulting services (three and six months ended September 30, 2021 \$31,466 and \$31,466 respectively). These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

19. Financial Instruments

As of September 30, 2022, the Company's financial instruments comprise cash, amounts receivables, and accounts payable and accrued liabilities and the CEBA loan. The fair values of amounts receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The carrying amount of the CEBA loan approximates fair value as it is discounted using a market rate of interest.

Fair value of financial instruments:

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

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

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

Cash is valued at Level 1 and there has been no movement of financial instruments between the levels.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, including accounts receivable terms. The Company's cash are held through large Canadian, international and foreign national financial institutions. The Company mitigates this risk by transacting only with reputable financial institutions. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash balances, expected exercise of share purchase warrants, and stock options.

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19. Financial Instruments (continued)

c) Market risk

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

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is not significant.

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	\$ 254,094
Financial liabilities denominated in foreign currencies	(628,613)
Net exposure	\$ (374,519)

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$37,452.

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, 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.

Liberty Defense Holdings, Ltd.

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20. Capital Risk Management (continued)

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 six months ended June 30, 2022.

21. Geographic Information

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

Geographic segmentation of assets and liabilities are as follows:

	Canada	United States	Total
Non-current assets			
Property & equipment	\$ -	\$ 1,046,266	\$ 1,046,266
Intangible assets	-	3,861,306	3,861,306
Lease receivable	11,855	-	11,855
Balance, September 30, 2022	\$ 11,855	\$ 4,907,572	\$ 4,919,427
Non-current liabilities			
Lease liability	\$ -	\$ 632,848	\$ 632,848
Balance, September 30, 2022	\$ -	\$ 632,848	\$ 632,848
	Canada	United States	Total
Non-current assets			
Property & equipment	\$ -	\$ 768,771	\$ 768,771
Intangible assets	-	4,135,452	4,135,452
Lease receivable	28,675	-	28,675
Balance, December 31, 2021	\$ 28,675	\$ 4,904,223	\$ 4,932,898
Non-current liabilities			
Lease liability	\$ 27,677	\$ 612,403	\$ 640,080
Battelle patent expense	-	25,000	25,000
Balance, December 31, 2021	\$ 27,677	\$ 637,403	\$ 665,080

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22. Subsequent Events

- a) On October 27, 2022, the Company closed a brokered private placement for gross proceeds of CAD\$5,140,218. The Company issued 18,691,700 units (each a “Unit”) of the Company at a price of CAD\$0.275 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.50 within a period 60 months. The Company paid the agents 1,446,736 broker warrants and cash commissions of CAD\$397,852. Each broker warrant will be exercisable to purchase one common share for a period of 60 months at an exercise price of CAD\$0.275. Additionally, the Company also incurred in other cash costs in connection to filing and legal expenses in the amount of CAD\$168,398 and paid a corporate finance fee of \$100,000 by issuance of common shares of the Company (363,636 common shares issued at CAD\$0.275). Concurrent with the brokered private placement, the Company also completed a private placement offering of 475,000 Units of the Company under the same terms and conditions at the price of \$0.275 for gross proceeds of CAD\$130,625. Bill Frain, the Company’s Chief Executive Officer, subscribed for 400,000 Units for an aggregate purchase price of CAD\$110,000. Mr. Frain is a related party of the Company. Additionally, all securities issued under these financings are subject to a hold period expiring four months and one day after the closing date.
- b) In connection with the October 27, 2022, financings, an additional milestone was reached related to the capital market performance shares and a total of 2,193,250 common shares were released from escrow on October 28, 2022.