Liberty Defense Holdings, Ltd.

Consolidated Financial Statements

For the Years Ended December 31, 2023 and 2022

(Expressed in U.S. dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Liberty Defense Holdings Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Liberty Defense Holdings Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $9,369,043 during the year ended December 31, 2023, and cash outflows from operating activities of $5,537,021. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of Impairment Indicators of Intangible Assets

As described in Note 7 to the consolidated financial statements, the carrying amount of the Company's intangible assets was $3,266,803 as of December 31, 2023. As more fully described in Notes 2 and 3 to the consolidated financial statements, management assesses intangible assets for indicators of impairment at each reporting period.

The significant value of intangible assets and the subjective nature of the indicators of impairment assessment increases the risk of valuation errors. Due to the significance of intangible assets for the Company's consolidated financial statements, and since the assessment is based on management judgement and forecasts which are susceptible to potential manipulation, we consider this a key audit matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included among others:

- We obtained a detailed understanding of the key processes associated with evaluating the intangible assets for indicators of impairment;
- We reviewed accounting policies for impairment of intangible assets to ensure compliance with IFRS;
- We reviewed and evaluated management's assessment of impairment indicators;
- We examined management's qualitative assessment for signs of management bias and reviewed supporting records; and
- We evaluated management's cash flow projections and assessed their ability to fund their future operating activities via review of supporting documents.

Revenue Recognition

As described in Note 15 to the consolidated financial statements, during the year ended December 31, 2023, the Company recognized revenue from operations of $1,492,557. As more fully described in Notes 2 and 3 to the consolidated financial statements, management recognized revenue once the Company transfers control of goods and services and satisfies performance obligations.

The significant value of revenue transactions and complex terms under which title and control pass to the customer increases the risk of cut-off errors. Further, the recognition of revenue involves certain estimation uncertainties regarding estimating the percentage of completion of contracts. Due to the significance of revenue for the Company's consolidated financial statements, and since the calculations are based on estimations and are susceptible to potential manipulation, we consider this a key audit matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included among others:

- We obtained a detailed understanding of each of the revenue streams and the processes to capture and record revenue;
- We reviewed accounting policies for revenue recognition to ensure compliance with IFRS;
- For significant contracts, we assessed the reasonability of management's estimate around percentage of completion of the contract by reviewing the terms of the contract and work performed up to the end of the reporting period;
- On a test basis, we tested sales transactions against sales contracts and invoices to assess that revenues have been recognized at appropriate prices and in the correct accounting period; and
- On a sample basis, we vouched proceeds received against the terms of contract and invoices issued; and
- On a sample basis, we confirmed directly with customers the amount of services provided by the Company to them.

Valuation of Inventory

As described in Note 5 to the consolidated financial statements, the carrying amount of the Company's inventory was $1,255,077 as at December 31, 2023. As more fully described in Note 3 to the consolidated financial statements, inventory is valued as the lower of cost and net realizable value on a weighted average basis. Management exercises significant judgement in determining net realizable value and related cost of inventory.

The significant value of inventory balances and complex models under which manufacturing overhead is allocated between inventory and cost of sales increases the risk of valuation errors. Further, the determination of manufacturing overhead allocations involves certain estimation uncertainties regarding estimating the percentage of costs to allocate to inventory and costs of sales. Due to the significance of inventory for the Company's consolidated financial statements, and since the calculations are based on estimations and are susceptible to potential manipulation, we consider this a key audit matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included among others:

- We obtained a detailed understanding of each of the inventory streams and the processes to capture and record costs and overhead allocations.
- We reviewed accounting policies for inventory to ensure compliance with IFRS;
- We assessed the reasonability of management's estimate around percentage of costs to allocate to inventory and cost of sales by completion of the contract by reviewing and recalculating the significant judgments and estimates and agreeing to supporting records;
- On a sample basis, we performed price testing on raw material inputs purchased by tracing the recorded costs to supporting third party invoices; and
- On a sample basis, we evaluated the selling price of inventory by inspecting a selection of confirmed sales orders made subsequent to year-end and comparing to underlying supporting documents;

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year ended and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Alyson Neil.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 26, 2024

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

As at:	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash	$ 963	$ 677,473
Accounts receivable, prepaids and deposits (note 4)	257,885	312,135
Inventory (note 5)	1,255,077	485,592
Lease receivable (note 11)	7,048	19,941
	1,520,973	1,495,141
Non-current assets:		
Property and equipment (note 6)	1,043,876	1,001,538
Intangible assets (note 7)	3,266,803	3,730,463
Lease receivable (note 11)	–	6,896
	4,310,679	4,738,897
Total assets	**$ 5,831,652**	**$ 6,234,038**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,862,675	$ 1,475,934
Loans payable (note 8)	530,062	–
Factoring liability (note 9)	1,107,347	–
Deferred revenue (note 15)	180,000	–
CEBA loan (note 10)	29,445	28,812
Lease liabilities (note 11)	247,412	123,911
	5,956,941	1,628,657
Non-current liabilities:		
Non-current lease liabilities (note 11)	639,173	514,395
Total liabilities	$ 6,596,114	$ 2,143,052
Shareholders' equity (deficiency)		
Share capital (note 12)	$ 32,565,254	$ 28,936,296
Share subscriptions received in advance (note 12)	224,915	–
Equity reserves (note 13)	4,146,489	3,518,365
Accumulated other comprehensive loss	(221,071)	(252,669)
Deficit	(37,480,049)	(28,111,006)
Total shareholders' equity (deficiency)	(764,462)	4,090,986
Total liabilities and shareholders' equity (deficiency)	**$ 5,831,652**	**$ 6,234,038**

Nature of operations and going concern (note 1)
Subsequent events (note 23)

Approved by the Board of Directors on April 26, 2024, and signed on the Company's behalf by:

"William Frain"
Director

"Daryl Rebeck"
Director

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

Liberty Defense Holdings, Ltd.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in U.S. dollars)

		Years ended December 31, 2023		2022
Revenue (note 15 and 16)	$	1,492,557	$	–
Cost of revenue		2,709,251		–
Gross loss		(1,216,694)		–
Engineering and Research and Development Expenses:				
Product development & Technology Costs		370,073		704,234
Salaries and consulting fees (note 18)		2,766,601		4,854,000
Stock-based compensation (note 13 and 18)		89,302		237,041
Depreciation (note 6)		526,686		537,016
Amortization (note 7)		–		587,087
Office, rent & administration, travel, miscellaneous		269,796		844,265
General and Administration Expenses:				
Salaries and consulting fees (note 18)		1,482,860		1,017,287
Legal and professional fees		299,011		478,168
Stock-based compensation (note 13 and 18)		511,699		1,749,805
Office, rent & administration, travel, miscellaneous		1,574,621		1,165,927
		7,890,649		12,174,830
Other expense (income):				
Other income, net of expenses		(3,078)		(42,993)
Interest expense		283,247		53,603
Accretion expense (note 10)		–		2,726
Foreign exchange loss (gain)		(18,469)		(28,752)
		261,700		(15,416)
Net loss for the year	**$**	**(9,369,043)**	**$**	**(12,159,414)**
Other comprehensive loss				
Items that may be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment		31,598		(119,259)
Total loss and comprehensive loss for the year	**$**	**(9,337,445)**	**$**	**(12,278,673)**
Weighted average number of common shares outstanding				
Basic and diluted		128,165,313		91,659,543
Loss per share				
Basic and diluted loss per share (note 14)	$	(0.07)	$	(0.13)

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

Liberty Defense Holdings, Ltd.

Consolidated Statements of Changes in Shareholder' Equity (Deficiency)

(Expressed in U.S. dollars)

	Number of common shares		Share capital		Equity reserves		Share subscriptions received in advance		Accumulated other comprehensive income (loss)		Deficit		Total
Balance as at December 31, 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 12)	45,969,711		9,381,233		–		–		–		–		9,381,233
Fair value of compensation brokers warrants (note 13)	–		(463,164)		463,164		–		–		–		–
Warrants exercised (note 13)	246,600		58,580		–		–		–		–		58,580
Fair value of warrants allocated to share capital issued on exercise (note 12)	–		21,479		(21,479)		–		–		–		–
Performance shares issued (note 13)	6,579,750		2,017,198		(2,017,198)		–		–		–		–
Restricted share units issued (note 13)	50,000		20,894		(20,894)		–		–		–		–
Residual value allocated to warrants	–		(384,101)		384,101		–		–		–		–
Stock based compensation (note 13)	–		–		1,986,846		–		–		–		1,986,846
Foreign currency translation adjustment	–		–		–		–		(119,259)		–		(119,259)
Loss for the year	–		–		–		–		–		(12,159,414)		(12,159,414)
Balance as at December 31, 2022	**116,839,406**	**$**	**28,936,296**	**$**	**3,518,365**	**$**	**–**	**$**	**(252,669)**	**$**	**(28,111,006)**	**$**	**4,090,986**
Issue of private placement, net of share issue cost (note 12)	28,588,696		3,656,081		–		–		–		–		3,656,081
Share subscriptions received in advance	–		–		–		224,915		–		–		224,915
Fair value of compensation brokers warrants (note 12)	–		(48,729)		48,729		–		–		–		–
Residual value allocated to warrants (note 12)	–		(374,679)		374,679		–		–		–		–
Fair value of warrants allocated to share capital on expiry (note 12)	–		396,285		(396,285)		–		–		–		–
Stock based compensation (note 13)	–		–		601,001		–		–		–		601,001
Foreign currency translation adjustment	–		–		–		–		31,598		–		31,598
Loss for the year	–		–		–		–		–		(9,369,043)		(9,369,043)
Balance as at December 31, 2023	**145,428,102**	**$**	**32,565,254**	**$**	**4,146,489**	**$**	**224,915**	**$**	**(221,071)**	**$**	**(37,480,049)**	**$**	**(764,462)**

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

Liberty Defense Holdings, Ltd.
Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

	Years ended December 31, 2023	2022
Cash (used in) provided by:		
Operating activities:		
Loss and comprehensive loss for the year	$ (9,369,043)	$ (12,159,414)
Items not involving cash:		
Lease liability interest (note 11)	59,116	51,457
Accretion on lease	(983)	–
Loan Interest (note 8)	30,312	–
Cost of revenue (note 15 and 16)	783,864	–
Accretion expense CEBA loan (note 10)	–	2,726
Depreciation (note 6)	526,686	537,016
Amortization (note 7)	–	587,087
Stock based compensation (note 13)	601,001	1,986,846
Impairment of inventory (note 5)	344,158	39,359
Factoring fees (note 9)	192,185	-
Changes in non-cash working capital:		
Amounts receivable and prepaids (note 4)	56,808	(90,658)
Inventory (note 5)	(1,200,199)	(524,951)
Deferred revenue (note 15 and 16)	180,000	–
Accounts payable and accrued liabilities	2,259,074	714,592
Cash used in operating activities	(5,537,021)	(8,855,940)
Investing activities:		
Additions to intangible assets (note 7)	(111,232)	(155,696)
Acquisition of equipment (note 6)	(109,863)	–
Additions to property and equipment (note 6)	–	(769,783)
Cash used in investing activities	(221,095)	(925,479)
Financing activities:		
Proceeds from issuance of units, net of share issue costs (note 12)	3,656,081	9,381,233
Proceeds from share subscriptions received in advance (note 12)	224,915	58,580
Proceeds from factoring (note 9)	1,265,132	–
Repayments on factoring (note 9)	(349,970)	–
Proceeds from loans (note 8)	1,713,716	–
Repayments of loans (note 8)	(1,213,966)	–
Lease payments received (note 11)	20,827	21,786
Repayment of leases (note 11)	(247,189)	(159,959)
Cash provided by financing activities	5,069,546	9,301,640
Effect of foreign exchange rate changes on cash	12,060	(184,321)
Effect of foreign exchange rate changes on cash	12,060	(184,321)
Increase in cash	(676,510)	(664,100)
Cash, beginning of the year	677,473	1,341,573
Cash, end of the year	**$ 963**	**$ 677,473**

During the year ended December 31, 2023 and 2022, the Company paid $nil and $nil in income taxes, and paid $93,065 and $nil in interest.

Supplemental cash flow information	2023	2022
Fair value of compensation brokers warrants (note 12)	$ 48,729	$ 463,164
Fair value of shares issued for corporate finance fee (note 12)	79,299	151,902
Residual value allocated to warrants (note 12)	374,679	–
Fair value of warrants allocated to share capital on expiry (note 12)	396,285	–
ROU asset additions (note 7)	414,562	–
Inventory transfer to PP&E (note 5)	86,566	
PP&E included in AP	24,526	
Performance shares released from escrow (note 12 & 13)	–	2,017,198
Reclassification from reserves upon warrant exercise	–	21,479
Intangible assets included in accounts payable	162,407	41,834
Restricted share units issued	–	20,894

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

1. Nature of operations and going concern

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

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

Going concern

These consolidated financial statements have been prepared using IFRS Accounting Standards as issued by the International Accounting Standards Board applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred in a total loss during the year ended December 31, 2023, of $9,369,043 and cash outflows from operating activities of $5,537,021. To sustain the early production and commercialization of HEXWAVE, the Company requires additional funds. These funds will be pivotal in advancing the production of HEXWAVE. Additionally, the Company has certain committed development milestones over the next twelve months and based on the Company's current forecasted operational and development spend, the Company will require additional funds to meet these milestones. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. This material uncertainty casts significant doubt upon the Company's ability to continue as a going concern.

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

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

These consolidated financial statements were approved for issuance by the Board of Directors on April 26, 2024.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

2. Basis of presentation (continued)

(d) Basis of consolidation

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

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

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

(e) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to select accounting policies and make estimates and judgments that may have a significant impact on the 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.

Functional currency
The functional currency for the Company is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of the Company as the Canadian dollar (CAD$). Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsider the functional currency if there is a change in events and conditions that determined the primary economic environment.

Estimated useful lives and depreciation and amortization of property and equipment and intangible assets
Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of economic useful lives, which are determined through the exercise of judgment. Should the economic useful life, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statement of loss and comprehensive loss on a prospective basis.

Impairment of goodwill, intangible assets, and other long-lived assets
Significant estimates and judgments are required in testing goodwill, intangible assets, and other long-lived assets, including right-of-use assets, for impairment. Management uses estimates or exercises judgment in assessing indicators of impairment, defining a CGU, forecasting future cash flows, estimating replacement cost models, and in determining other key assumptions such as discount rates and earnings multipliers used for assessing fair value (less costs of disposal) or value in use.

2. Basis of presentation (continued)

(e) Critical accounting estimates and judgments (continued)

Stock based compensation
The Company determines the fair value of stock options granted using the Black-Scholes option pricing model. This option pricing model requires the development of market-based subjective inputs, including the risk-free interest rate, expected price volatility and expected life of the option. Changes in these inputs and the underlying assumption used to develop them can materially affect the fair value estimate.

Treatment of development costs
Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 – Intangible Assets are met. Management will use significant judgement to determine if the intangible asset it either in the research, development, or commercialization phase. As the asset moves from the research to development phase, criteria are required to prove that the asset is in the development phase. This includes the intangible asset being technically, and economically feasible, the intangible asset is intended to be complete, has the ability to be sold, show that it will generate future economic benefits, the Company has adequate technical, financial, and other resources to complete the development, and the intangible asset has the ability to measure reliability the expenditure attribute to the intangible asset during its development. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible and is in the development phase. Costs associated in the development phase that would be considered additions include labor associated with the design, construction, and testing of the pre-production or pre-use of the prototypes and models, tools, dies involving new technology, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services.

Provisions
Provisions recognized in the financial statements involve estimates on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience, and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

Lease
The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

Income taxes
The provision for income taxes and composition of income tax assets and liabilities requires management's judgment. The application of income tax legislation also requires judgment to interpret legislation and to apply those findings to the Company's transactions.

Deferred tax assets and liabilities
Management judgment and estimates are required in assessing whether deferred tax assets and deferred tax liabilities are recognized in the consolidated statements of financial position. Judgements are made as to whether future taxable profits will be available to recognize deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, prices, operating costs, and other capital management transactions. These judgments and estimates are subject to risk and uncertainty and changes in circumstances may alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the consolidated statements of financial position and the benefit of other tax losses and temporary differences not yet recognized.

2. Basis of presentation (continued)

(e) Critical accounting estimates and judgments (continued)

Going concern of operations

These consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

Contract revenue recognition

Contract revenue is recognized once the Company transfers control of goods and services and satisfies performance obligations. The continuous transfer of control of goods and services to the customer is often supported by the customer's physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date. As a result, significant assumptions are used to determine revenue over time as these performance obligations are satisfied. Changes to these assumptions could impact the revenue recognized during the reported period.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), estimated cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss of the current period on any difference between cost and net realizable values.

3. Material Accounting Policies

(a) Cash

Cash consists of cash on hand and demand deposits.

(b) Foreign currency transactions

The financial statements of entities with functional currencies other than U.S. dollars are translated into U.S. dollars for presentation purposes as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position
- Income and expenses and other comprehensive income are translated at exchange rates at the date of the transaction
- All resulting exchange differences are recognized in other comprehensive loss.

Transactions in currencies other than the functional currency of an entity are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Foreign currency translation differences arising on translation into the functional currency of an entity are recognized in the consolidated statement of loss and comprehensive loss.

3. Material Accounting Policies (continued)

(c) Inventory

The Company's inventory consists of raw materials and work-in-process ("WIP") and finished goods. The costing method the Company uses is weighted average. Inventories are measured at the lower of cost and net realizable value. The cost of WIP and finished goods includes the cost of raw materials, direct labor, and overhead. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. At each reporting period, management evaluates the provision for obsolete and slow-moving inventory which may be reversed in subsequent periods, should the value subsequently be recovered.

(d) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation, and accumulated impairment losses, if any. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Property and equipment with an original cost of $5,000 or less is expensed on acquisition. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset	Life
Leasehold improvements	The life of the lease
Equipment	Three to seven years
Prototypes	One year

Prototypes are internally generated assets used as a preliminary model for development of the Company's product. Incurred costs on these prototypes are initially accounted for as construction in process ("CIP") and includes directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Once the prototypes being built are completed and functional, the CIP is transferred to fixed assets and begins depreciation on a straight-line basis over the estimated useful life.

Depreciation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

If any, gains, and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income (expense) in the consolidated statement of loss and comprehensive loss.

(e) Intangible assets

Intangible assets can be acquired by separate purchase, as part of a business combination, by government grant, by exchange of assets and by self-creation.

Research and development costs

Expenditure in research and development activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in the consolidated statement of loss and comprehensive loss as an expense when incurred.

3. Material Accounting Policies (continued)

(e) Intangible assets (continued)

Research and development costs (continued)

Expenditure in development activities where research results are used in planning and designing the production of new or substantially improved products and processes is recognized as an intangible asset if the product or process is technically and commercially feasible, if there is an intention and ability to complete the project and then use or sell it and expect economic benefits from the project, if the Company has sufficient resources to complete development and if it is able to measure reliably the cost during development. The recognized expenditure incurred includes not only the costs caused by its production and indirect costs that can be attributed to it and recognized by the market but also the cost of borrowing in relation to its acquisition.

On initial recognition, an intangible asset is measured at cost. After initial recognition, the Company monitors intangible assets according to the cost model, whereby their cost is decreased by any accumulated depreciation and any accumulated impairment losses.

Amortization

Intangible assets are classified as those with finite useful lives and those with indefinite useful lives. The carrying amount of an intangible asset with a finite useful life is reduced by depreciation and impairments. Depreciation of intangible fixed assets begins to be calculated when the asset is available for use. The adequacy of the depreciation period and the depreciation method are reviewed at least at each financial year-end. Any adjustments necessary are accounted for as a change in an accounting estimate.

Depreciation is calculated on a straight-line basis, beginning the following day in the month when the asset is available for use over the life of the asset. The useful lives of the assets will vary depending on the analysis conducted and comparable assets will be taken into consideration. The current useful lives are as follows:

Asset	Life
MIT License	Fourteen years
Battelle License	Three years
Intellectual Property	Seven years

Intangible assets with indefinite useful life are tested for impairment at least on the balance sheet date. These assets are not subject to amortization. The useful life is reassessed to determine whether the assets need not be treated as having finite useful life, and the effect is accounted as a change in an accounting estimate.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. Material Accounting Policies (continued)

(g) Impairment of non-financial assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss.

Intangible assets with indefinite useful lives, or intangible assets that are not yet available for use are tested for impairment annually as at December 31, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(h) Financial instruments

The Company recognizes financial assets and liabilities on its financial statements when it becomes a party to the contract creating the asset or liability.

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost.

On initial recognition, all financial assets and liabilities are recorded by the Company at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as FVTPL for which transaction costs are expensed in the period in which they are incurred. The classification of the Company's financial instruments is as follows:

3. Material Accounting Policies (continued)

(h) Financial instruments (continued)

Financial assets/liabilities	Classification IFRS 9
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
CEBA loan	Amortized cost
Loans payable	Amortized cost
Factoring liability	Amortized cost

Amortized cost

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

Amortized cost (continued)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

Fair value through other comprehensive income ("FVTOCI")

Financial assets that meet the following conditions are measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not have any financial assets classified as FVTOCI.

3. Material Accounting Policies (continued)

(h) Financial instruments (continued)

Fair value through profit or loss ("FVTPL")

By default, all other financial assets are measured subsequently at FVTPL.

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Fair value through profit or loss ("FVTPL") (continued)

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. The repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using effective interest method.

Financial instruments designated as hedging instruments

The Company does not currently apply nor have a past practice of applying hedge accounting to financial instruments.

Impairment

The Company recognizes a loss allowance for expected credit losses on its financial assets. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

(i) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Material Accounting Policies (continued)

(i) Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Investment tax credits

The Company is entitled to certain Canadian federal and provincial tax incentives for Scientific Research and Experimental Development ("SRED"), US federal tax incentives for increasing research activities, and US state research and development tax credits. None of these incentives have been received for the years presented. These ITCs are available to the Company to reduce actual income taxes payable. Any credits that are not used in the year in which they are earned are recorded as a deferred income tax asset when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management estimates the amount of ITCs based on eligible SRED expenditures for the year and assesses the probability of usage based upon forecast results.

ITCs that relate to the development of capitalized development assets are recorded as a reduction of the cost of the related asset. All other ITCs are recorded as a reduction of current period research and development expenses. Management uses judgment in allocating ITCs between capitalized and non-capitalized development projects.

(k) Share capital

Common shares are classified as equity. Transactions costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effect.

(l) Share-based payments

The Company grants restricted share units, deferred share units, and stock options to directors, officers, and consultants pursuant to a stock option plan described in Note 13. The Company uses the fair value method to account for all share-based awards granted, modified, or settled, and the Black-Scholes Option Pricing Model to determine the fair value of stock options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in contributed surplus will be transferred to share capital on the exercise of stock options. The amounts remain in contributed surplus for stock options which expire unexercised. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively. Options issued to non-employees are valued based on the fair value of the services provided unless the fair value of the services provided cannot be measured reliably, in which case, the fair value is measured by reference to the fair value of the equity instruments granted.

3. Material Accounting Policies (continued)

(m) Warrants issued in equity financial transactions

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants on exercise is recorded as equity. If warrants issued are subsequently cancelled or expire without being exercised, then the historical fair value of the equity reserve is transferred from reserve to share capital. If the warrants are exercised the related reserves are reclassified from reserves to share capital.

(n) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period adjusted for own shares held. Diluted EPS per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period.

In the Company’s case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants on loss per share would be anti-dilutive.

(o) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether it has the right to obtain substantially all of the economic benefits from and to direct the use of the identified asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

3. Material Accounting Policies (continued)

(o) Leases (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option, or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of loss and comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases for which the Company is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(p) Revenue recognition

When determining the proper revenue recognition methods for contracts, the Company will evaluate each contract to determine if it meets the recognition criteria. A contract will be identified if both parties to the contract have approved the contract and are committed to perform their respective obligations, each party's rights and payment terms can be identified regarding the goods or services to be transferred, and collectability of consideration is probable.

Performance obligations are determined throughout each contract. The Company's contracts are based on a specific set of tasks that are identified and agreed upon, as well as the transaction price is determined and agreed upon between both parties. Each contract accounts for the timing of these tasks at different points, either on completion of a task or on a monthly/quarterly basis. The total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The satisfaction of the performance obligations is typically measured with either the input method or the output method.

3. Material Accounting Policies (continued)

(p) Revenue recognition (continued)

The Company typically transfers control of goods and services, and satisfies performance obligations, over time. Therefore, the Company recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date. These costs include labor, materials, other direct and allocations of indirect costs.

The transaction price is determined by considering the terms of the contract. Typically, the contracts the Company enters into are contracts that already have a fixed price set to them. These contracts still go through a significant amount of consideration and estimates to provide the transaction price. When determining the transaction price, or work to be completed in the transaction price, estimates of labor, material, travel, other direct costs, and indirect costs are considered. At times a percentage fee may be added. Costs that the Company will recognize as expense are general and administrative costs (besides the costs explicitly chargeable to the contract), costs of wasted materials labor and other resources, costs related to satisfied performance obligations, and all costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations.

Revenue arising from the sale of HEXWAVE units is recognized as the Company fulfills its performance obligations upon delivery of the product to the customer. Additionally, the Company generates revenue through other streams related to HEXWAVE technology, including subscription sales, installation, and training services.. Revenue from upfront sales of HEXWAVE units is initially recorded as deferred revenue until the obligation of shipment and delivery is fulfilled. Subsequently, upon meeting this obligation, the deferred revenue is recognized as earned revenue.

(q) Factoring Arrangements

The Company engages in factoring arrangements as a means of managing its accounts receivable and optimizing its working capital. Under these arrangements, the Company sells certain accounts receivable to a third-party financial institution (the 'Factor'). Upon entering into a factoring arrangement, the Company recognizes a financial asset for the rights to receive cash flows from the factored receivables if and only if derecognition conditions are met. In cases where derecognition criteria are not met, the Company continues to recognize the financial asset in its entirety and recognizes a corresponding financial liability for the consideration received.

The Company evaluates whether derecognition criteria are met, considering the nature of the contractual rights and obligations. If the Company retains substantially all the risks and rewards of ownership of the transferred asset, the financial asset is not derecognized. Consequently, the associated liability is measured at fair value reflecting the rights and obligations retained by the Company.

The Company continues to recognize the financial asset and associated liability at each reporting period. Any income on the transferred asset and any expense incurred on the financial liability, including associated financing fees or discounts, are recognized in subsequent periods over the term of the factoring arrangement.

(r) Changes in accounting standards

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

- Amendments to IAS 1 – Require companies to disclose their material accounting policies rather than their significant accounting policies. With the corresponding amendments to IFRS Practice Statement 2, provide further guidance and examples on how to apply the materiality process to identify material accounting policy information that should be disclosed compared to policies that do not. The amendment is effective for annual periods beginning on or after January 1, 2023.

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

3. Material Accounting Policies (continued)

(r) Changes in accounting standards (continued)

- Amendments to IAS 12 – Requires companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: right-of-use assets and lease liabilities, and decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets. This amendment is effective for annual periods beginning on or after January 1, 2023.

The Company did not encounter any material effects from the implementation of new standards or amendments in 2023.

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

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current. The amendment clarified the guidance on whether a liability should be classified as either current or non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024.
- Amendments to IFRS 16 – Lease liability in a Sale and Leaseback. The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. These amendments are effective for annual periods beginning on or after January 1, 2024.
- Amendments to IAS 7 – Requiring entities to provide qualitative and quantitative information about their supplier finance arrangements. In connection with the amendments to IAS 7, the IASB also issued amendments to IFRS 7 requiring entities to disclose whether they have accessed, or have access to, supplier finance arrangements that would provide the entity with extended payment terms or the suppliers with early payment terms. These amendments are effective on January 1, 2024.

The Company anticipates that amendments set to take effect in subsequent years will not have a significant impact on its consolidated financial statements.

4. Accounts Receivables, Prepaids and Deposits

		December 31, 2023		December 31, 2022
Accounts receivables	$	25,494	$	55,053
Prepaids and deposits		232,391		257,082
	$	**257,885**	**$**	**312,135**

5. Inventory

		December 31, 2023		December 31, 2022
Raw materials	$	734,824	$	485,592
Work-in-progress		467,940		-
Finished Goods		52,313		-
	$	**1,255,077**	**$**	**485,592**

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

5. Inventory (continued)

During the year ended December 31, 2023, the Company reclassified raw materials inventory in the amount of $nil (December 31, 2022, $61,164) to property and equipment which relates to the HD-AIT Prototype units. The Company reclassified finished goods inventory of $86,556 (December 31, 2022, $nil) to property and equipment related to a HEXWAVE prototype unit. The HEXWAVE unit will be used in live scenarios to promote the product and collect data to further improve HEXWAVE.

As of December 31, 2023, the Company did not write off any obsolete spare parts to technology costs, whereas as of December 31, 2022, $39,359 was written off. Additionally, the Company recorded an impairment charge of $344,158 (December 31, 2022 - $nil).

As of December 31, 2023, the Company expensed $258,055 of inventory to cost of sales (December 31, 2022, $nil).

6. Property and Equipment

	Leasehold Improvement	Equipment	Right of Use Asset	Prototype	Construction in Process	Total
Cost						
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	-	-	414,562	86,556	134,389	635,507
Transfers	-	-	-	171,899	(171,899)	-
At December 31, 2023	$ 6,735	$ 222,954	$ 1,186,874	$ 843,314	$ 51,205	$ 2,311,082
Accumulated Depreciation						
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 year	-	59,059	192,581	341,529	-	593,169
At December 31, 2023	$ 6,735	$ 130,776	$ 427,563	$ 702,191	$ -	$ 1,267,265
Foreign exchange movement						
At December 31, 2022	$ -	$ -	$ 59	$ -	$ -	$ 59
At December 31, 2023	$ -	$ -	$ 59	$ -	$ -	$ 59
Net Book Value						
At December 31, 2022	$ -	$ 151,237	$ 537,389	$ 224,197	$ 88,715	$ 1,001,538
At December 31, 2023	**$ -**	**$ 92,178**	**$ 759,370**	**$ 141,123**	**$ 51,205**	**$ 1,043,876**

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

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

As at December 31, 2023, equipment depreciation recorded to cost of sales was $66,483 (December 31, 2022, $nil).

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

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	-	231,805	-	231,805
Amortization	(34,108)	(67,985)	(593,372)	(695,465)
Balance, December 31, 2023	**$ 407,117**	**$ 223,250**	**$ 2,636,436**	**$ 3,266,803**

Intangible assets included as MIT licenses and Battelle licenses include payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the reverse take over ("RTO") transaction closed during the year ended December 31, 2021, and became ready for use during the year ended December 31, 2022. The remaining useful life of the intangible assets are as follows: MIT license twelve years, Battelle license one year, and intellectual property five years. As of December 31, 2023, $695,465 of amortization was allocated to cost of sales (December 31, 2022, $nil).

(a) MIT License Agreements

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

The obligations under the Technology Transfer Agreement and the CRADA have now been completed. Liberty may consider extending the CRADA (and therefore changing its scope) if it determines that additional MIT LL technical expertise related to active three-dimensional imaging technology is required. Pursuant to the License Agreement, LDT has been granted the exclusive rights to MIT's patent in "multistatic sparse array topology for FFT-based field imaging" (MIT Case No. l 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 filling 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. As at December 31, 2023, the Company had $nil in royalty payments (December 31, 2022, $nil). 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.

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

7. Intangible Assets (continued)

(b) Battelle Memorial License Agreement (continued)

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

Under the Battelle License Agreement, the Company shall pay a five percent royalty on net sales and a twenty-five percent royalty on all sublicensing revenues if permitted under the contract guidelines. Any government entity that has revenues would not require a five percent royalty on the net sales. As at December 31, 2023, the Company accrued no royalty payments (December 31, 2022, $nil). The Company is also required to pay a minimum royalty amount as follows, unless the agreement is terminated:

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

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

8. Loans Payable

(a) Related Party Loans

During the years ended December 31, 2023, and 2022, the Company received working capital loans from related parties. These loans, unsecured and non-interest bearing, lack specified maturity dates. Repayments will be made as adequate financing becomes available to the Company.

		Amounts
Balance, December 31, 2021	**$**	**-**
Additions		438,117
Repayments		(438,117)
Balance, December 31, 2022	**$**	**-**
Additions		1,381,120
Repayments		(1,052,426)
Balance, December 31, 2023	**$**	**328,694**

(b) Short Term Loans

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

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

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

8. Loans Payable (continued)

(b) Short Term Loans (continued)

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

		Amounts
Balance, December 31, 2022 and 2021	**$**	**-**
Additions		332,596
Interest		30,312
Repayments		(161,540)
Balance, December 31, 2023	**$**	**201,368**

9. Factoring Liability

On June 22, 2023, the Company engaged in a factoring arrangement with Bengal Capital, Inc. (the "Factor"). Per the agreement, the Company submits invoices or purchase orders to the Factor after credit approval, receiving 80% of the gross amount. The Factor assumes ownership of these accounts with full recourse. Furthermore, the Company is subject to a 4% monthly factoring fee based on the face value of the accounts. No collateral is used per the agreement; however, the Company is obligated to pay the balance regardless of receiving payment for advanced orders. During the fiscal year the Company received funds of $1,265,132 and incurred factor fees of $192,185 totaling $1,457,317 with repayments of $349,970. As at December 31, 2023, trade receivables in connection to the factoring arrangements is $nil (December 31, 2022, $nil).

The factoring liability as at December 31, 2023 and 2022 is as follows:

		Amounts
Balance, December 31, 2021 and 2022	**$**	**-**
Additions		1,265,132
Factoring Fee		192,185
Repayments		(349,970)
Balance, December 31, 2023	**$**	**1,107,347**

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

10. Canada Emergency Business Account Loan ("CEBA")

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

Failure to repay the CEBA loan by the Term Period results in its conversion to a term facility, with interest accruing at 5% per annum on the outstanding balance. The principal amount is due by December 31, 2026 ("Extension Period").

The net present value of the CEBA loan as of December 31, 2023, is $29,445 (CAD$39,029) (December 31, 2022, – $28,812 (CAD$39,029) and is presented as a current liability. The Company also recognized an accretion expense of $nil in connection to this loan during the year ended December 31, 2023 (December 31, 2022, – $2,726).

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

11. Leases

The Company's lease liabilities for the years ended December 31, 2023, and December 31, 2022, are as follows:

		Right of use liability
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		414,562
Finance costs		81,032
Lease payments		(247,189)
Foreign exchange movement		(126)
Balance, December 31, 2023	**$**	**886,585**
Less current portion		247,412
Non-current lease liability	**$**	**639,173**

As of December 31, 2023, the Company recorded a lease expense of $23,317 (December 31, 2022 – $231,937) related to short-term leases not meeting the criteria for capitalization under IFRS 16.

Minimum lease payments are as follows:

		December 31, 2023		December 31, 2022
Maturity analysis - contractual undiscounted cash flows				
One year or less	$	247,412	$	123,911
Two to five years		815,820		617,743
Six and thereafter		-		38,881
Total lease liabilities	$	1,063,232	$	780,535
Effect of discounting		(176,647)		(142,229)
Lease liabilities included in the statement of financial position	**$**	**886,585**	**$**	**638,306**
Current	$	247,412	$	123,911
Non-current	$	639,173	$	514,395

The Company's lease receivable for the years ended December 31, 2023, and December 31, 2022, are as follows:

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

11. **Leases** (continued)

		Amounts
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		983
Payments received		(20,827)
Foreign exchange movement		55
Balance, December 31, 2023	**$**	**7,048**
Less current portion		7,048
Non-current lease receivable	**$**	**-**

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: $7,129 for the next twelve months and $nil thereafter.

12. Share Capital

(a) Common share transactions for the year ended December 31, 2023

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

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 6,706,061 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 warrants were allocated a residual value of $100,725. The Company paid the agents 215,250 broker warrants with a fair value of $5,498. 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 $39,594. 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 $296,116 (CAD$397,000). The Company issued 1,985,000 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 warrants were allocated a residual value of $22,712. The Company paid the agents 138,950 broker warrants with a fair valued at $3,816. 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 $20,803. The Company also issued 45,000 units for gross proceeds of $6,713, 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.

12. Share Capital (continued)

(a) Common share transactions for the year ended December 31, 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 warrants were allocated a residual value of $57,137. 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 $66,900. 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 1,056,900 broker warrants expired with an exercise price of CAD$0.50. These broker warrants had a fair value of $208,264, and the reverse value was reclassified to share capital.

vi) On October 5, 2023, the Company closed a non-brokered private placement for gross proceeds of $2,588,066 (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 warrants were allocated a residual value of $194,105. The Company paid the agents 607,229 broker warrants with a fair value of $37,523. Each broker warrant will be exercisable to purchase one common share for a period of 36 months at an exercise price of CAD$0.20. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of $336,600, as well as the Company issued 500,000 shares as corporate finance fee with a fair value of $72,586. 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.

vii) On December 6, 2023, and subsequently amended on December 29, 2023, the Company announced a non-brokered private placement, intending to sell up to 7,866,666 units at CAD$0.15 per unit, aiming for gross proceeds of CAD$1,180,000. Each unit comprises one common share and one purchase warrant, with each warrant allowing the holder to purchase one share at an exercise price of CAD$0.20 for 36 months. As of December 31, 2023, the Company received proceeds of $224,915 (CAD$305,000) for share subscriptions, net of share issuance costs, ahead of closing the private placement (note 23).

(b) Common share transactions for the year ended December 31, 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 $21,476 (CAD$27,126) 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 filling 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.

12. Share Capital (continued)

(b) Common share transactions for the year ended December 31, 2022 (continued)

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.

v) On October 27, 2022, the Company closed a brokered private placement for gross proceeds of $3,745,817 (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 with a fair value of $150,348 and cash commissions of $289,926. Each whole 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 issuing costs such as filling, legal and other in the amount of $190,792 and paid a corporate finance fee of CAD$100,000 by issuance of common shares of the Company (363,636 common shares issued with a fair value of $72,873). 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 $95,120 (CAD$130,625). Bill Frain, the Company's Chief Executive Officer, subscribed for 400,000 Units for an aggregate amount 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.

Additionally, the Company allocated a residual value of $384,101 to the investor warrants issued on this private placement.

vi) On October 28, 2022, the Company released from escrow a total of 2,193,250 common shares in connection to the capital market performance shares' milestone reached. The estimated fair value of these capital performance shares was $639,312 (CAD$877,300) which was transferred from equity reserves.

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.

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

13. Equity Reserves (continued)

(a) Share-based compensation (continued)

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
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	(210,000)	0.43
Granted	1,245,000	0.19
Outstanding, December 31, 2023	**6,689,597**	**CAD$ 0.48**

As at December 31, 2023, the number of stock options outstanding and exercisable were:

	Outstanding		Exercisable	
Expiry date	**Number of stock options**	**Exercise price**	**Remaining contractual life (years)**	**Number of stock options**
1-May-24	50,000	CAD$ 0.50	0.33	50,000
15-Jun-24	37,500	CAD$ 0.50	0.46	37,500
1-Jul-24	75,000	CAD$ 0.50	0.50	75,000
8-Jul-24	75,000	CAD$ 0.50	0.52	75,000
31-Jul-24	50,000	CAD$ 0.50	0.58	50,000
23-Aug-24	37,500	CAD$ 0.50	0.65	37,500
25-Sep-24	37,500	CAD$ 0.50	0.74	37,500
29-Sep-24	75,000	CAD$ 0.50	0.75	75,000
Apr 9 and Jul 2, 2024	137,097	CAD$ 4.96	0.50	137,097
7-Apr-26	1,550,000	CAD$ 0.50	2.27	1,550,000
10-Jun-26	100,000	CAD$ 0.50	2.44	100,000
28-Jul-26	125,000	CAD$ 0.55	2.58	125,000
28-Jul-26	90,000	CAD$ 0.65	2.58	90,000
1-Nov-26	465,000	CAD$ 0.46	2.84	465,000
14-Jan-27	100,000	CAD$ 0.36	3.04	87,500
26-Apr-27	1,820,000	CAD$ 0.41	3.32	1,383,750
26-May-24	250,000	CAD$ 0.50	0.40	250,000
26-May-27	125,000	CAD$ 0.38	3.40	93,750
16-Aug-27	185,000	CAD$ 0.29	3.63	115,625
21-Nov-27	60,000	CAD$ 0.22	3.89	30,000
26-Apr-28	110,000	CAD $0.18	4.32	27,500
16-Oct-28	1,135,000	CAD $0.19	4.80	-
December 31, 2023	**6,689,597**			**4,892,722**

During the year ended December 31, 2023, the Company recognized stock-based compensation related to stock options in the amount of $226,360 (December 31, 2022 – $558,556).

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

13. Equity Reserves (continued)

(a) Share-based compensation (continued)

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

	December 31, 2023	**December 31, 2022**
Risk-free interest rate	4.16%	2.60%
Expected dividend yield	Nil	Nil
Stock price volatility	80.98%	84.32%
Expected life (in years)	5 years	5 years
Stock price	CAD$0.11	CAD$0.28

(b) Restricted share units ("RSU")

Restricted share units granted for the year ended December 31, 2023:

i) On September 1, 2023, the Company granted 200,000 RSUs to a consultant of the Company; these RSUs shall be settled with common shares of the Company, are restricted until September 1, 2028, and vest 100% on September 1, 2024

ii) On October 16, 2023, the Company granted 3,256,975 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.

Restricted share units granted for the year ended December 31, 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.

vii) On November 21, 2022, the Company granted 50,000 RSUs to a consultant; these RSUs shall be settled with common shares of the Company, are restricted until November 21, 2027, and these RSUs vest 100% on November 21, 2023.

The following table summarizes the movements in outstanding RSUs:

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

13. Equity Reserves (continued)

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

	Number of equity settled RSUs	Deemed Grant Price
Outstanding, December 31, 2021	1,000,000	CAD$ 0.58
Granted	1,522,155	0.45
Redeemed	(50,000)	0.32
Outstanding, December 31, 2022	**2,472,155**	**CAD$ 0.50**
Granted	3,456,975	0.17
Outstanding, December 31, 2023	**5,929,130**	**CAD$ 0.31**

The estimated fair value of the equity settled RSUs granted as of December 31, 2023, was $435,444 (December 31, 2022 – $531,297) 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 50,000 RSUs redeemed.

During the year ended December 31, 2023, the Company recognized stock-based compensation related to RSUs in the amount of $385,869 (December 31, 2022, – $486,888).

(c) Share purchase warrants

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

	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
Outstanding, December 31, 2022	46,917,380	**CAD$ 0.40**
Issued	24,012,344	0.30
Expired	(17,910,025)	0.64
Outstanding, December 31, 2023	**53,019,699**	**CAD$ 0.40**

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

	December 31, 2023	December 31, 2022
Risk-free interest rate	3.53%	1.82%
Expected dividend yield	Nil	Nil
Stock price volatility	63.89%	90.31%
Expected life (in years)	2 years	3.26 years
Share price on grant date	CAD$0.18	CAD$0.31
Fair value share purchase warrants	CAD$0.04	CAD$0.17

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

13. Equity Reserves (continued)

(c) Share purchase warrants (continued)

The outstanding number of share purchase warrants is as follows:

	Outstanding		
Expiry date	**Number of warrants**	**Exercise price**	**Remaining contractual life (years)**
17-Mar-24	2,912,734	CAD$0.50	0.21
17-Mar-24	13,068,172	CAD$0.50	0.21
17-Mar-24	1,996,363	CAD$0.33	0.21
13-Apr-25	3,353,030	CAD$0.30	1.28
13-Apr-25	215,250	CAD$0.30	1.28
9-May-25	1,015,000	CAD$0.30	1.36
9-May-25	138,950	CAD$0.30	1.36
8-Jun-25	762,500	CAD$0.30	1.44
8-Jun-25	92,750	CAD$0.30	1.44
5-Oct-26	17,827,635	CAD$0.30	2.76
5-Oct-26	607,229	CAD$0.20	2.76
27-Oct-27	1,446,736	CAD$0.28	3.82
27-Oct-27	9,345,850	CAD$0.50	3.82
27-Oct-27	237,500	CAD$0.50	3.82
	53,019,699		

(1) Subsequent to the year ended December 31, 2023, 17,977,269 share purchase warrants with an expiry date of March 17, 2024, expired.

(d) Performance Shares

On March 17, 2021, Liberty deposited into escrow, and held in escrow, Operational Performance Shares ("OPS") and Capital Market Performance Shares ("CMPS") for certain directors, officers, and consultants of the Company upon the Company achieving certain performance milestones. Once these milestones were achieved the shares would be released. These performance shares included 2,000,000 of OPS and 8,773,000 of CMPS. In order to fair value these performance shares, management estimated the probability that the Company would issue the performance shares.

Operational Performance Shares

During the year ended December 31, 2023, and December 31, 2022, none of the 2,000,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD$800,000 which had an estimated vesting period between March 2023 and September 2023. During the year ended December 31, 2023, the Company recorded a recovery of stock-based compensation in connection to OPS in the amounts of $(11,226). During the year ended December 13, 2022, the Company recorded stock-based compensation in connection to OPS in the amounts of $222,652.

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

13. Equity Reserves (continued)

(d) Performance Shares (continued)

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 $2,696,688. At the year ended December 31, 2022, the CMPS were fully accrued for. During the year ended December 31, 2023, the Company recorded stock-based compensation in connection to CMPS in the amount of $nil (December 31, 2022, – $718,750).

	Number of equity settled performance	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 and 2023	**2,000,000**	**CAD$ 0.40**

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.

		Year ended December 31, 2023		2022
Loss attributable to common shareholders	$	(9,369,043)	$	(12,159,414)
Weighted average number of shares		128,165,313		91,659,543
Basic and diluted loss per share	$	(0.07)	$	(0.13)

The Company incurred net losses for the years ended December 31, 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 year ended December 31, 2023, relates to the contract revenue (note 16) from the Transportation Security Administration ("TSA") and PNNL, as well as HEXWAVE sales.

As at December 31, 2023, accounts receivable for work completed on contract awards was $nil (December 31, 2022, – $47,253). As at December 31, 2023, the Company has recognized $180,000 in deferred revenue (December 31, 2022 – $nil). As at December 31, 2023, the Company has recognized $120,000 as revenue (December 31, 2022, – $nil).

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

15. **Revenue** (continued)

Revenue		**Year ended December 31,**		
		2022		**2023**
Battelle Contract Award	$	49,134	$	32,557
TSA Contract Award HD-AIT		-		1,265,000
TSA OA Development		-		75,000
HEXWAVE		-		120,000
Total Revenue	**$**	**49,134**	**$**	**1,492,557**

16. Contract Awards

During the year ended December 31, 2023, the Company recognized total contract revenue of $1,372,557 recorded in revenue (December 31, 2022, – $49,134, recorded in other income). 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		**Year ended December 31,**		
		2024		**2025**
Battelle Contract Award	$	-	$	-
TSA Contract Award HD-AIT		657,905		-
TSA OA Development		1,041,944		-
HD-AIT Phase II		133,056		-
Total estimated contract revenues	**$**	**1,832,905**	**$**	**-**

(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. During the year ended December 31, 2023, as part of the contract award the Company received $32,558 and had a receivable of $nil (December 31, 2022, – $35,194 and $13,940). The balance remaining on the contract as of December 31, 2023, was $nil (December 31, 2022, – $163,563).

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

16. Contract Awards (continued)

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

Battelle HD-AIT Shoe Scanner		Amounts
Year 2022		
Quarter 2 Award payments received	$	3,686
Quarter 3 Award payments received		18,742
Quarter 4 Award payments received		26,706
Year 2023		
Quarter 1		-
Quarter 2 Award payments received		2,034
Quarter 3 Award payments received		8,969
Quarter 3 Award payments received		21,555
Quarter 4		-
Total	**$**	**81,692**

(b) TSA HD-AIT Upgrade

On September 30, 2022, the Company received a contract award for $1,747,905 from Transportation Security Administration ("TSA") for the HD-AIT Wide Band Upgrade Kit. On September 28, 2023, the contract was modified adding an additional milestone. The new contract award with the modification is $1,922,905. The contract award is to develop a series of millimeter-wave imaging system prototypes to advance and upgrade the current state-of-the-art imaging technology for the current passenger security screening applications. The project will be performed over a period of eighteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. During the year ended December 31, 2023, the Company received $1,265,000 and had a receivable of $nil (December 31, 2022, – $nil and $nil). The balance remaining on the contract as of December 31, 2023, was $657,905 (December 31, 2022, – $1,747,905). The Company is required to submit quarterly invoices as follows:

TSA HD-AIT Upgrade		Amounts
Year 2023		
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 received		175,000
Milestone 4c (Q3 2023) (payment received)		175,000
Year 2024		
Milestone 5 (Q1 2024) (payment received Q1 2024)		300,000
Milestone 6 (Q2 2024)		357,905
Total	**$**	**1,922,905**

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

16. Contract Awards (continued)

(c) TSA Open Architecture

On September 29, 2023, the Company received a contract award for $1,116,944 from TSA for the Open Architecture Development. The contract award is to develop a system-level approach that addresses TSA's request for implementation of a Checkpoint Open Architecture for On-Person Screening (OPS) systems that enable modularity and enhances security effectiveness. The project will be performed over a period of thirteen months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. During the year ended December 31, 2023, the Company received $75,000 and had a receivable of $nil (December 31, 2022, – $nil and $nil). The balance remaining on the contract as of December 31, 2023, was $1,041,944 (December 31, 2022, – $nil). The Company is required to submit quarterly invoices as follows:

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

(d) TSA HD-AIT Phase I

On September 29, 2023, the Company received a contract award for $133,056 from TSA for the HD-AIT Phase II. The contract award is a follow-on option to the current HD-AIT development program to execute phase II to drive to a final hardware design capable of supporting future compliance efforts. The project will be performed over a period of three months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. During the year ended December 31, 2023, the Company received $nil and had a receivable of $nil (December 31, 2022, – $nil and $nil). The balance remaining on the contract as of December 31, 2023, was $133,056 (December 31, 2022, – $nil). The Company is required to submit quarterly invoices as follows:

TSA HD-AIT Phase II		Amounts
Year 2024		
Milestone 1 (Q1 2024) (payment received Q1 2024)	$	133,056
Total	**$**	**133,056**

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

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. During the year ended December 31, 2023, the Company received $272,834 in connection with this award and had a receivable of $nil (December 31, 2022, – $193,790 and $33,313). As part of the terms of the contract award the Company is required to submit quarterly invoices as follows:

TSA On-Person Screening Capability Program Contract Award		Amounts
Year 2022		
Quarter 1 (payment received)	$	64,528
Quarter 2 (payment received)		119,082
Quarter 3 (payment received)		10,180
Quarter 4 (payment received)		33,313
Year 2023		
Quarter 1 (payment received)		21,571
Quarter 2 (payment received)		5,374
Quarter 3 (payment received)		22,414
Quarter 4 (payment received)		223,475
Total	**$**	**499,937**

The balance remaining on the contract as of December 31, 2023, was $nil (December 31, 2022, – $272,897), as the agreement was completed on November 30, 2023.

18. Related Party Transactions

Compensation of key management personnel:

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

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

18. Related Party Transactions (continued)

		Year ended December 31, 2023,		
		2023		**2022**
G&A Salaries	$	1,033,320	$	1,267,582
G&A Stock-based compensation		418,318		1,508,108
G&A Consulting fees (1)		97,805		101,422
	$	**1,549,443**	**$**	**2,877,112**

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

As of December 31, 2023, the Company had a balance payable of $614,547 to key management personnel (December 31, 2022, – $275,773). This payable balance includes accounts payable and accrued liabilities relating to compensation to directors, officers, or their related companies, included in compensation of key management personnel. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

During the year ended December 31, 2023, and 2022, the Company paid Nicole Ridgedale Communications, a related party to the Company and amount of $59,583 (year ended December 31, 2022 - $140,498) for consulting services and stock-based compensation. As at December 31, 2023 the balance owing to Nicole Ridgedale Communications is $23,340 (December 31, 2022 - $nil). This related party balance is unsecured, non-interest bearing and have no specific terms of settlement.

During the year ended December 31, 2023, the Company received working capital loans (Note 8) in the amount of $1,381,120 (December 31, 2022 – $438,117) from directors, officers, or their related parties. During the year ended December 31, 2023, the outstanding balance is $328,694 (December 31, 2022 – $nil).

19. Financial Instruments

As of December 31, 2023, the Company's financial instruments comprise cash, accounts receivables, accounts payable and accrued liabilities, loans payable, factoring liability and the CEBA loan. The fair values of the Company's financial instruments approximate their carrying values due to their short-term maturity.

Fair value of financial instruments:

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

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

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

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

19. Financial Instruments (continued)

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, including accounts receivable terms. The Company's cash is held through large Canadian, international, and foreign national financial institutions.

(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 December 31, 2023, the Company had cash of $963 (December 31, 2022 – $677,473) to settle current liabilities of $5,956,941 (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.

		Amounts US dollars
Financial assets denominated in foreign currencies	$	4,650
Financial liabilities denominated in foreign currencies		(1,279,266)
Net exposure	**$**	**(1,274,616)**

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by $127,462.

19. Financial Instruments (continued)

(c) Market risk (continued)

Price risk

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

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

20. Capital Risk Management

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

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

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

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

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 year ended December 31, 2023.

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

21. Income Tax

The reconciliation of income tax provision computed at Canadian federal and provincial statutory tax rates to the reported income tax provision is:

	Year ended December 31, 2023	2022
Loss for the year	$ (9,369,043)	$ (12,159,414)
Statutory tax rate	26.5%	26.5%
Expected income tax (recovery)	$ (2,483,000)	$ (3,222,000)
Change in statutory, foreign tax, foreign exchange rates and other	(505,000)	(242,000)
Permanent differences	403,000	749,000
Share issue cost	(153,000)	(520,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	1,078,000	(48,000)
Change in unrecognized deductible temporary differences	1,660,000	3,283,000
Total income tax expense (recovery)	**$ -**	**$ -**

The significant components of the Company's unrecognized deferred tax assets and liabilities are as follows:

	Year ended December 31, 2023	2022
Deferred tax assets (liabilities)		
Share issue costs	417,000	661,000
Property and equipment	1,000	91,000
ROU asset	(244,000)	(171,000)
Lease liabilities	282,000	195,000
Non-capital losses	12,404,305	10,363,000
Unrecognized deferred tax assets	**$ 12,860,305**	**$ 11,139,000**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidation statement of financial position are as follows:

	Year ended December 31, 2023	Expiry Date Range	Year ended December 31, 2022	Expiry Date Range
Temporary Differences				
Property and equipment	4,000	No expiry date	288,000	No expiry date
Share issue costs	1,572,000	2044 to 2047	2,494,000	2043 to 2046
Lease liabilities	121,000	No expiry date	75,000	No expiry date
Non-capital losses	41,692,000		34,804,000	
Canada	14,884,000	2030 to 2043	12,029,000	2030 to 2042
USA	26,809,000	No expiry date	23,132,000	No expiry date

22. Geographic Information

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

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

22. Geographic Information (continued)

Geographic segmentation of assets and liabilities are as follows:

		Canada		United States		Total
Non-current assets						
Property and equipment	$	-	$	1,043,876	$	1,043,876
Intangible assets		-		3,266,803		3,266,803
Lease receivable		-		-		-
Balance, December 31, 2023	**$**	**-**	**$**	**4,310,679**	**$**	**4,310,679**
Non-current liabilities						
Lease liability	$	-	$	639,173	$	639,173
Balance, December 31, 2023	**$**	**-**	**$**	**639,173**	**$**	**639,173**

		Canada		United States		Total
Non-current assets						
Property and equipment	$	-	$	1,001,538	$	1,001,538
Intangible assets		-		3,730,463		3,730,463
Lease receivable		6,896		-		6,896
Balance, December 31, 2022	**$**	**6,896**	**$**	**4,732,001**	**$**	**4,738,897**
Non-current liabilities						
Lease liability	$	-	$	514,395	$	514,395
Balance, December 31, 2022	**$**	**-**	**$**	**514,395**	**$**	**514,395**

All revenues earned during the year ended December 31, 2023 were generated in the United States. No revenues were earned as of December 31, 2022.

23. Subsequent Events

a) On January 15, 2024, the Company closed the initial tranche of a non-brokered private placement, raising gross proceeds of CAD$886,000 (CAD$305,000 received as at December 31, 2023, note 12). This tranche involved the issuance of 5,900,663 units at a price of CAD$0.15 per unit. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD$0.20 per share within 36 months. Additionally, the Company issued 151,713 broker warrants to agents under identical terms and conditions. Agent commissions totaling CAD$22,756 were paid. All securities issued are subject to a hold period expiring four months and one day after the closing date of the private placement.

   Subsequently, on February 7, 2024, the Company closed the final tranche of the same non-brokered private placement, raising an additional CAD$150,000. This tranche involved the issuance of 1,000,000 units under the same terms and conditions as the initial tranche.

b) On January 18, 2024, the CEBA loan matured, requiring full repayment. However, the Company failed to repay the loan in full, resulting in the conversion of the CEBA loan into a term loan. The term loan carries a yearly interest rate of 5% and has a two-year term.

23. Subsequent Events (continued)

c) On February 28, 2024, the Company closed an investment by Viken Detection Corp. ("Viken") pursuant to which Viken purchased 9,090,909 units of the Company at an issue price of CAD$0.15 per unit for total gross proceeds of CAD$1,363,636. Each unit comprised one common share and one purchase warrant. Each warrant entitles Viken to purchase one additional common share of the Company at a exercise price of CAD$0.20 for a period of 36 months. These warrants will contain blocker language restricting the exercise of the warrants in the event such exercise results in Viken holding more than 9.9% of the outstanding voting securities of the Company.

d) On February 28, 2024, the Company granted 1,475,000 RSUs to employees; these RSUs shall be settled with common shares of the Company, are restricted until February 28, 2029, and vest at 100% on February 28, 2025.

e) On March 25, 2024, 50,000 common shares were issued pursuant to the exercise of RSUs.