Liberty Defense Holdings, Ltd.

Consolidated Financial Statements

For the Years Ended December 31, 2024 and 2023

(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, 2024 and 2023, 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, 2024 and 2023, 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 during the year ended December 31, 2024, of $8,845,163 and had cash outflows from operating activities of $6,469,264. 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 ended. 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 report.

<u>Revenue Recognition</u>

As described in Note 15 to the consolidated financial statements, during the year ended December 31, 2024, the Company recognized revenue from operations of $2,438,546. As more fully described in Notes 2 and 3 to the consolidated financial statements, management recognizes 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 the completion of contract milestones. Due to the significance of revenue for the Company's consolidated financial statements, 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:

- Testing sales transactions on a test basis against sales contracts, invoices and shipping documents to assess that revenues have been recognized at appropriate prices and in the correct accounting period;
- Examining the contractual terms identified in underlying agreements for consistency with the amounts recorded in the consolidated financial statements;
- Vouching proceeds received on a sample basis against the terms of contract and invoices issued; and
- Obtaining confirmations for significant customers and customers with significant receivable balances at year end to confirm revenue details including status of work at year end.

Valuation of Inventory

As described in Note 5 to the consolidated financial statements, the carrying amount of the Company's inventory was $868,314 as at December 31, 2024. As more fully described in Notes 2 and 3 to the consolidated financial statements, inventory is valued as the lower of cost and net realizable value. 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 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:

- Assessing the reasonableness of the costs used in the determination of raw materials, work-in-process and finished goods through sample testing purchases; and
- Testing, on a sample basis, that the inventory has been valued at the lower of cost or net realizable value which included assessment of the estimated costs of completion.

Valuation of Contract Costs

As described in Note 16 to the consolidated financial statements, the carrying amount of the Company's contract costs was $268,952 as at December 31, 2024. As more fully described in Notes 2 and 3 to the consolidated financial statements, the Company incurs costs in advance of recognizing revenue. These costs are recorded as contract costs and carried forward until the related revenues are recognized, at which time they are expensed. Management exercises significant judgement in determining the costs incurred in relation to these future milestones that could impact the carrying value of contract costs.

The determination of costs allocation involves certain estimation uncertainties regarding estimating the percentage of costs to allocate to capitalized contract costs and costs of sales. Due to the significance of contract costs 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:

- Evaluating the reasonability of management's estimate around percentage of costs to allocate to contract costs and cost of sales by assessing and recalculating the significant judgments and estimates and agreeing to supporting records; and
- Testing that the contract costs have been valued at the lower of cost or net realizable value which included assessment of the effects of additional costs to complete the milestones.

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 Catherine Tai.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 24, 2025

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

As at:	Note	December 31, 2024	December 31, 2023
		$	$
Assets			
Current assets:			
Cash		1,153,229	963
Accounts receivable, prepaids and deposits	4	1,664,376	257,885
Inventory	5	868,314	1,255,077
Contract costs	16	268,952	–
Lease receivable	11	–	7,048
		3,954,871	1,520,973
Non-current assets:			
Property and equipment	6	759,937	1,043,876
Intangible assets	7	2,571,693	3,266,803
		3,331,630	4,310,679
Total assets		7,286,501	5,831,652
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	18	4,155,890	3,862,675
Loans payable	8 & 18	100,907	530,062
Parabilis term-loan	9	983,476	–
Factoring liability	10	983,671	1,107,347
Deferred revenue	15	180,000	180,000
CEBA loan	8	–	29,445
Lease liabilities	11	203,443	247,412
		6,607,387	5,956,941
Non-current liabilities:			
Non-current lease liabilities	11	505,382	639,173
Non-current Parabilis term loan	9	938,211	–
Total liabilities		8,050,980	6,596,114
Shareholders' deficiency			
Share capital	12	40,717,157	32,565,254
Share subscriptions received in advance	12	–	224,915
Equity reserves	13	4,872,472	4,146,489
Accumulated other comprehensive income (loss)		(28,896)	(221,071)
Deficit		(46,325,212)	(37,480,049)
Total shareholders' deficiency		(764,479)	(764,462)
Total liabilities and shareholders' deficiency		7,286,501	5,831,652

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

Approved on behalf of the Board of Directors:

"William Frain"	*"Jason Burinescu"*
Director	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, except number of shares)

	Note	Years ended December 31, 2024	2023
		$	$
Revenue	15 & 16		
HEXWAVE revenue		$ 1,013,546	$ 120,000
Contract revenue		1,425,000	1,372,557
Total Revenue		2,438,546	1,492,557
Cost of revenue			
HEXWAVE cost of revenue		2,033,498	1,546,040
Contract cost of revenue		2,081,971	1,163,211
Total cost of revenue		4,115,469	2,709,251
Gross loss		(1,676,923)	(1,216,694)
Engineering and Research and Development Expenses:			
Product development & technology costs		148,675	370,073
Salaries and consulting fees	18	1,655,580	2,766,601
Stock-based compensation	13 & 18	98,008	89,302
Depreciation	6	248,979	526,686
Office, rent & administration, travel and miscellaneous		116,497	269,796
General & Administration Expenses			
Salaries and consulting fees	18	1,809,724	1,482,860
Legal and professional fees		458,390	299,011
Stock-based compensation	13 & 18	255,220	511,699
Office, rent & administration, travel, and miscellaneous		965,868	1,574,621
		5,756,941	7,890,649
Operating Loss		**$ (7,433,864)**	**$ (9,107,343)**
Other expense (income):			
Other expense (income)	12	589,550	(3,078)
Interest expense		808,989	283,247
Foreign exchange loss (gain)		12,760	(18,469)
		1,411,299	261,700
Net loss for the year		**(8,845,163)**	**(9,369,043)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or (loss)			
Foreign currency translation adjustment		192,175	31,598
Total loss and comprehensive loss for the year		**(8,652,988)**	**(9,337,445)**
Weighted average number of common shares outstanding:			
Basic and diluted		17,160,752	12,816,531
Loss per share:			
Basic and diluted loss per common share	14	(0.52)	(0.73)

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

Liberty Defense Holdings, Ltd.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in U.S. dollars, except number of shares)

	Note	Number of common shares	Share capital	Equity reserves	Share subscriptions received in advance	Accumulated other comprehensive income (loss)	Deficit	Total
			$	$	$	$	$	$
Balance as at December 31, 2022		**11,683,941**	**28,936,296**	**3,518,365**	**–**	**(252,669)**	**(28,111,006)**	**4,090,986**
Private placement, net of share issue cost	12	2,858,871	3,656,081	–	–	–	–	3,656,081
Share subscriptions received in advance	12	–	–	–	224,915	–	–	224,915
Fair value of compensation warrants	12	–	(48,729)	48,729	–	–	–	–
Fair value of warrants allocated to share capital on expiry	12	–	396,285	(396,285)	–	–	–	–
Residual value allocated to warrants	12	–	(374,679)	374,679	–	–	–	–
Stock based compensation	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		**14,542,812**	**32,565,254**	**4,146,489**	**224,915**	**(221,071)**	**(37,480,049)**	**(764,462)**
Balance as at December 31, 2023		**14,542,812**	**32,565,254**	**4,146,489**	**224,915**	**(221,071)**	**(37,480,049)**	**(764,462)**
Private placement, net of share issue cost	12	27,064,194	7,478,484	–	(224,915)	–	–	7,253,569
Expired broker warrants allocated to share capital on expiry	12	–	312,815	(312,815)	–	–	–	–
Residual value allocated to warrants	12	–	(562,251)	562,251	–	–	–	–
Residual value of warrants exercised	12	–	15,275	(15,275)	–	–	–	–
Fair value of broker warrants	12	–	(393,138)	393,138	–	–	–	–
Warrants exercised for cash	12	60,000	87,367	–	–	–	–	87,367
Shares issued on debt settlement	12	1,562,500	927,332	–	–	–	–	927,332
Restricted shares units exercised	12	101,841	286,019	(286,019)	–	–	–	–
Stock based compensation	13	–	–	384,703	–	–	–	384,703
Foreign currency translation adjustment		–	–	–	–	192,175	–	192,175
Loss for the year		–	–	–	–	–	(8,845,163)	(8,845,163)
Balance as at December 31, 2024		**43,331,347**	**40,717,157**	**4,872,472**	**–**	**(28,896)**	**(46,325,212)**	**(764,479)**

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, 2024	2023
	$	$
Cash (used in) provided by:		
Operating activities:		
Loss and comprehensive loss for the year	(8,845,163)	(9,369,043)
Items not involving cash:		
Lease liability interest	69,652	80,049
Accrued interest	294,304	222,497
Depreciation	396,315	593,169
Amortization recorded in cost of revenue	922,221	695,465
Loss of settlement of debt	563,996	–
Loss on disposal of property and equipment	29,233	–
Stock based compensation	384,703	601,001
Impairment of inventory	233,568	344,158
Impairment of contract costs	115,730	–
Factoring fees	289,684	–
Credit Line Parabilis fees	74,449	–
Foreign exchange	230,974	–
Changes in non-cash working capital:		
Amounts receivable and prepaids	(1,406,491)	56,808
Inventory	105,692	(1,200,199)
Contract costs	(384,682)	–
Accounts payable and accrued liabilities	456,551	2,259,074
Deferred revenue	–	180,000
Cash used in operating activities	(6,469,264)	(5,537,021)
Investing activities:		
Additions to intangible assets	(27,111)	(111,232)
Additions to property and equipment	(94,106)	(109,863)
Cash used in investing activities	(121,217)	(221,095)
Financing activities:		
Proceeds from issuance of units, net of share issue costs	6,989,017	3,656,081
Proceeds from share subscriptions received in advance	–	224,915
Proceeds from Parabilis term loan	1,800,000	–
Proceeds from Parabilis credit line	1,551,166	–
Repayments from Parabilis credit line	(641,944)	–
Proceeds from working capital loans - Related Parties	82,000	140,089
Repayments of working capital loans - Related Parties	(71,485)	–
Proceeds from working capital loans	927,555	1,573,627
Repayments of working capital loans	(1,274,405)	(1,213,966)
Proceeds from factoring	–	1,265,132
Repayments on factoring	(1,397,031)	(349,970)
Repayment of CEBA loan	(30,121)	–
Proceeds from warrants exercised	87,367	–
Lease receivable collected	7,048	20,827
Repayment of leases liabilities	(247,412)	(247,189)
Cash provided by financing activities	7,781,755	5,069,546
Effect of foreign exchange rate changes on cash	(39,008)	12,060
Effect of foreign exchange rate changes on cash	(39,008)	12,060
Increase (decrease) in cash	1,152,266	(676,510)
Cash, beginning of the year	963	677,473
Cash, end of the year	1,153,229	963

During the year ended December 31, 2024 and 2023, the Company paid $nil and $nil in income taxes, and paid $783,225 and $93,065 in interest respectively.

Supplemental cash flow information	2024	2023
Fair value of compensation brokers warrants	$ 393,138	$ 48,729
Fair value of shares issued for corporate finance fee	–	79,299
Residual value allocated to warrants	562,251	374,679
ROU asset additions	–	414,562
PP&E included in accounts payable	–	24,526
Inventory transfer to PP&E	47,503	86,566
Intangible assets included in accounts payable	200,000	162,407
Fair value on expiry of warrants	312,815	396,285
Restricted share units exercised	286,019	–
Fair value of warrants exercised	15,275	–
Loans settled with private placement proceeds	264,552	–

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

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

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

Going concern

These consolidated financial statements have been prepared using IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company incurred a net loss during the year ended December 31, 2024, of $8,845,163 and had cash outflows from operating activities of $6,469,264. Given the current stage of operations, the Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. While the Company has been successful in arranging financing in the past, the success of such initiatives cannot be assured. These events and conditions indicate that a material uncertainty exists that may cast significant doubt upon the Company's ability to continue as a going concern.

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

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS.

These consolidated financial statements were approved for issuance by the Board of Directors on April 22, 2025.

(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 functional currencies of its subsidiaries are outlined in Note 2(d), 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. (“LDT”)	United States	USD	100%
DrawDown Detection, Inc. (“DDD”)	Canada	CAD	100%
DrawDown Technologies, Inc. (“DDT”)	United States	CAD	100%

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

(e) Critical accounting estimates and judgments

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

<u>Functional currency</u>
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, DDD and DDT as the Canadian dollar (CAD$). The functional currency of LDT is USD. 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.

<u>Estimated useful lives and depreciation and amortization of property and equipment and intangible assets</u>
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.

<u>Impairment of intangible assets and other long-lived assets</u>
Significant estimates and judgments are required in testing 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 is 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.

Warranty provisions
Warranty provisions are recognized for the future obligations to provide services for the repairs and maintenance of products sold to customers. The Company assesses its warranty provision based on experience. The actual costs incurred may differ from those amounts estimated.

Right of returns
The Company estimates sales returns based on historical return patterns, current sales performance, and management's expectations regarding future returns. These estimates require the use of judgment and are updated regularly to reflect the most current trends and information available. Although the Company does not have a return policy in place, it recognizes a refund liability for the expected value of returned goods. Correspondingly, an asset is recognized for the right to recover products from customers upon settling the refund liability. Returned products are subsequently resold to other customers where applicable.

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.

2. Basis of presentation (continued)

(e) Critical accounting estimates and judgments (continued)

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.

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 when 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.

Contract costs
Deferred cost of sales is recorded at the lower of cost and net realizable value. Management applies judgment and estimates in determining costs that are incurred in the current reporting period but are to be allocated to future performance obligations.

3. Material Accounting Policy Information

(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:

3. Material Accounting Policy Information (continued)

(b) Foreign currency transactions (continued)

- 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.

(c) Inventory

The Company's inventory consists of raw materials, 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 and cost of conversion. The cost of conversion includes costs directly related to the units of production, such as direct labour, and fixed and variable production overheads, based on normal operating capacity. 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 term 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.

3. Material Accounting Policy Information (continued)

(e) Intangible assets

Intangible assets can be acquired by separate purchases, 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.

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) Warranty provision

The Company provides product warranties on certain products pursuant to the contract and purchase orders and makes provision for the anticipated cost of these warranties through cost of sales; this provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

3. Material Accounting Policy Information (continued)

(g) Refund liabilities

The Company recognizes a refund liability when it receives consideration from a customer and expects to refund some or all of that consideration.

In accordance with IFRS 15, revenue is recognized only for the portion of consideration the Company expects to be entitled to, excluding amounts anticipated to be refunded. A refund liability is measured at the amount of consideration the Company expects to refund to customers.

Simultaneously, the Company recognizes an asset for its right to recover products from customers upon settling the refund liability. This asset is measured at the carrying amount of the inventory expected to be returned, adjusted for any expected costs to recover the goods and potential impairment.

At each reporting period, the Company updates the measurement of the refund liability and the corresponding asset to reflect changes in expectations about the amount of refunds and returns

(h) Impairment of non-financial assets

Long-lived assets are reviewed for impairment at the end of each reporting period or 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.

3. Material Accounting Policy Information (continued)

(i) 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:

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

<u>Amortized cost</u>

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
- 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.

<u>Fair value through other comprehensive income ("FVTOCI")</u>

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.

3. Material Accounting Policy Information (continued)

(i) Financial instruments (continued)

Fair value through other comprehensive income ("FVTOCI") (continued)

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.

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 the effective interest method.

Financial instruments designated as hedging instruments

The Company does not currently apply, nor has it historically applied, 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.

3. Material Accounting Policy Information (continued)

(j) 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.

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.

(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 equity reserves. Any consideration received plus the amounts recognized in the equity reserves will be transferred to share capital on the exercise of stock options. The amounts remain in equity reserves 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.

(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 to brokers or finders 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.

3. Material Accounting Policy Information (continued)

(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 asset leased.

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.

3. Material Accounting Policy Information (continued)

(o) Leases (continued)

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

Contract Revenue:

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.

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.

3. Material Accounting Policy Information (continued)

(p) Revenue recognition (continued)

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. 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.

HEXWAVE units:

Revenue arising from the sale of HEXWAVE units is recognized as the Company fulfills its performance obligations upon delivery and successful commissioning 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, net of provisions for estimated sales return.

(q) Contract costs

Under contract revenue arrangements, the Company incurs costs in advance of recognizing revenue. These costs are recorded as contract costs and carried forward until the related revenues are recognized, at which time it is expensed. Deferred cost of sales is recorded at the lower of cost and net realizable value.

(r) 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.

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

3. Material Accounting Policy Information (continued)

(s) Changes in accounting standards

The following new standards and amendments became effective for the current periods.

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

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

The following new standards and amendments were issued but not yet effective.

- IFRS 18 Presentation and Disclosure in Financial Statements – In April 2024, the IASB issued IFRS 18 which replaces IAS 1 - Presentation of Financial Statements. This standard introduces a new structure for financial statements, aiming to improve comparability and transparency. IFRS 18 is effective for annual periods beginning on or after January 1, 2027.

The Company is currently assessing the impact that, IFRS 18, will have on its consolidated financial statements.

4. Accounts Receivable, Prepaids and Deposits

		December 31, 2024		December 31, 2023
Accounts receivable	$	255,148	$	25,494
Prepaids and deposits		1,409,228		232,391
	$	**1,664,376**	**$**	**257,885**

5. Inventory

		December 31, 2024		December 31, 2023
Raw materials	$	211,553	$	734,824
Work-in-progress		128,761		467,940
Finished goods		-		52,313
Right of return on finished goods		528,000		-
	$	**868,314**	**$**	**1,255,077**

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

5. Inventory (continued)

The Company reclassified finished goods inventory of $nil (December 31, 2023, $86,556) to property and equipment related to a HEXWAVE prototype unit. The Company reclassified work in process assemblies of $48,185 (December 31, 2023, $nil) to property and equipment related to the engineering prototype HEXWAVE unit. The engineering prototype HEXWAVE unit was disassembled and upgraded to be used for testing and development of enhanced algorithms.

As of December 31, 2024, the Company recognized an impairment expense of $233,568 (December 31, 2023 - $344,158). The Company recorded right of returns totaling $528,000 (2023 - $nil).

During the year ended December 31, 2024, the Company expensed $1,799,930 of inventory to cost of revenue (December 31, 2023, $258,055).

6. Property and Equipment

	Equipment	Right of Use Asset	Prototype	Construction in Process	Total
Cost					
At December 31, 2022	$222,954	$ 772,312	$ 584,859	$ 88,715	$ 1,668,840
Additions	-	414,562	86,556	134,389	635,507
Transfers	-	-	171,899	(171,899)	-
At December 31, 2023	$ 222,954	$ 1,186,874	$ 843,314	$ 51,205	$ 2,304,347
Additions	25,241	-	48,185	68,183	141,609
Disposals	-	-	(116,933)	-	(116,933)
At December 31, 2024	$ 248,195	$ 1,186,874	$ 774,566	$ 119,388	$ 2,329,023
Accumulated Depreciation					
At December 31, 2022	$ 71,717	$ 234,982	$ 360,662	$ -	$ 667,361
Depreciation for the year	59,059	192,581	341,529	-	593,169
At December 31, 2023	$ 130,776	$ 427,563	$ 702,191	$ -	$ 1,260,530
Depreciation for disposal	-	-	(87,700)		(87,700)
Depreciation for the year	58,788	189,499	148,028	-	396,315
At December 31, 2024	$ 189,564	$ 617,062	$ 762,519	$ -	$ 1,569,145
Foreign exchange movement					
At December 31, 2023	$ -	$ 59	$ -	$ -	$ 59
At December 31, 2024	$ -	$ 59	$ -	$ -	$ 59
Net Book Value					
At December 31, 2023	$ 92,178	$ 759,370	$ 141,123	$ 51,205	$ 1,043,876
At December 31, 2024	**$ 58,631**	**$ 569,871**	**$ 12,047**	**$ 119,388**	**$ 759,937**

On February 1, 2023, the Company entered into two new office lease agreements, each with a term of thirty-six months. The first lease resulted in the recognition of an initial right-of-use asset totaling $58,386, using an implicit interest rate of 9.68%, and the second lease resulted in the recognition of an initial right-of-use asset totaling $356,176, using an implicit interest rate of 9.81%.

During the year ended December 31, 2024, equipment depreciation recorded to cost of revenue was $147,336 (December 31, 2023 - $66,483). During the year ended December 31, 2024, the Company disposed of assets with a carrying value of $29,233 (December 31, 2023 - $nil) for $nil proceeds (December 31, 2023 - $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 license		Battelle license		Intellectual property		Total
Balance, December 31, 2022	$	441,225	$	59,430	$	3,229,808	$	3,730,463
Additions		-		231,805		-		231,805
Amortization		(34,108)		(67,985)		(593,372)		(695,465)
Balance, December 31, 2023	$	407,117	$	223,250	$	2,636,436	$	3,266,803
Additions		-		227,111		-		227,111
Amortization		(34,108)		(450,361)		(437,752)		(922,221)
Balance, December 31, 2024	**$**	**373,009**	**$**	**-**	**$**	**2,198,684**	**$**	**2,571,693**

Intangible assets including MIT license and Battelle license, encompassing payments in connection to reimbursement of global patent filing costs and annual maintenance fees. Additionally, intellectual property was generated through the reverse take over ("RTO") transaction closed during the year ended December 31, 2021, and became ready for use during the year ended December 31, 2022. The remaining useful life of the intangible assets are as follows: MIT license 11 years, Battelle license nil years, and intellectual property 4 years.

During the year ended December 31, 2024, $922,221 of amortization expense was allocated to cost of revenues (December 31, 2023 - $695,465).

(a) MIT License Agreements

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

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

During the year ended December 31, 2024, the Company accrued royalty payments of $105,993 (December 31, 2023, $nil). The Company shall also be required to achieve certain milestones.

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

7. Intangible Assets (continued)

(b) Battelle Memorial License Agreement

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

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

Under the Battelle License Agreement, the Company shall pay a five percent royalty on net sales and a twenty-five percent royalty on all sublicensing revenues if permitted under the contract guidelines.

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

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

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

As at December 31, 2024, the Company has a balance of $290,566 payable (December 31, 2023, $100,000).

8. Loans Payable

(a) Related Party Loans

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

		Amounts
Balance, December 31, 2022	**$**	**-**
Additions		1,381,120
Repayments		(1,052,426)
Balance, December 31, 2023	**$**	**328,694**
Additions		82,000
Repayments		(336,037)
Balance, December 31, 2024	**$**	**74,657**

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

8. Loans Payable (continued)

(b) Short Term Loans

During the year ended December 31, 2023, the Company received a secured business line of credit from American Express, subject to a general security agreement on the Company's assets, with various draws. The interest rate on the amount withdrawn varied from 7.49% to 25.71% over a six-month term. The monthly payments fluctuated based on the amount withdrawn from the line of credit with amounts ranging from $1,782 to $10,624 per month. During the year ended December 31, 2024, the Company borrowed $11,900 (2023 - $166,210) from this line of credit. The loan matured on June 25, 2024. During the year ended December 31, 2024, the Company fully repaid this loan.

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

During the year ended December 31, 2023, the Company received a secured business line of credit with Headway Capital, subject to a general security agreement of the Company's assets, with one draw for a period of seventeen-months with a monthly interest rate of 4.17%. During the year ended December 31, 2024, the Company borrowed $21,275 (2023 - $83,350) from this line of credit. The loan matures on January 31, 2025. During the year ended December 31, 2024, the Company fully repaid this loan.

During the year ended December 31, 2024, the Company obtained a secured business loan of $420,000 from Blade Funding with a 32-week term. The loan carries an annual interest rate of 11.50%, requires weekly payments of $13,125. It is scheduled to mature on January 19, 2025. As at December 31, 2024, the balance outstanding was $26,250 (December 31, 2023 - $nil). Subsequent to the year ended December 31, 2024, the balance was fully repaid.

On July 2, 2024, the Company received a short-term loan of $250,000 from 1087207 BC Ltd. The loan had a minimum upfront interest payment of $20,000, in which the Company received $230,000, net. During the year ended December 31, 2024, the balance owed was paid in full.

During the year ended December 31, 2024, the Company received $350,394 in non-interest-bearing short-term loans. During the year ended December 31, 2024, the Company fully repaid these loans.

		Total
Balance, December 31, 2022	**$**	**-**
Additions		332,596
Repayments		(161,540)
Accrued Interest		30,312
Balance, December 31, 2023	**$**	**201,368**
Additions		1,053,569
Repayments		(1,260,419)
Accrued Interest		31,732
Balance, December 31, 2024	**$**	**26,250**

(c) CEBA Loan

The Company obtained a CAD$40,000 Canada Emergency Business Account loan ("CEBA") on May 5, 2020, with a 0% interest rate applicable until January 18, 2024 (the "Term Period"). The loan was used to cover payroll, rent, and utilities in compliance with the loan agreement guidelines. Under the terms of the loan, if 75% of the principal amount was repaid by the end of the Term Period, the remaining 25% would be forgiven.

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

8. Loans Payable (continued)

(c) CEBA Loan (continued)

The Company did not repay the required amount by the end of the Term Period, resulting in the loan being converted to a term facility. As of June 30, 2024, the outstanding balance of $29,269 (December 31, 2023 – $29,445) began accruing interest at an annual rate of 5%.

As at December 31, 2023, the net present value of the CEBA loan was $29,445, which was recorded as a current liability. During the year ended December 31, 2024, the CEBA loan was fully repaid.

9. Parabilis Term Loan

On August 22, 2024, the Company secured a $1,800,000 business term loan from Parabilis (PFF, LLC). The loan has a term of 104 weeks with an annual interest rate of 17.99% and is scheduled to mature on August 15, 2026. Repayments are set to commence in March 2025 with monthly payments of $125,299 for eighteen months. See Note 10(a) regarding collateral.

		Amounts
Balance, December 31, 2022 and 2023	**$**	**-**
Additions		1,800,000
Interest and fees		121,687
Balance, December 31, 2024	**$**	**1,921,687**
Current	$	983,476
Non-Current	$	938,211

10. Factoring Liability

(a) Parabilis Credit Line

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

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

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

		Amounts
Balance, December 31, 2022 and 2023	**$**	**-**
Additions		1,551,166
Accrued factoring Fee		74,449
Repayments		(641,944)
Balance, December 31, 2024	**$**	**983,671**

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

10. Factoring Liability (continued)

(b) Bengal Capital Factoring

On June 22, 2023, the Company engaged in a factoring arrangement with Bengal Capital, Inc. (the "Factor"). Per the agreement, the Company submits invoices or purchase orders to the Factor after credit approval, receiving 80% of the gross amount. The Factor assumes ownership of these accounts with full recourse. Furthermore, the Company is subject to a 4% monthly factoring fee based on the face value of the accounts. No collateral is used per the agreement; however, the Company is obligated to pay the balance regardless of receiving payment for advanced orders.

During the year ended December 31, 2024, the Company received funds of $nil (2023 – $1,265,132) and incurred factor fees of $289,684 (2023 – $192,185) with repayments of $1,397,031 (2023 - $349,970).

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

		Amounts
Balance, December 31, 2022	**$**	**-**
Additions		1,265,132
Accrued factoring Fee		192,185
Repayments		(349,970)
Balance, December 31, 2023	**$**	**1,107,347**
Accrued factoring Fee		289,684
Repayments		(1,397,031)
Balance, December 31, 2024	**$**	**-**

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

11. Leases

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

		Right of use liability
Balance, December 31, 2022	$	638,306
Additions		414,562
Finance costs		81,032
Lease payments		(247,189)
Foreign exchange movement		(126)
Balance, December 31, 2023	$	886,585
Finance costs		69,652
Lease payments		(247,412)
Balance, December 31, 2024	**$**	**708,825**

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

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

11. **Leases** (continued)

Minimum lease payments are as follows:

	December 31, 2024	December 31, 2023
Maturity analysis - contractual undiscounted cash flows		
One year or less	$ 257,461	$ 247,412
Two to five years	558,358	815,820
Six and thereafter	-	-
Total lease liabilities	$ 815,819	$ 1,063,232
Lease liabilities included in the statement of financial position	**$ 708,825**	**$ 886,585**
Current	$ 203,443	$ 247,412
Non-current	$ 505,382	$ 639,173

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

		Amounts
Balance, December 31, 2022	$	26,837
Accretion		983
Payments received		(20,827)
Foreign exchange movement		55
Balance, December 31, 2023	$	7,048
Accretion		78
Payments received		(6,928)
Foreign exchange movement		(198)
Balance, December 31, 2024	**$**	**-**

As a result of the completion of the RTO in March 2021, the Company's head office was moved to Boston, MA. Therefore, the previous head office space was subleased until the expiry of the headlease (April 2024). The Company fair valued the lease receivable by present valuing the expected lease receivable payments over the life of the lease. The Company used an interest rate of 5.55%, the interest rate implicit in the lease. As at December 31, 2024, the minimum undiscounted sublease payments receivable is $nil (December 31, 2023 – $7,129).

12. Share Capital

On November 26, 2024, Liberty completed a share consolidation on a 10 to 1 basis, converting every 10 old common shares into 1 new common share. All common shares and per-share data presented in the Company's consolidated financial statements have been retroactively adjusted to reflect this consolidation unless otherwise noted.

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

i) On January 12, 2024, the Company closed the initial tranche of a Listed Issuer Financing Exemption (LIFE) private placement of units, raising gross proceeds of $662,554 (CAD$886,000). As of December 31, 2023, the Company had received $224,915 of these proceeds. This tranche involved the issuance of 590,068 units at a price of CAD$1.50 per unit. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD$2.00 per share within 36 months. The warrants were allocated a residual value of $154,596. Additionally, the Company issued 15,171 broker warrants to agents under identical terms and conditions with a fair value of $4,508. Agent commissions totaling $17,110 were paid.

12. Share Capital (continued)

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

ii) Subsequently, on February 5, 2024, the Company closed the final tranche of the same non-brokered private placement, raising an additional $112,285 (CAD$150,000). This tranche involved the issuance of 100,000 units under the same terms and conditions as the initial tranche. Each unit consisted of one common share and one purchase warrant, allowing the holder to purchase an additional common share at CAD$2.00 per share within 36 months. The warrants were allocated a residual value of $37,428.

iii) On February 26, 2024, the Company closed an investment by Viken Detection Corp. ("Viken") pursuant to which Viken purchased 909,091 units of the Company at an issue price of CAD$1.50 per unit for total gross proceeds of $1,000,000 (CAD$1,363,636). Each unit comprised one common share and one purchase warrant. Each warrant entitles Viken to purchase one additional common share of the Company at an exercise price of CAD$2.00 for a period of 36 months. The warrants were allocated a residual value of $166,667. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of $27,116 were also paid. These warrants contain blocker language restricting the exercise of the warrants in the event such exercise results in Viken holding more than 9.9% of the outstanding voting securities of the Company.

iv) On March 17, 2024, a total of 199,636 finder warrants expired with an exercise price of CAD$3.30. These broker warrants had a fair value of $312,815 and the reserve value was reclassified to share capital.

v) During the year ended December 31, 2024, a total of 101,841 common shares were issued pursuant to the exercise of RSUs with a fair value of $286,019.

vi) During the year ended December 31, 2024, a total of 60,000 shares were issued pursuant to the exercise of 60,000 warrants, resulting in proceeds of $87,367 (CAD$120,000). Residual value in the amount of $15,275 was reversed.

vii) On August 13, 2024, the Company closed the first tranche of a non-brokered private placement for gross proceeds of $508,864 (CAD$697,550). The Company issued 465,035 special warrants of the Company at a price of CAD$1.50 per Unit. Each special warrant will automatically convert into one Unit. Each Unit shall consist of one common share and one share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD$2.00 within a period of 36 months. These special warrants were converted into one Unit on August 13, 2024. The warrants were allocated a residual value of $203,560. The Company paid the agents 19,051 broker warrants with a fair value of $5,757. Each broker warrant will be exercisable to purchase one common share for a period of 36 months at an exercise price of CAD$2.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of $30,995.

viii) On December 18, 2024, the Company closed a non-brokered private placement for gross proceeds of $5,585,812 (CAD$8,000,000). The Company issued 25,000,000 units (each a "Unit") of the Company at a price of CAD$0.32 per Unit. Each Unit comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD$0.55 for a period of 24 months and are subject to an accelerated expiry at the Company's election under certain conditions. The Company paid the agents $274,123 in finders fees and issued 1,251,062 finder warrants with a fair value of $382,873. Each finder's warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD$0.55. Additionally, the Company also incurred cash costs in connection to private placement in the amount of $41,687.

ix) The Company settled a total of $363,336 (CAD$520,947) of indebtedness with a certain creditor by issuing 1,562,500 units valued at $927,332 and follows the same terms as the units issued on December 18, 2024, non-brokered private placement. The Company recognized a loss on extinguishment of debt totalling $563,996 (included in other expenses (2023 - $nil).

12. Share Capital (continued)

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

i) On March 11, 2023, a total of 109,813 finder warrants expired with an exercise price of CAD$4.00. 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 670,606 units (each a "Unit") of the Company at a price of CAD$2.00 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$3.00 within a period of 24 months. The warrants were allocated a residual value of $100,727. The Company paid the agents 21,525 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$3.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of $39,594.

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 198,500 units (each a "Unit") of the Company at a price of CAD$2.00 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$3.00 within a period of 24 months. The warrants were allocated a residual value of $22,712. The Company paid the agents 13,895 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$3.00. Additionally, the Company also incurred cash costs in connection to private placement in the amount of $20,803. The Company also issued 4,500 units for gross proceeds of $6,713, which were issued in order to offset invoices due to a vendor.

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 152,500 units (each a "Unit") of the Company at a price of CAD$2.00 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$3.00 within a period of 24 months. The warrants were allocated a residual value of $57,137. The Company paid the agents 9,275 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$3.00. Additionally, the Company also incurred cash costs in connection to filing and legal expenses in the amount of $66,900.

v) On June 17, 2023, a total of 105,690 broker warrants expired with an exercise price of CAD$5.00. 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 1,782,764 units (each a "Unit") of the Company at a price of CAD$2.00 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$3.00 for a period of 36 months. The warrants were allocated a residual value of $194,105. The Company paid the agents 60,723 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$2.00. 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 50,000 shares as corporate finance fee with a fair value of $72,586.

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

12. Share Capital (continued)

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

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 786,667 units at CAD$1.50 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$2.00 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.

13. Equity Reserves

(a) Share-based compensation

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

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

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

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

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

	Number of stock options	Weighted average
Outstanding, December 31, 2022	565,460	CAD$ 5.62
Cancelled	(21,000)	4.31
Granted	124,500	1.90
Outstanding, December 31, 2023	**668,960**	**CAD$ 4.94**
Cancelled	(74,250)	4.35
Expired	(82,460)	12.42
Granted	2,715,000	0.80
Outstanding, December 31, 2024	**3,227,250**	**CAD$ 1.29**

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

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

13. Equity Reserves (continued)

(a) Share-based compensation (continued)

	Outstanding		Exercisable	
Expiry date	**Number of stock options**	**Exercise price**	**Remaining contractual life (years)**	**Number of stock options**
07-Apr-26	118,000	CAD$ 5.00	1.27	118,000
10-Jun-26	10,000	CAD$ 5.00	1.44	10,000
28-Jul-26	12,500	CAD$ 5.50	1.57	12,500
28-Jul-26	9,000	CAD$ 6.50	1.57	9,000
01-Nov-26	46,500	CAD$ 4.60	1.84	46,500
14-Jan-27	10,000	CAD$ 3.60	2.04	10,000
26-Apr-27	153,500	CAD$ 4.10	2.32	153,500
26-May-27	10,000	CAD$ 3.80	2.40	10,000
16-Aug-27	18,500	CAD$ 2.90	2.62	18,500
21-Nov-27	6,000	CAD$ 2.20	2.89	6,000
26-Apr-28	9,500	CAD $1.80	3.32	7,125
16-Oct-28	108,750	CAD $1.90	3.79	54,375
30-Dec-29	2,715,000	CAD $0.80	4.99	-
December 31, 2024	**3,227,250**			**455,500**

During the fiscal year ended December 31, 2024, the Company recognized stock-based compensation related to stock options totaling $70,004 (December 31, 2023 – $226,360). Of this amount, $31,475 was recorded as stock-based compensation in the cost of revenue (December 31, 2023 – $nil).

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, 2024	**December 31, 2023**
Risk-free interest rate	3.04%	4.16%
Expected dividend yield	Nil	Nil
Stock price volatility	145.18%	80.98%
Expected life (in years)	5 years	5 years
Stock price	CAD$0.85	CAD$1.10

(b) Restricted share units ("RSU")

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

i) On February 28, 2024, the Company granted 147,500 RSUs to employees of the Company; these RSUs shall be settled with common shares of the Company, have an exercise period that expires on February 28, 2029, and vest at 100% on February 28, 2025.

ii) A total of 132,248 RSUs were canceled.

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

13. Equity Reserves (continued)

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

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

iii) On August 19, 2024, the Company granted 30,000 RSUs to a consultant; these RSUs shall be settled with common shares of the Company, have an exercise period that expires on August 19, 2029, and vests as follows: 25% on November 19, 2024, 25% on February 19, 2025, 25% on May 19, 2025, 25% on August 19, 2025.

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

i) On September 1, 2023, the Company granted 20,000 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 325,698 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.

The following table summarizes the movements in outstanding RSUs:

	Number of equity settled RSUs	Grant Price
Outstanding, December 31, 2022	**247,216**	**CAD$ 5.04**
Granted	345,698	1.70
Outstanding, December 31, 2023	**592,914**	**CAD$ 3.09**
Granted	177,500	1.22
Cancelled	(132,248)	2.82
Exercised	(101,841)	3.79
Outstanding, December 31, 2024	**536,325**	**CAD$ 2.41**

A total of 391,950 RSU's were vested as at December 31, 2024.

The estimated fair value of the equity settled RSUs granted as of December 31, 2024, was $144,355 (December 31, 2023 – $435,444) and will be recognized as an expense over the vesting period of the RSUs. The fair value of the equity settled RSUs as at the grant date was determined with reference to the market value of the common shares of the Company at the grant date.

During the fiscal year ended December 31, 2024, the Company recognized stock-based compensation related to RSUs in the amount of $277,579 (December 31, 2023 – $385,869).

(c) Share purchase warrants

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

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

13. Equity Reserves (continued)

(c) Share purchase warrants (continued)

	Warrants outstanding	Exercise Price
Outstanding, December 31, 2022	**4,691,738**	**CAD$ 5.40**
Issued	2,401,235	2.97
Expired	(1,791,003)	6.42
Outstanding, December 31, 2023	**5,301,970**	**CAD$ 3.96**
Issued	16,630,724	0.73
Expired	(1,797,726)	4.81
Exercised	(60,000)	2.00
Outstanding, December 31, 2024	**20,074,968**	**CAD$ 1.22**

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

	December 31, 2024	December 31, 2023
Risk-free interest rate	3.07%	3.53%
Expected dividend yield	Nil	Nil
Stock price volatility	72.95%	63.89%
Expected life (in years)	2.03 years	2 years
Share price on grant date	CAD$0.83	CAD$1.80
Fair value share purchase warrants	CAD$0.43	CAD$0.40

The outstanding number of share purchase warrants is as follows:

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

13. Equity Reserves (continued)

(c) Share purchase warrants (continued)

	Outstanding			
Expiry date	**Number of warrants**		**Exercise price**	**Remaining contractual life (years)**
13-Apr-25	356,828	(a)	CAD$3.00	0.28
09-May-25	115,395		CAD$3.00	0.35
08-Jun-25	85,525		CAD$3.00	0.44
05-Oct-26	1,782,764		CAD$3.00	1.76
05-Oct-26	60,723		CAD$2.00	1.76
18-Dec-26	14,532,312	(a)	CAD$0.55	1.96
12-Jan-27	545,237	(a) (b)	CAD$2.00	2.03
05-Feb-27	100,000	(b)	CAD$2.00	2.10
28-Feb-27	909,091		CAD$2.00	2.16
27-Jun-27	19,051		CAD$2.00	2.49
13-Aug-27	465,033	(b)	CAD$2.00	2.62
27-Oct-27	144,674		CAD$2.75	2.82
27-Oct-27	958,335		CAD$5.00	2.82
	20,074,968			

[a] Subsequent to the year ended December 31, 2024, a total of 5,417,775 warrants were exercised and 7,442,553 warrants expired without being exercised (note 23).
[b] Subsequent to the year ended December 31, 2024, the exercise price of these warrants was amended to CAD$1.51 (note 23).

(d) Performance Shares

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

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

Operational Performance Shares

As at December 31, 2024, and 2023, none of the 200,000 OPS have been issued as neither of the two milestones have been met. The estimated fair value of the OPS is CAD$800,000 which had an estimated vesting period between December 2024 and December 2025. The estimated vesting period has been adjusted to December 2025 and December 2026. During the fiscal year ended December 31, 2024, the Company recorded stock-based compensation in connection to OPS in the amounts of $37,120 (December 31, 2023 – $(11,226)).

14. Loss Per Share

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

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

14. Loss Per Share (continued)

	Year ended December 31, 2024	2023
Loss attributable to common shareholders	$ (8,845,163)	$ (9,369,043)
Weighted average number of shares	17,160,752	12,816,531
Basic and diluted loss per share	$ (0.52)	$ (0.73)

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

15. Revenue

Revenue recognized for the years ended December 31, 2024, and 2023, relates to contract revenue from the Transportation Security Administration ("TSA") (Note 16), as well as sales of HEXWAVE units. As at December 31, 2024, the Company recorded refund liabilities of $609,264 (included in accounts payable and accrued liabilities) (2023 - $nil).

Deferred revenue as of December 31, 2024, was $180,000 (December 31, 2023 – $180,000).

Revenue	**Year ended December 31, 2024**	**2023**
Battelle Contract Award	$ -	$ 32,557
TSA Contract Award HD-AIT	200,000	1,265,000
TSA OA Development	795,000	75,000
HD-AIT Phase II A	296,944	-
HD-AIT Phase II	133,056	-
HEXWAVE units	1,013,546	120,000
Total Revenue	**$ 2,438,546**	**$ 1,492,557**

16. Contract Awards

During the year ended December 31, 2024, the Company recognized total contract revenue of $1,425,000, recorded in revenue (December 31, 2023 – $1,372,557). Future revenue related to these contracts will be recognized as performance obligations are satisfied. It is estimated that future revenues will be recognized on the same basis according to the following timelines:

Contract Award Revenue Expected in Future Years	**Year ended December 31, 2025**	**2026**
TSA Contract Award HD-AIT	$ 457,905	-
TSA OA Development	246,944	-
HD-AIT Phase II A	150,000	-
Total estimated contract revenues	**$ 854,849**	**$ -**

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

16. Contract Awards (continued)

(a) Battelle HD-AIT Shoe Scanner

On May 12, 2022, the Company received a contract award for $212,697 from Battelle, Pacific Northwest Division's Contract. The contract award is to work hand in hand with PNNL to develop the High Definition – Advanced Imaging Technology ("HD-AIT") Retrofit Kits. On July 31, 2023, there was a contract modification decreasing the total allotment from $212,697 to $100,000. With developing the HD-AIT Retrofit Kits, the Battelle Memorial License and patent will be utilized in the HD-AIT technology development. The contract award was completed in fiscal year ended 2023 and has been closed. During the year ended December 31, 2024, as part of the contract award the Company received $nil and had a receivable of $nil (December 31, 2023, $32,558 and had a receivable of $nil, respectively).

(b) TSA HD-AIT Upgrade

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

As of December 31, 2024, the Company had received $200,000 and recorded a receivable of $nil (December 31, 2023 – $1,265,000 and $nil, respectively). The remaining contract balance as of December 31, 2024, was $457,905 (December 31, 2023 – $657,905).

The Company is required to submit quarterly invoices as follows:

TSA HD-AIT Upgrade		Amounts
Year 2023	$	1,265,000
Year 2024		
Milestone 5 A (Q1 2024) (payment received)		200,000
Year 2025		
Milestone 5B (Q1 2025)		100,000
Milestone 6 (Q2 2025)		357,905
Total Contract Value	**$**	**1,922,905**

(c) TSA Open Architecture

On September 29, 2023, the Company received a contract award for $1,116,944 from TSA for the Open Architecture Development. The contract award is to develop a system-level approach that addresses TSA's request for implementation of a Checkpoint Open Architecture for On-Person Screening (OPS) systems that enable modularity and enhances security effectiveness. The project will be performed over a period of twenty-one months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at December 31, 2024, the Company received $795,000 and had a receivable of $nil (December 31, 2023 – $75,000 and $nil, respectively). The balance remaining on the contract as of December 31, 2024, was $246,944 (December 31, 2023 – $1,041,944). The Company is required to submit quarterly invoices as follows:

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

16. Contract Awards (continued)

(c) TSA Open Architecture (continued)

TSA Open Architecture		Amounts
Year 2023	$	75,000
Year 2024		
Milestone 2 (Q1 2024) (payment received)		200,000
Milestone 3 (Q2 2024) (payment received)		250,000
Milestone 4 (Q3 2024) (payment received)		170,000
Milestone 5 (Q4 2024) (payment received)		175,000
Year 2025		
Milestone 6 (Q1 2025)		175,000
Milestone 7 (Q2 2025)		71,944
Total Contract Value	**$**	**1,116,944**

(d) TSA HD-AIT Phase II

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

(e) TSA HD-AIT Phase II A

On September 5, 2024, the Company received a contract award for $446,944 from TSA for the HD-AIT Phase II A option. The contract award is a follow-on option to the current HD-AIT development program to execute phase II to drive to a final hardware design capable of supporting future compliance efforts. The project will be performed over a period of twelve months, and invoices will be issued once the milestones are reached based on the agreed upon timeline. As at December 31, 2024, the Company received $296,944 and had a receivable of $nil (December 31, 2023 - $nil, respectively). The balance remaining on the contract as of December 31, 2024, was $150,000 (December 31, 2023 - $nil).

TSA HD-AIT Phase II A		Amounts
Year 2024		
Milestone 1 (Q3 2024) (payment received)	$	296,944
Year 2025		
Milestone 2 (Q2 2025)		150,000
Total Contract Value	**$**	**446,944**

As of December 31, 2024, the Company recorded contract costs of $268,952, representing costs incurred for contract milestones not yet achieved (December 31, 2023, $nil). As of December 31, 2024, the Company recorded an impairment of the contract costs of $115,730 (December 31, 2023, $nil).

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

17. Collaboration Agreements

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

On October 20, 2021, the Company received a $500,000 contract award from the Transportation Security Administration ("TSA") as part of the TSA On-Person Screening Capability Program. The award was designated for the demonstration and evaluation of the Company's HEXWAVE technology and its expanded capabilities for screening aviation workers, aiming to enhance threat detection and throughput performance.
To access funding under this award, Liberty was required to deploy its HEXWAVE technology at specified locations to collect and share data with TSA on identified threats. This data was used to further develop algorithms to improve threat recognition with the desired probability of detection.
During the year ended December 31, 2024, the Company received $nil in connection with this award and recorded a receivable of $nil (December 31, 2023 – $272,834 and $nil, respectively). The remaining contract balance as of December 31, 2024, was $nil (December 31, 2023 – $nil), 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:

	Year ended December 31, 2024	2023
G&A Salaries	$ 620,846	$ 1,033,320
G&A Stock-based compensation	115,805	418,318
G&A Consulting fees (1)	96,358	97,805
	$ 833,009	**$ 1,549,443**

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

As of December 31, 2024, the Company had a balance payable of $421,319 to key management personnel (December 31, 2023, – $614,547). This payable balance includes accounts payable and accrued liabilities relating to compensation to directors, officers, or their related companies, included in compensation of key management personnel. These related party balances are unsecured, non-interest bearing and have no specific terms of settlement.

During the year ended December 31, 2024, the Company paid Nicole Ridgedale Communications, a related party, $23,340 (December 31, 2023 – $59,583) for consulting services and stock-based compensation. These amounts were recorded under salaries and consulting fees within general and administrative expenses.

As of December 31, 2024, the Company had no outstanding balance owed to Nicole Ridgedale Communications (December 31, 2023 – $23,340). This related party balance was unsecured, non-interest-bearing, and had no specific terms of settlement.

During the year ended December 31, 2024, the Company received working capital loans in the amount of $82,000 (December 31, 2023 – $1,381,120) from directors, officers, or their related parties, and repaid $336,036. Of the $336,036 repaid, $264,552 was offset through private placement proceeds. As at December 31, 2024, the outstanding balance is $74,658 (note 8) (December 31, 2023 – $328,694).

19. Financial Instruments

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

Fair value of financial instruments:

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

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

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, including accounts receivable terms. The Company's cash is held through large Canadian, international, and foreign national financial institutions. The Company's receivables primarily consist of GST receivable due from the Canadian government and trade receivables that the Company continues to collect. These trade receivables are primarily with continuing customers and are not subject to significant credit risk. As at December 31, 2024, the Company's trade receivables totalling $130,000 are from three customers (2023 - $nil). The Company's maximum exposure to credit risk is limited to the carrying amount of cash and accounts receivables.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after considering existing cash balances, expected exercise of share purchase warrants, and stock options. The Company's ability to continue as a going concern involves significant judgements and estimates while determining forecasted cashflows and is dependent on the Company's ability to obtain financing (note 1). As at December 31, 2024, the Company had cash of $1,153,229 (December 31, 2023 – $963) to settle current liabilities of $6,607,387 (December 31, 2023 – $5,956,941.

(c) Market risk

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

19. Financial Instruments (continued)

(c) Market risk (continued)

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has interest-bearing financial instruments in relation to loans and factoring liability (note 8, 9 and 10). The Company's exposure to interest rate risk is minimal as the interest rates are at a fixed percentage on the loans payable, term loans and factoring liability.

Foreign currency risk

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

		Amounts US dollars
Financial assets denominated in foreign currencies	$	1,370,259
Financial liabilities denominated in foreign currencies		(882,206)
Net exposure	**$**	**488,053**

A 10% change in the U.S. dollar exchange rate relative to the Canadian dollar would change the Company's comprehensive loss by $33,948.

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.

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

20. Capital Risk Management (continued)

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

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

The Company expects its current capital resources will be sufficient to carry its operations, and product development plans for the foreseeable future. Except for the security pledged in certain short term loans and the factoring liability as outlined in Notes 8 and 9 respectively, the Company is not subject to externally imposed capital requirements.

There has been no change to the Company's approach to capital management during the year ended December 31, 2024.

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,		
		2024		2023
Loss for the year	$	(8,845,163)	$	(9,369,043)
Statutory tax rate		26.5%		26.5%
Expected income tax (recovery)	$	(2,344,000)	$	(2,483,000)
Change in statutory, foreign tax, foreign exchange rates and other		(120,000)		(505,000)
Permanent differences		318,000		403,000
Share issue cost		-		(153,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		(591,000)		1,078,000
Change in unrecognized deductible temporary differences		2,737,000		1,660,000
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,		
		2024		2023
Deferred tax assets (liabilities)				
Property and equipment & Intangible assests	$	(54,000)		-
Non-capital losses		54,000		-
Net deferred tax assets (liabilities) recognized	**$**	**-**	**$**	**-**

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:

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

21. Income Tax (continued)

	2024	Expiry Date Range	2023	Expiry Date Range
Temporary Differences	$		$	
Property and equipment & Intangible assests	4,000	No expiry date	4,000	No expiry date
Share issue costs	1,511,000	2044 to 2048	1,572,000	2043 to 2047
Right-of-Use Assets/Lease liabilty	135,000	No expiry date	121,000	No expiry date
R&D	4,481,000	No expiry date	-	No expiry date
Non-capital losses	46,225,000		41,795,000	
Canada	16,205,000	2030 to 2044	14,986,000	2030 to 2043
USA	30,021,000	No expiry date	26,809,000	No expiry date

22. Segmented Information

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

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

The following tables summarize the Company's segments for the year ended December 31, 2024 and 2023:

	For the year ended December 31, 2024			
	Corporate	HEXWAVE	Contract	Total
	$	$	$	$
Revenue	-	1,013,546	1,425,000	2,438,546
Cost of revenue	-	2,033,498	2,081,971	4,115,469
Net loss for the year	(2,865,188)	(2,808,452)	(3,171,523)	(8,845,163)

	For the year ended December 31, 2023			
	Corporate	HEXWAVE	Contract	Total
	$	$	$	$
Revenue	-	120,000	1,372,557	1,492,557
Cost of revenue	-	1,546,040	1,163,211	2,709,251
Net loss for the year	(2,244,260)	(1,901,044)	(5,223,739)	(9,369,043)

Geographic Breakdown

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

All revenue from contract segment was earned from one customer in the United States (2023 – one customer).

For the year ended December 31, 2024, revenue from five customers represented 94% of the HEXWAVE revenue (2023 – one customer represented 100%).

23. Subsequent Events

- The Company received CAD$2,977,851 from the exercise of 5,414,275 share purchase warrants after electing, on December 31, 2024, to exercise its acceleration right for a total of 12,500,000 warrants granted on December 19, 2024, pursuant to a private placement. As a result, the remaining 7,085,725 unexercised warrants expired.

- 1,095,099 share purchase warrants with an original exercise price of CAD$2.00 was amended to CAD$1.51. All other terms and conditions remain unchanged (note 13 (c)).

- On March 20, 2025, the Company closed a non-brokered private placement for gross proceeds of $3,479,351 (CAD$5,001,150). The Company issued 3,031,000 units (each a "Unit") of the Company at a price of CAD$1.65 per Unit. Each Unit comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company at a price of CAD$2.05 for a period of 24 months and is subject to an accelerated expiry at the Company's election under certain conditions. In connection with the non-brokered private placement, the Company issued 212,170 finder warrants. Each finder's warrant will be exercisable to purchase one common share for a period of 24 months at an exercise price of CAD$1.65.

- On April 1, 2025, the Company received CAD$5,285 from the exercise of 3,500 warrants. As a result, a total of 3,500 common shares were issued.

- 189,100 common shares have been issued pursuant to the exercise of RSUs.

- On April 2, 2025, the Company granted 150,000 stock options to consultants. Each stock option is exercisable for one common share of the Company at an exercise price CAD$0.84 per share. These stock options vest 12.5% after three months from the grant date, and 12.5% every three months thereafter, expiring on April 2, 2030.

- On April 13, 2025, 356,828 warrants expired.

- On April 15, 2025, the Company granted 50,000 stock options to a consultant. Each stock option is exercisable for one common share of the Company at an exercise price CAD$0.59 per share. These stock options vest immediately as of the grant date, expiring on April 15, 2027.