



# Liberty Defense

**Liberty Defense Holdings, Ltd.**

**Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended September 30, 2023 and 2022**

**UNAUDITED**  
**Prepared by Management**

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

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# **LIBERTY DEFENSE HOLDINGS, LTD.**

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2023 and 2022

## **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.

November 27, 2023

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

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	September 30, 2023	December 31, 2022
<b>Assets</b>		
Current assets:		
Cash	\$ 13,622	\$ 677,473
Amounts receivable, prepaids and deposits (note 4)	844,493	312,135
Inventory (note 5)	1,443,088	485,592
Lease receivable current portion (note 11)	11,962	19,941
	2,313,165	1,495,141
Non-current assets:		
Property and equipment (note 6)	1,103,289	1,001,538
Intangible assets (note 7)	3,317,096	3,730,463
Lease receivable (note 11)	–	6,896
	4,420,385	4,738,897
<b>Total assets</b>	<b>\$ 6,733,550</b>	<b>\$ 6,234,038</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,411,684	\$ 1,475,934
Working capital loans (note 8)	821,499	–
Factoring (note 9)	698,854	–
Deferred Revenue (note 15)	180,000	–
CEBA loan (note 10)	28,171	28,812
Lease liabilities (note 11)	62,034	123,911
	5,202,242	1,628,657
Non-current liabilities:		
Non-current lease liabilities (note 11)	871,494	514,395
<b>Total liabilities</b>	<b>\$ 6,073,736</b>	<b>\$ 2,143,052</b>
<b>Shareholders' equity</b>		
Share capital (note 12)	\$ 30,591,495	\$ 28,936,296
Share Subscription Received in Advance (note 12)	1,179,609	–
Equity reserves (note 13)	3,714,774	3,518,365
Accumulated other comprehensive loss	(295,714)	(252,669)
Deficit	(34,530,350)	(28,111,006)
Total shareholders' equity	659,814	4,090,986
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,733,550</b>	<b>\$ 6,234,038</b>

Nature of operations and going concern (note 1)

Subsequent events (note 22)

Approved by the Board of Directors on November 27, 2023, and signed on the Company's behalf by:

"William Frain"

Director

"Daryl Rebeck"

Director

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

**Liberty Defense Holdings, Ltd.**  
**Interim Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in U.S. dollars)  
 Unaudited - Prepared by Management

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
<b>Revenue (note 15 and 16)</b>	\$ 402,938	\$ –	\$ 1,346,916	\$ –
<b>Cost of revenue</b>	324,267	–	970,221	–
<b>Gross profit</b>	78,671	–	376,695	–
<b>Operating Expenses:</b>				
<i>Production and Engineering Expenses:</i>				
Salaries and consulting fees (note 18)	61,399	–	299,457	–
Technology costs	58,145	–	198,857	–
Office, rent & administration, travel, miscellaneous	105,727	–	270,418	–
Depreciation (note 6)	140,117	–	140,117	–
Amortization (note 7)	168,124	–	168,124	–
<i>Research and development:</i>				
Product development & Technology Costs	62,260	238,246	231,606	559,530
Salaries and consulting fees (note 18)	304,428	1,086,957	1,700,229	2,994,108
Stock-based compensation (note 13 and 18)	24,058	93,978	71,460	186,710
Depreciation (note 6)	–	192,323	313,294	422,793
Amortization (note 7)	–	148,008	327,147	435,997
Office, rent & administration, travel, miscellaneous	–	229,147	–	628,271
<b>General and Administration Expenses:</b>				
Salaries and consulting fees (note 18)	294,489	164,176	1,152,281	671,583
Legal and professional fees	76,751	83,654	250,214	229,357
Stock-based compensation (note 13 and 18)	56,846	361,034	423,409	1,380,100
Office, rent & administration, travel, miscellaneous	387,103	413,276	1,135,153	851,730
	1,739,446	3,010,799	6,681,766	8,360,179
<b>Operating Loss</b>	<b>\$ (1,660,775)</b>	<b>\$ (3,010,799)</b>	<b>\$ (6,305,071)</b>	<b>\$ (8,360,179)</b>
<b>Other expense (income):</b>				
Other income and expenses	(28)	(41,340)	(1,131)	(41,340)
Interest expense	74,700	13,205	115,427	40,922
Accretion expense (note 11)	586	680	(589)	2,075
Foreign exchange loss (gain)	365	(164,570)	566	(308,753)
	75,623	(192,025)	114,273	(307,096)
<b>Net loss for the period</b>	<b>\$ (1,736,398)</b>	<b>\$ (2,818,774)</b>	<b>\$ (6,419,344)</b>	<b>\$ (8,053,083)</b>
<b>Other comprehensive loss</b>				
Items that may be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment	28,302	(338,335)	(43,045)	(555,259)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>28,302</b>	<b>(338,335)</b>	<b>(43,045)</b>	<b>(555,259)</b>
<b>Total loss and comprehensive loss for the period</b>	<b>\$ (1,708,096)</b>	<b>\$ (3,157,109)</b>	<b>\$ (6,462,389)</b>	<b>\$ (8,608,342)</b>
Weighted average number of common shares outstanding				
Basic and diluted	134,181,083	95,074,516	122,683,488	85,322,508
Loss per share				
Basic and diluted loss per share (note 14)	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.09)

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

## Liberty Defense Holdings, Ltd.

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

(Expressed in U.S. dollars)

Unaudited - Prepared by Management

	Number of common shares	Share capital	Equity reserves	Share subscription received in advance	Accumulated other comprehensive loss	Deficit	Total
<b>Balance as at December 31, 2021</b>	<b>63,993,345</b>	<b>\$ 18,284,177</b>	<b>\$ 2,743,825</b>	<b>\$ -</b>	<b>\$ (133,410)</b>	<b>\$ (15,951,592)</b>	<b>4,943,000</b>
Issue of subscription receipts and private placement, net of share issue cost (note 12)	26,439,375	6,056,861	-	-	-	-	6,056,861
Fair value of compensation brokers warrants (note 13)	-	(312,816)	312,816	-	-	-	0
Stock based compensation (note 12 & 13)	-	-	1,566,810	-	-	-	1,566,810
Warrants exercised (note 13)	123,300	58,580	-	-	-	-	58,580
Performance shares issued	4,386,500	1,377,886	(1,377,886)	-	-	-	-
Restricted share units issued (note 13)	50,000	20,894	(20,894)	-	-	-	-
Shares issued in excess (note 13)	123,300	41,982	-	-	-	-	41,982
Fair value of warrants allocated to share capital issued on exercise (note 12)	-	21,479	(21,479)	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	(555,259)	-	(555,259)
Loss for the period	-	-	-	-	-	(8,053,083)	(8,053,083)
<b>Balance as at September 30, 2022</b>	<b>95,115,820</b>	<b>\$ 25,549,044</b>	<b>\$ 3,203,192</b>	<b>\$ -</b>	<b>\$ (688,669)</b>	<b>\$ (24,004,675)</b>	<b>4,058,892</b>
<b>Balance as at December 31, 2022</b>	<b>116,839,406</b>	<b>\$ 28,936,296</b>	<b>\$ 3,518,365</b>	<b>\$ -</b>	<b>\$ (252,669)</b>	<b>\$ (28,111,006)</b>	<b>4,090,986</b>
Issue of private placement, net of share issue cost (note 12)	10,261,061	1,356,739	-	1,179,609	-	-	2,536,348
Fair value of compensation brokers warrants (note 12)	-	(12,238)	12,238	-	-	-	-
Residual value allocated to warrants	-	(94,101)	94,101	-	-	-	-
Fair value of expired broker warrants (note 12)	-	404,799	(404,799)	-	-	-	-
Stock based compensation (note 13)	-	-	494,869	-	-	-	494,869
Foreign currency translation adjustment	-	-	-	-	(43,045)	-	(43,045)
Loss for the period	-	-	-	-	-	(6,419,344)	(6,419,344)
<b>Balance as at September 30, 2023</b>	<b>127,100,467</b>	<b>\$ 30,591,495</b>	<b>\$ 3,714,774</b>	<b>\$ 1,179,609</b>	<b>\$ (295,714)</b>	<b>\$ (34,530,350)</b>	<b>659,814</b>

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

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

**Nine months ended September 30,**  
**2023** **2022**

**Cash (used in) provided by:**

**Operating activities:**

Loss and comprehensive loss for the period	\$	(6,419,344)	\$	(8,053,083)
Items not involving cash:				
Lease liability interest (note 11)		60,787		8,698
Accretion expense CEBA loan (note 10)		(1,321)		2,075
Depreciation (note 6)		453,411		422,793
Amortization (note 7)		495,271		435,997
Stock based compensation (note 13)		494,869		1,566,811
Impairment of inventory (note 5)		-		41,982
Changes in non-cash working capital:				
Amounts receivable and prepaids (note 4)		(532,358)		29,041
Inventory (note 5)		(957,496)		(192,903)
Accounts payable and accrued liabilities		3,458,972		227,309
<b>Cash used in operating activities</b>		<b>(2,947,209)</b>		<b>(5,511,280)</b>

**Investing activities:**

Additions to intangible assets (note 7)		(81,904)		(161,851)
Additions to property and equipment (note 6)		(135,768)		(700,287)
<b>Cash used in investing activities</b>		<b>(217,672)</b>		<b>(862,138)</b>

**Financing activities:**

Proceeds from issuance of units, net of share issue costs (note 12)		2,536,348		6,056,861
Proceeds in connection to warrants exercised (note 12)		-		58,580
Deferred Revenue (note 15 and 16)		180,000		-
Lease payments received (note 11)		14,852		16,294
Repayment of leases (note 11)		(186,038)		(86,587)
<b>Cash provided by financing activities</b>		<b>2,545,162</b>		<b>6,045,148</b>

Effect of foreign exchange rate changes on cash		(44,132)		(634,030)
<b>Effect of foreign exchange rate changes on cash</b>		<b>(44,132)</b>		<b>(634,030)</b>

<b>Increase in cash</b>		<b>(663,851)</b>		<b>(962,300)</b>
<b>Cash, beginning of the period</b>		<b>677,473</b>		<b>1,341,573</b>
<b>Cash, end of the period</b>	<b>\$</b>	<b>13,622</b>	<b>\$</b>	<b>379,273</b>

During the nine months ended September 30, 2023 and 2022, the Company paid \$nil in income taxes.

**Supplemental cash flow information**

Fair value of compensation brokers warrants (note 12)	\$	12,238	\$	312,816
Fair value of shares issued for corporate finance fee (note 12)		-		79,029
Performance shares released from escrow (note 12 & 13)		-		(1,377,886)
Reclassification from reserves upon warrant exercise		-		(21,479)
Restricted share units issued		-		(20,894)

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

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

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## 1. Nature of operations and going concern

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

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

### Going concern

These condensed interim consolidated financial statements have been prepared using 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, 2023, of \$6,419,344 and cash outflows from operating activities of \$2,947,209. To sustain the commercialization of HEXWAVE, the Company requires additional funds. These funds will be pivotal in advancing the production of HEXWAVE to meet the escalating demand for the product. Additionally, the Company has certain committed development milestones over the next twelve months and based on the Company’s current forecasted operational and development spend, the Company will require additional funds to meet these milestones. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. This material uncertainty casts significant doubt upon the Company’s ability to continue as a going concern.

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

## 2. Basis of presentation

### (a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with 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 condensed interim consolidated financial statements were approved for issuance by the Board of Directors on November 27, 2023.

### (b) Basis of presentation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. This interim financial report does not include all 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, 2022. However, this interim financial report provides selected significant disclosures that are required in the annual audited consolidated financial statements under IFRS.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 2. Basis of presentation (continued)

### (b) Basis of presentation (continued)

Except as described below, these condensed interim 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, 2022. The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2023.

### (c) Functional and presentation currency

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

### (d) Basis of measurement

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

### (e) Basis of consolidation

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

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

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

### (f) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to select accounting policies and make estimates and judgments that may have a significant impact on the condensed interim 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 condensed interim consolidated financial statements were the same as those applied to the audited consolidated financial statements as at the period ended December 31, 2022.



# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 3. Significant Accounting Policies

These condensed interim consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the annual financial statements for the year ended December 31, 2022. 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 and nine months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

## 4. Amounts Receivables, Prepaids and Deposits

		September 30, 2023		December 31, 2022
Trade receivables	\$	398,370	\$	55,053
Prepaids and deposits		446,123		257,082
	\$	<b>844,493</b>	\$	<b>312,135</b>

## 5. Inventory

		September 30, 2023		December 31, 2022
Raw materials	\$	1,032,729	\$	485,592
Work-in-progress		410,359		-
	\$	<b>1,443,088</b>	\$	<b>485,592</b>

As of September 30, 2023, the Company reclassified raw materials inventory in the amount of \$37,858 (December 31, 2022 -\$61,164) to property and equipment, to build NPI 0.5 units which are part of the prototype units. These prototype units will be used in live scenarios to promote the product and collect data to further improve HEXWAVE. As of September 30, 2023, the Company wrote-off \$nil in obsolete spare parts to technology expense (December 31, 2022, \$39,359).

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 6. Property & Equipment

	Leasehold Improvements	Equipment	Right of Use Asset	Prototype	Units in Process	Total
<b>Cost</b>						
At December 31, 2021	\$ 6,735	\$ 126,745	\$ 772,312	\$ -	\$ -	\$ 905,792
Additions	-	96,209	-	584,859	88,715	769,783
At December 31, 2022	\$ 6,735	\$ 222,954	\$ 772,312	\$ 584,859	\$ 88,715	\$ 1,675,575
Additions	-	24,526	419,394	-	111,242	555,162
Transfers	-	-	-	171,899	(171,899)	-
At September 30, 2023	\$ 6,735	\$ 247,480	\$ 1,191,706	\$ 756,758	\$ 28,058	\$ 2,230,737
<b>Accumulated Depreciation</b>						
At December 31, 2021	\$ 6,051	\$ 19,301	\$ 111,728	\$ -	\$ -	\$ 137,080
Depreciation for the year	684	52,416	123,254	360,662	-	537,016
At December 31, 2022	\$ 6,735	\$ 71,717	\$ 234,982	\$ 360,662	\$ -	\$ 674,096
Depreciation for the period	-	44,776	141,468	267,167	-	453,411
At September 30, 2023	\$ 6,735	\$ 116,493	\$ 376,450	\$ 627,829	\$ -	\$ 1,127,507
<b>Foreign exchange movement</b>						
At December 31, 2022	\$ -	\$ -	\$ 59	\$ -	\$ -	\$ 59
At September 30, 2023	\$ -	\$ -	\$ 59	\$ -	\$ -	\$ 59
<b>Net Book Value</b>						
At December 31, 2022	\$ -	\$ 151,237	\$ 537,389	\$ 224,197	\$ 88,715	\$ 1,001,538
At September 30, 2023	\$ -	\$ 130,987	\$ 815,315	\$ 128,929	\$ 28,058	\$ 1,103,289

On December 28, 2022, the Company entered into a new office lease agreement in Atlanta, GA for a period of thirty-six months whereby an initial right-of-use asset was recognized on the commencement date of February 1, 2023. As at September 30, 2023, the Company has approximately \$53,047 in lease commitments relating to this lease.

On November 7, 2022, the Company leased additional office space within its current Boston location. The term of the additional lease is sixty-three months whereby an initial right-of-use asset was recognized on the commencement date of February 1, 2023. As at September 30, 2023, the Company has approximately \$424,287 in lease commitments relating to this lease.

## 7. Intangible Assets

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

	MIT licenses	Battelle license	Intellectual property	Total
Balance, December 31, 2021	\$ 366,280	\$ -	\$ 3,769,172	\$ 4,135,452
Additions	108,134	73,964	-	182,098
Amortization	(33,189)	(14,534)	(539,364)	(587,087)
Balance, December 31, 2022	\$ 441,225	\$ 59,430	\$ 3,229,808	\$ 3,730,463
Additions	-	81,904	-	81,904
Amortization	(25,583)	(35,187)	(434,501)	(495,271)
Balance, September 30, 2023	\$ 415,642	\$ 106,147	\$ 2,795,307	\$ 3,317,096

Intangible assets included as MIT licenses and Battelle licenses include payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the reverse take over ("RTO") transaction closed in March 2021 and became ready for use during the month of February 2022. The remaining useful life of the intangible assets are as follows: MIT license thirteen years, Battelle license two years, and intellectual property six years.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

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

### (b) Battelle Memorial License Agreement

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

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

Under the Battelle License Agreement, the Company shall pay a five percent royalty on net sales and a twenty-five percent royalty on all sublicensing revenues if permitted under the contract guidelines. Any government entity that has revenues would not require a five percent royalty on the net sales. The Company is also required to pay a minimum royalty amount as follows, unless the agreement is terminated:

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

The Company is obligated to achieve certain milestones in the next twelve months and reimburse Battelle for ongoing patenting expenses, as well as past patenting expenses in the total amount of \$50,000, from which \$25,000 has been paid and the balance remains payable.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 8. Working Capital Loans

### a) Short Term Loans Non-Interest

As of September 30, 2023 and December 31, 2022, the Company received working capital loans. These loans were received from related parties and were unsecured and non-interest bearing.

	Amounts
<b>Balance, December 31, 2021</b>	<b>\$ -</b>
Additions	438,117
Repayments	(438,117)
<b>Balance, December 31, 2022</b>	<b>\$ -</b>
Additions	1,354,347
Repayments	(660,820)
Foreign exchange movement	(1,241)
<b>Balance, September 30, 2023</b>	<b>\$ 692,286</b>

### b) Short Term Loans with Interest

As of September 30, 2023, the Company received working capital loans. These loans were received through American Express and Headway Capital and were interest bearing. Interest rates vary from 20-25%.

	Amounts
<b>Balance, December 31, 2022 and 2021</b>	<b>\$ -</b>
Additions	212,410
Repayments	(83,196)
<b>Balance, September 30, 2023</b>	<b>\$ 129,213</b>

## 9. Factoring

On June 22, 2023, the Company entered into an accounts receivable-based factoring agreement with Bengal Capital, Inc., (the “Factor”) to support the Company’s working capital requirement as it prepares for increase production and sales. The funding received pays a factoring fee equal to four percent (4%) per month of the face amount of the account.

	Amounts
<b>Balance, December 31, 2021 and 2022</b>	<b>\$ -</b>
Additions	642,215
Factoring Fee	56,639
<b>Balance, September 30, 2023</b>	<b>\$ 698,854</b>

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

As a result of closing the RTO transaction in March 2021, the Company acquired a CAD\$40,000 Canada Emergency Business Account loan (“CEBA”) which was received by Liberty on May 5, 2020, and carries a 0% interest rate per annum, however, the interest rate increases to a 5% per annum if the loan is not repaid in full on or before December 31, 2023 (“Term Period”). The original Term Period was through December 31, 2022, however in October 2022 the Term Period was extended to December 31, 2023. Additionally, in the event that the loan is not fully repaid by the Term Period, it could be extended from January 1, 2024, to December 31, 2025 (“Extension Period”). The Company used the CEBA loan to help fund payroll, rent, and utilities under the appropriate guidelines in the loan agreements.

# Liberty Defense Holdings, Ltd.

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For the three and nine months ended September 30, 2023 and 2022

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

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

The net present value of the CEBA loan as of September 30, 2023, is \$28,171 (December 31, 2022, – \$28,812) and is presented as a current liability. During the three and nine months ended, the Company also recognized an accretion expense of \$586 and (\$589) respectively in connection to this loan (September 30, 2022, – \$680 and \$2,075).

## 11. Leases

The Company’s lease liabilities for September 30, 2023 and December 1, 2022, are as follows:

	<b>Right of use liability</b>	
Balance, December 31, 2021	\$	746,965
Finance costs		53,603
Lease payments		(159,959)
Foreign exchange movement		(2,303)
Balance, December 31, 2022	\$	638,306
Additions		419,394
Finance costs		61,631
Lease payments		(186,038)
Foreign exchange movement		235
<b>Balance, September 30, 2023</b>	<b>\$</b>	<b>933,528</b>
Less current portion		62,034
<b>Non-current lease liability</b>	<b>\$</b>	<b>871,494</b>

During the three and nine months ended September 30, 2023, the Company recorded a lease expense of \$nil and \$23,317 respectively (September 30, 2022, \$56,751 and \$137,868 related to short-term leases not meeting the criteria for capitalization under IFRS 16.

Minimum lease payments are as follows:

	<b>September 30,</b>		<b>December 31,</b>	
	<b>2023</b>		<b>2022</b>	
Maturity analysis - contractual undiscounted cash flows				
One year or less	\$	247,893	\$	161,707
Two to five years		748,422		579,947
Six and thereafter		134,862		38,881
Total lease liabilities	\$	1,131,177	\$	780,535
Effect of discounting		(197,649)		(142,229)
<b>Lease liabilities included in the statement of financial position</b>	<b>\$</b>	<b>933,528</b>	<b>\$</b>	<b>638,306</b>
Current	\$	62,034	\$	123,911
Non-current	\$	871,494	\$	514,395

# Liberty Defense Holdings, Ltd.

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## 11. Leases (continued)

The Company's lease receivable for September 30, 2023, and December 31, 2022, are as follows:

		<b>Amounts</b>
Balance, December 31, 2021	\$	48,834
Accretion		2,146
Payments received		(21,786)
Foreign exchange movement		(2,357)
Balance, December 31, 2022	\$	26,837
Accretion		853
Payments received		(15,848)
Foreign exchange movement		120
<b>Balance, September 30, 2023</b>	<b>\$</b>	<b>11,962</b>
Less current portion		11,962
<b>Non-current lease receivable</b>	<b>\$</b>	<b>-</b>

As a result of the completion of the RTO in March 2021, the Company's head office was moved to Boston, MA. Therefore, the previous head office space was subleased until the expiry of the headlease (April 2024). The Company fair valued the lease receivable by present valuing the expected lease receivable payments over the life of the lease. The Company used an interest rate of 5.55%, the interest rate implicit in the lease. Minimum undiscounted sublease payments receivable is: \$12,183 for the next twelve months and \$nil thereafter.

## 12. Share Capital

### (a) Common share transactions for the nine months ended September 30, 2023

- i) On March 11, 2023, a total of 1,098,125 finder warrants expired with an exercise price of CAD\$0.40. These broker warrants had a fair valued at \$186,713.
- ii) On April 14, 2023, the Company closed the first tranche of a non-brokered private placement for gross proceeds of \$1,007,249 (CAD\$1,341,212). The Company issued 6,706,060 units (each a "Unit") of the Company at a price of CAD\$0.20 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.30 within a period of 24 months. The Company issued 3,353,030 investor warrants and allocated a residual value of \$53,595. The Company paid the agents 215,250 broker warrants with a fair value of \$5,464. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.30. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$106,937. 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 9, 2023, the Company closed the second tranche of a non-brokered private placement for gross proceeds of \$296,940 (CAD\$397,000). The Company issued 1,985,000 units (each a "Unit") of the Company at a price of CAD\$0.30 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.30 within a period of 24 months. The Company issued 992,500 investor warrants and allocated a residual value of \$8,463. The Company paid the agents 138,950 broker warrants with a fair valued at \$4,881. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.30. Additionally, the Company also incurred cash costs in connection to private placement in the amount of \$34,310. The company also issued 45,000 shares for gross proceeds of \$6,732, which were issued in order to offset invoices due to a vendor. 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.

# Liberty Defense Holdings, Ltd.

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For the three and nine months ended September 30, 2023 and 2022

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## 12. Share Capital (continued)

### (a) Common share transactions for the nine months ended September 30, 2023 (continued)

- iv) On June 8, 2023, the Company closed the third and final tranche of a non-brokered private placement for gross proceeds of \$228,547 (CAD\$305,000). The Company issued 1,525,000 units (each a “Unit”) of the Company at a price of CAD\$0.20 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.30 within a period of 24 months. The Company issued 762,500 investor warrants and allocated a residual value of \$32,043. The Company paid the agents 92,750 broker warrants with a fair valued of \$1,893. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.30. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$41,481. 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.
- v) On June 17, 2023, a total of 1,106,900 broker warrants expired with an exercise price of CAD\$0.50. These broker warrants had a fair valued of \$218,086.
- vi) On September 19, 2023, the Company received a total of \$1,179,609 in connection to share subscriptions received in advance for a brokered private placement subsequently closed on October 5, 2023.

### (b) 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\$0.40 per share for total proceeds of \$39,101 (CAD\$49,320). The fair value of the exercised warrants was \$21,479 and was transferred from the equity reserves and recorded against share capital. Also, an additional 123,300 common shares were issued for total proceeds of \$19,479 (CAD\$24,600).
- ii) On March 17, 2022, the Company closed a brokered private placement for gross proceeds of \$6,816,237 (CAD\$8,624,994). The Company issued 26,136,345 units (each a “Unit”) of the Company at a price of CAD\$0.33 per Unit. Each Unit comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.50 within a period of 24 months. The Company issued the agents 1,996,363 warrants (“broker warrants”) with a fair value of \$312,816 and paid cash commission of \$520,642. Each broker warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD\$0.33. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of \$274,581 and paid a corporate finance fee of CAD\$100,000 with common shares of the Company (303,030 common shares issued with a fair value of \$79,029). All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date of the private placement.
- iii) On May 25, 2022, the Company released from escrow a total of 4,386,500 common shares in connection to capital performance shares’ milestones reached. The estimated fair value of these capital performance shares was \$1,377,886 (CAD\$1,754,600) which was transferred from equity reserves.
- iv) On September 14, 2022, a total of 50,000 common shares were issued in connection with the settlement of restricted shares units. The estimated fair value of these instruments was \$20,894 (CAD\$27,500) which was transferred from equity reserves.

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## 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.

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

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2021	3,574,597	CAD\$ 0.67
Cancelled	(605,000)	0.51
Granted	2,685,000	0.40
Outstanding, December 31, 2022	5,654,597	CAD\$ 0.54
Cancelled	(185,000)	0.43
Granted	110,000	0.18
<b>Outstanding, September 30, 2023</b>	<b>5,579,597</b>	<b>CAD\$ 0.54</b>

As at September 30, 2023, the number of stock options outstanding and exercisable were:



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## 13. Equity Reserves (continued)

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

Expiry date	Outstanding		Exercisable	
	Number of stock options	Exercise price	Remaining contractual life (years)	Number of stock options
01-May-24	50,000	CAD\$ 0.50	0.59	50,000
15-Jun-24	37,500	CAD\$ 0.50	0.71	37,500
01-Jul-24	75,000	CAD\$ 0.50	0.75	75,000
08-Jul-24	75,000	CAD\$ 0.50	0.77	75,000
31-Jul-24	50,000	CAD\$ 0.50	0.84	50,000
23-Aug-24	37,500	CAD\$ 0.50	0.90	37,500
25-Sep-24	37,500	CAD\$ 0.50	0.99	37,500
29-Sep-24	75,000	CAD\$ 0.50	1.00	75,000
Apr 9 and Jul 2, 2024	137,097	CAD\$ 4.96	0.76	137,097
07-Apr-26	1,550,000	CAD\$ 0.50	2.52	1,550,000
10-Jun-26	100,000	CAD\$ 0.50	2.70	112,500
28-Jul-26	125,000	CAD\$ 0.55	2.83	125,000
28-Jul-26	90,000	CAD\$ 0.65	2.83	90,000
01-Nov-26	465,000	CAD\$ 0.46	3.09	406,875
14-Jan-27	100,000	CAD\$ 0.36	3.29	75,000
26-Apr-27	1,845,000	CAD\$ 0.41	3.57	1,153,125
26-May-24	250,000	CAD\$ 0.50	0.65	156,250
26-May-27	125,000	CAD\$ 0.38	3.65	78,125
16-Aug-27	185,000	CAD\$ 0.29	3.88	92,500
21-Nov-27	60,000	CAD\$ 0.22	4.15	22,500
26-Apr-28	110,000	CAD \$0.18	4.58	13,750
<b>September 30, 2023</b>	<b>5,579,597</b>			<b>4,450,222</b>

During the three and nine months ended September 30, 2023, the Company recognized stock-based compensation related to stock options in the amount of \$38,556 and \$179,952 respectively (September 30, 2022 – \$188,927 and \$428,721).

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, 2023	December 31, 2022
Risk-free interest rate	2.98%	2.60%
Expected dividend yield	Nil	Nil
Stock price volatility	82.40%	84.32%
Expected life (in years)	5 years	5 years
Weighed average fair value per option	CAD\$0.12	CAD\$0.28

### (b) Restricted share units (“RSU”)

**Restricted share units granted for the nine months ended September 30, 2023:**

No RSUs were granted during the nine months ended September 30, 2023.

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## 13. Equity Reserves (continued)

### (b) Restricted share units (“RSU”) (continued)

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

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

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

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

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

The following table summarizes the movements in outstanding RSUs:

	Number of equity settled restricted share units	Weighted average market price
Outstanding, December 31, 2021	1,000,000	CAD\$ 0.58
Granted	1,522,155	0.45
Exercised	(50,000)	0.32
Outstanding, December 31, 2022	<b>2,472,155</b>	<b>CAD\$ 0.50</b>
Granted	-	0.00
Exercised	-	0.00
<b>Outstanding, September 30, 2023</b>	<b>2,472,155</b>	<b>CAD\$ 0.50</b>

The estimated fair value of the equity settled RSUs granted as of September 30, 2023, was \$nil (December 31, 2022 – \$531,310) and will be recognized as an expense over the vesting period of the RSUs. The fair value of the equity settled RSUs as at the grant date was determined with reference to the market value of the common shares of the Company at the grant date.

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

During the three and nine months ended September 30, 2023, the Company recognized stock-based compensation related to RSUs in the amount of \$59,559 and \$226,172 respectively (September 30, 2022, – \$98,133 and \$398,919).

### (c) Share purchase warrants

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

# Liberty Defense Holdings, Ltd.

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## 13. Equity Reserves (continued)

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

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2021	21,345,561	CAD\$ 0.68
Issued	26,094,621	0.47
Expired	(399,502)	3.97
Exercised	(123,300)	0.60
<b>Outstanding, December 31, 2022</b>	<b>46,917,380</b>	<b>CAD\$ 0.54</b>
Issued	5,554,980	0.30
Expired	(17,910,025)	0.64
<b>Outstanding, September 30, 2023</b>	<b>34,562,335</b>	<b>CAD\$ 0.45</b>

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

	September 30, 2023	December 31, 2022
Risk-free interest rate	3.11%	2.79%
Expected dividend yield	Nil	Nil
Stock price volatility	64.46%	89.57%
Expected life (in years)	2 years	3.8 years
Share price on grant date	CAD\$0.17	CAD\$0.32
Fair value share purchase warrants	CAD\$0.04	CAD\$0.20

The outstanding number of share purchase warrants is as follows:

Expiry date	Outstanding		
	Number of warrants	Exercise price	Remaining contractual life (years)
17-Mar-24	2,912,734	CAD\$0.50	0.46
17-Mar-24	13,068,172	CAD\$0.50	0.46
17-Mar-24	1,996,363	CAD\$0.33	0.46
13-Apr-25	3,353,030	CAD\$0.30	1.54
13-Apr-25	215,250	CAD\$0.30	1.54
9-May-25	992,500	CAD\$0.30	1.61
9-May-25	138,950	CAD\$0.30	1.61
8-Jun-25	762,500	CAD\$0.30	1.69
8-Jun-25	92,750	CAD\$0.30	1.69
27-Oct-27	1,446,736	CAD\$0.28	4.08
27-Oct-27	9,345,850	CAD\$0.50	4.08
27-Oct-27	237,500	CAD\$0.50	4.08
	<b>34,562,335</b>		

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## 13. Equity Reserves (continued)

### (d) Performance Shares

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

#### Operational Performance Shares

During the three and nine months ended September 30, 2023, none of the 2,000,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD\$800,000 with an estimated vesting period between March 2023 and September 2023. During the three and nine months ended September 30, 2023, the Company recorded stock based compensation in connection to OPS in the amounts of \$17,211 and \$88,746 respectively (September 30, 2022, – \$55,978 and \$169,014).

#### Capital Market Performance Shares

During the year ended December 31, 2021, the Company issued 2,193,250 from the total of 8,773,000 CMPS as one of the established milestones was met. During the year ended December 31, 2022, an additional 6,579,750 CMPS were issued as the final three milestones were met. The Company set a total of four milestones with an equal number of CMPS to be issued when the Company achieves such milestones. The Company estimated a probability of the number of CMPS it will issue in addition to an estimated vesting period between June 2021, and September 2022. The total estimated fair value of the CMPS was USD\$2,696,688 and CAD\$3,509,200. At the year ended December 31, 2022, the CMPS were fully accrued for. During the three and nine months ended September 30, 2023, the Company recorded stock-based compensation in connection to CMPS in the amount of \$nil and \$nil (September 30, 2022, – \$111,975 and \$570,156).

	Number of equity settled performance share units	Weighted average price
Outstanding, December 31, 2021	8,579,750	CAD\$ 0.40
Released from escrow	(6,579,750)	0.40
Outstanding, December 31, 2022	2,000,000	CAD\$ 0.40
Released from escrow	-	0.00
<b>Outstanding, September 30, 2023</b>	<b>2,000,000</b>	<b>CAD\$ 0.40</b>

## 14. Loss Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Loss attributable to common shareholders	\$ (1,736,398)	\$ (2,818,774)	\$ (6,419,344)	\$ (8,053,083)
Weighted average number of shares	134,181,083	95,074,516	122,683,488	85,322,508
Basic and diluted loss per share	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.09)

# Liberty Defense Holdings, Ltd.

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## 14. Loss Per Share (continued)

The Company incurred net losses for the three and nine months ended September 30, 2023, and 2022, 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 recognition during the three and nine months ended September 30, 2023, relates to the contract revenue from the Transportation Security Administration (“TSA”) and PNNL.

The Company recognized during the three and nine months ended September 30, 2023, \$402,938 and \$1,346,916 respectively (September 30, 2022, - \$nil and \$nil), in revenue from contract awards. As at September 30, 2023, accounts receivable for work completed on contract awards was \$393,969 (December 31, 2022, - \$55,053). The balance of the receivable is from the federal government and is not subject to significant collection risk. As at September 30, 2023, the company has recognized \$180,000 in deferred revenue (September 30, 2022 - \$nil).

As at September 30, 2023, the Company has recognized \$120,000 as a receivable (September 30, 2022, \$nil) in connection to HEXWAVE sales. However, the Company has a backlog of contracted sales that have not yet been recognized as revenue but will be recognized in future periods as performance obligations are met. It is estimated that these commitments will be recognized as revenue under the following timelines:

Expected Revenue	Year Ended December 31,		
	2023	2024	2025
TSA On-Person Screening Capability Program	\$ 272,897	\$ -	\$ -
Battelle Contract Award	50,865	-	-
TSA Contract Award HD-AIT	1,265,000	657,905	-
OA Development	75,000	1,041,944	-
HD-AIT Phase I	133,056	-	-
HEXWAVE	947,769	20,000	20,000
<b>Total backlog</b>	<b>\$ 2,744,587</b>	<b>\$ 1,719,849</b>	<b>\$ 20,000</b>

## 16. Contract Awards

During the three and nine months ended September 30, 2023, the Company recognized total contract revenue of \$402,938 and \$1,346,916 respectively (September 30, 2022, \$nil and \$nil) recorded as revenue. Future revenues in connection with these contracts will be recognized as performance obligations are met. It is estimated that future revenues will be recognized under the same basis following these timelines:

Contract Award Revenue	Nine Months Ended September 30,		Year ended December 31,	
	2023	2023	2023	2024
TSA On-Person Screening Capability Program	\$ 49,359	\$ 272,897	\$ -	-
Battelle Contract Award	32,557	50,865	-	-
TSA Contract Award HD-AIT	1,265,000	1,265,000	657,905	-
<b>Total estimated contract revenues</b>	<b>\$ 1,346,916</b>	<b>\$ 1,588,762</b>	<b>\$ 657,905</b>	<b>-</b>

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 16. Contract Awards (continued)

### (a) Battelle HD-AIT Shoe Scanner

On May 12, 2022, the Company received a contract award for \$212,697 from Battelle, Pacific Northwest Division's Contract. The contract award is to work hand in hand with PNNL to develop the High Definition – Advanced Imaging Technology (“HD-AIT”) Retrofit Kits. On July 31, 2023, there was a contract modification decreasing the total allotment from \$212,697 to \$100,000. With developing the HD-AIT Retrofit Kits, the Battelle Memorial License and patent will be utilized in the HD-AIT technology development. As at September 30, 2023, as part of the contract award the Company received \$11,003 and had a receivable of \$21,555 (December 31, 2022, – \$22,427). The balance remaining on the contract as of September 30, 2023, was \$18,308 (December 31, 2022, - \$163,563). As part of the terms of the contract award the Company is required to submit invoices as follows:

<b>Battelle HD-AIT Shoe Scanner</b>	<b>Amounts</b>	
<b>Year 2022</b>		
Quarter 2 Award payments received	\$	3,686
Quarter 3 Award payments received		18,742
Quarter 4 Award payments received		26,707
<b>Year 2023</b>		
Quarter 1		-
Quarter 2 Award payments received		2,034
Quarter 3 Award payments received		8,969
Quarter 3 (payment receivable)		21,555
Quarter 4		18,308
<b>Total</b>	<b>\$</b>	<b>100,000</b>

The remaining \$18,308 contract award has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

### (b) TSA HD-AIT Upgrade

On September 30, 2022, the Company received a contract award for \$1,747,905 from Transportation Security Administration (“TSA”) for the High Definitions – Advanced Imaging Technology (HD-AIT) Wide Band Upgrade Kit. On September 28, 2023, the contract was modified adding an additional milestone. The new contract award with the modification is \$1,922,905. The contract award is to develop a series of millimeter-wave imaging system prototypes to advance and upgrade the current state-of-the-art imaging technology for the current passenger security screening applications. The project will be performed over a period of eighteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at September 30, 2023, the Company received \$915,000 and had a receivable of \$350,000 (December 31, 2022, – \$nil and \$nil). The balance remaining on the contract as of September 30, 2023, was \$657,905 (December 31, 2022, - \$1,747,905). The Company is required to submit quarterly invoices as follows:

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 16. Contract Awards (continued)

### (b) TSA HD-AIT Upgrade (continued)

<b>TSA HD-AIT Upgrade</b>	<b>Amounts</b>
<b>Year 2023</b>	
Milestone 1 (Q1 2023) (payment received)	\$ 240,000
Milestone 2 (Q2 2023) (payment received)	250,000
Milestone 2 (Q2 2023) (payment received)	250,000
Milestone 4a (Q2 2023) (payment received)	175,000
Milestone 4b (Q3 2023) (payment receivable)	175,000
Milestone 4c (Q3 2023) (payment receivable)	175,000
<b>Year 2024</b>	
Milestone 5 (Q1 2024)	300,000
Milestone 6 (Q2 2024)	357,905
<b>Total</b>	<b>\$ 1,922,905</b>

## 17. Collaboration Agreements

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

On October 20, 2021, the Company received a contract award for \$500,000 from TSA as part of the TSA On-Person Screening Capability Program. The contract award is for the demonstration and evaluation of the Company's HEXWAVE technology and its expanded capabilities for screening aviation workers to enhance detection and throughput performance. In order for the Company to draw down on this award, Liberty is required to have its HEXWAVE technology working at certain locations to collect and share data with TSA on identified threats to further develop algorithms to improve the recognition of threats with desire probability of detection. As at September 30, 2023, the Company received \$26,945 in connection with this award and had a receivable of \$22,414 which was recorded as a reduction of related costs (September 30, 2022, – \$10,180 and \$193,790). As part of the terms of the contract award the Company is required to submit quarterly invoices as follows:

<b>TSA On-Person Screening Capability Program Contract Award</b>	<b>Amounts</b>
<b>Year 2022</b>	
Quarter 1 (payment received)	\$ 64,528
Quarter 2 (payment received)	119,082
Quarter 3 (payment received)	10,180
Quarter 4 (payment received)	33,313
<b>Year 2023</b>	
Quarter 1 (payment received)	21,571
Quarter 2 (payment received)	5,374
Quarter 3 (payment receivable)	22,414
Quarter 4	223,538
<b>Total</b>	<b>\$ 500,000</b>

The balance remaining on the contract as of September 30, 2023, was \$223,538 (December 31, 2022, - \$272,897). The remaining amount of \$223,538 from the contract award has not been recognized as a receivable as the timing of the receipt of these funds is not virtually certain. The Company will only recognize the asset when receipt is virtually certain.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 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,	
	2023	2022	2023	2022
Short-term benefits	\$ 235,072	\$ 360,135	\$ 711,311	\$ 851,845
Share-based compensation	63,409	292,256	373,724	1,135,235
Consulting services (1)	34,407	70,540	112,870	216,255
	<b>\$ 332,888</b>	<b>\$ 722,931</b>	<b>\$ 1,197,905</b>	<b>\$ 2,203,335</b>

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

As of September 30, 2023, the Company had a balance payable of \$143,071 to related parties (December 31, 2022, – \$275,773). This payable balance includes accounts payable and accrued liabilities relating to consulting services from directors, officers, or their related companies, included in compensation of key management personnel. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

During the nine months ended September 30, 2023, the Company received working capital loans (Note 8) in the amount of \$1,566,757 (during the year ended December 31, 2022- \$438,117) from directors, officers, or their related parties. During the year ended December 31, 2022, all of these working capital loans were paid in full and the outstanding balance at December 31, 2022 is \$nil. As of September 30, 2023, the outstanding balance is \$821,499.

During the three and nine months ended September 30, 2023, Nicole Ridgedale Communications incurred \$11,049 and \$42,787 respectively in stock-based compensation and consulting services (September 30, 2022, - \$29,211 and \$126,284).

## 19. Financial Instruments

As of September 30, 2023, the Company's financial instruments comprise cash, amounts receivables, accounts payable and accrued liabilities and the CEBA loan. The fair values of cash, amounts receivables, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The carrying amount of the CEBA loan approximates fair value as it is discounted using a market rate of interest.

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.



# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

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## 19. Financial Instruments (continued)

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

### a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, including accounts receivable terms. The Company's cash are held through large Canadian, international and foreign national financial institutions. The Company mitigates this risk by transacting only with reputable financial institutions. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

### b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after considering existing cash balances, expected exercise of share purchase warrants, and stock options. The Company's ability to continue as a going concern involves significant judgements and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing (note 1). As at September 30, 2023, the Company had cash of \$13,622 (December 31, 2022 - \$677,473) to settle current liabilities of \$5,202,242 (December 31, 2022 - \$1,628,657). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

### c) Market risk

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

#### Interest rate risk

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

#### 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.

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 19. Financial Instruments (continued)

### c) Market risk (continued)

	<b>Amounts</b>
	<b>US dollars</b>
Financial assets denominated in foreign currencies	\$ 9,316
Financial liabilities denominated in foreign	(873,869)
<b>Net exposure</b>	<b>\$ (864,553)</b>

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by \$86,455.

#### 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.

## 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:

# Liberty Defense Holdings, Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023 and 2022

## 21. Geographic Information (continued)

		Canada		United States		Total
Non-current assets						
Property & equipment	\$	-	\$	1,103,289	\$	1,103,289
Intangible assets		-		3,317,096		3,317,096
Lease receivable		-		-		-
<b>Balance, September 30, 2023</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>4,420,385</b>	<b>\$</b>	<b>4,420,385</b>

Non-current liabilities						
Lease liability	\$	-	\$	871,494	\$	871,494
<b>Balance, September 30, 2023</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>871,494</b>	<b>\$</b>	<b>871,494</b>

		Canada		United States		Total
Non-current assets						
Property & equipment	\$	-	\$	1,001,538	\$	1,001,538
Intangible assets		-		3,730,463		3,730,463
Lease receivable		6,896		-		6,896
<b>Balance, December 31, 2022</b>	<b>\$</b>	<b>6,896</b>	<b>\$</b>	<b>4,732,001</b>	<b>\$</b>	<b>4,738,897</b>

Non-current liabilities						
Lease liability	\$	-	\$	514,395	\$	514,395
<b>Balance, December 31, 2022</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>514,395</b>	<b>\$</b>	<b>514,395</b>

## 22. Subsequent Events

- a) On October 5, 2023, the Company closed a non-brokered private placement for gross proceeds of CAD\$3,565,527. The Company issued 17,827,635 units (each a “Unit”) of the Company at a price of CAD\$0.20 per Unit. Each Unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD\$0.30 for a period of 36 months. The Company paid the agents 607,229 broker warrants. Each broker warrant will be exercisable to purchase one common share for a period of 36 months at an exercise price of CAD\$0.30. The Company paid agent’s commission totaling CAD\$121,446, a finance fee of CAD\$50,000 and legal and other expenses of CAD\$78,000. 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.
- b) On October 16, 2023, the Company granted 3,456,975 RSUs to directors, officers, employees, and consultants of the Company; these RSUs shall be settled with common shares of the Company, are restricted until October 16, 2028, and vest 100% on October 16, 2024.
- c) On October 16, 2023, the Company issued 1,135,000 stock options to directors, officers, employees, and consultants of the Company. Each stock option is exercisable for one common share of the Company at an exercise price of CAD\$0.19 per share. All stock options vest at 12.5% after three months from the grant date, and 12.5% every three months thereafter, expiring on October 16, 2028.