iFabric Corp.

IFABRIC CORP.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND SEPTEMBER 30, 2022

(EXPRESSED IN CANADIAN DOLLARS)

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Independent Auditor's Report

To the Shareholders of iFabric Corp.

Opinion

We have audited the consolidated financial statements of iFabric Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and September 30, 2022, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and September 30, 2022, and its consolidated financial performance and its consolidated cash flows for the periods then ended in accordance with International Financial Reporting Standards ("IFRS").

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 is sufficient and appropriate to provide a basis for our opinion.

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 period. 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.

Revenue Recognition

Description of the key audit matter

The Company's revenues consists of intimate apparel for women and innovative products and treatments for application to textiles and other surfaces. The Company entered into an arrangement with a supplier whose related party also acted as a distributor, requiring a determination of whether revenue should be recognized on a principal or agent basis. Due to the significance of the revenue to the overall operating results of the Company and judgement in the assessment of principal and agent, revenue recognition was determined to be a key audit matter requiring special audit consideration.

Please refer to Note 3 (c) to the consolidated financial statements for the Company's revenue recognition policy and Note 17 that includes revenue information by operating segments.

How the key audit matter was addressed in the audit

Our audit procedures included but is not limited to a review of new revenue contracts and exclusive license agreements in effect during the fiscal period, including any modifications or amendments, for recognition and measurement in accordance with IFRS 15, including the assessment as principal or agent.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance. 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, 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 period 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 Michael Crolla.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 1, 2024

(Expressed in Canadian Dollars)

As at	December 31, 2023	September 30, 2022
ASSETS		
Current assets		
Cash	1,571,744	944,725
Accounts receivable (note 4)	7,815,579	7,017,329
Inventories (note 5)	9,477,965	9,353,200
Income taxes recoverable	47,110	39,780
Foreign exchange forward contracts (note 7)	66,135	-
Prepaid expenses and deposits (note 6)	899,874	5,338,748
Total current assets	19,878,407	22,693,782
Non-current assets		
Due from related parties (note 8)	49,748	87,248
Property, plant and equipment (note 9)	3,168,721	3,110,330
Right-of-use assets (note 10)	451,890	52,548
Deferred development costs (note 11)	178,018	204,838
Deferred income taxes (note 12)	2,132,100	1,165,700
Goodwill	55,050	55,050
Total non-current assets	6,035,527	4,675,714
Total assets	25,913,934	27,369,496
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 14)	3,067,423	2,520,095
Customer deposits	77,813	85,326
Income taxes payable	42,371	195,097
Deferred revenue	-	13,090
Current portion of lease liability (note 10)	71,182	19,208
Current portion due to related parties (note 15)	146,695	4,559
Current portion of car loan payable	12,358	12,792
Bank loan payable (note 16)	889,705	1,138,704
Total current liabilities	4,307,547	3,988,871
Non-current liabilities		
Non-current portion of lease liability (note 10)	397,482	33,340
Non-current portion of car loan payable	21,898	33,948
Due to related parties (note 15)	487,372	547,372
Total non-current liabilities	906,752	614,660
Total liabilities	5,214,299	4,603,531
Commitments (note 23)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 22)	8,989,049	13,660,614
Reserves	8,614,722	3,675,458
Retained earnings	3,050,405	5,157,927
Accumulated other comprehensive earnings	34,924	259,111
Total equity attributable to iFabric Corp. shareholders	20,689,100	22,753,110
Non-controlling interest	10,535	12,855
Total equity	20,699,635	22,765,965
Total liabilities and equity	25,913,934	27,369,496

Approved on behalf of the Board of Directors on April 1, 2024:

"Hylton Karon"
Director

"Hilton Price"
Director

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

IFABRIC CORP.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

(Expressed in Canadian Dollars)

For the period ending	Fifteen months December 31, 2023	Twelve months September 30, 2022
REVENUE	28,398,742	19,743,008
COST OF SALES	17,325,734	12,716,732
GROSS PROFIT	11,073,008	7,026,276
EXPENSES		
General and administrative costs (note 18)	6,880,939	5,092,819
Selling costs (note 18)	2,987,146	1,347,699
Impairment provision - legal claim (note 4)	3,842,153	-
Interest on bank loan	110,207	49,723
Depreciation of property, plant and equipment and right-of-use assets	160,920	103,847
Amortization of deferred development costs	26,820	26,820
Share-based compensation	162,199	472,952
	14,170,384	7,093,860
EARNINGS (LOSS) FROM OPERATIONS	(3,097,376)	(67,584)
OTHER EXPENSES (INCOME)		
Loss (gain) on foreign exchange	(106)	175,292
Other	(17,800)	-
Gain on disposal of property, plant and equipment	(7,827)	(17,500)
Government grants	(8,866)	(17,895)
	(34,599)	139,897
EARNINGS (LOSS) BEFORE INCOME TAXES	(3,062,777)	(207,481)
PROVISION (RECOVERY) OF INCOME TAXES (note 20)		
Current	97,965	457,091
Deferred	(1,050,900)	(212,116)
	(952,935)	244,975
NET EARNINGS (LOSS)	(2,109,842)	(452,456)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	(2,107,522)	(454,998)
Non-controlling interest	(2,320)	2,542
	(2,109,842)	(452,456)
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Items that will or may be reclassified to profit or loss		
Unrealized gain (loss) on translation of foreign operations	(224,187)	455,662
TOTAL COMPREHENSIVE EARNINGS (LOSS)	(2,334,029)	3,206
EARNINGS (LOSS) PER SHARE (note 21)		
Basic	(0.070)	(0.015)
Diluted	(0.070)	(0.015)

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

IFABRIC CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Attributable to iFabric Corp. shareholders							
		Reserves						
	Capital stock	Contributed surplus	Options	Retained earnings	Accumulated Other Comprehensive Earnings	Total Comprehensive Earnings (Loss)	Non-controlling interest	Total equity
Balance at September 30, 2022	13,660,614	852,679	2,822,779	5,157,927	259,111	22,753,110	12,855	22,765,965
Total comprehensive earnings (loss)	-	-	-	(2,107,522)	(224,187)	(2,331,709)	(2,320)	(2,334,029)
Exercise of options	337,820	-	(147,820)	-	-	190,000	-	190,000
Extension of warrants (note 22)	(4,924,885)	5,581,905	(657,020)	-	-	-	-	-
Deferred tax on share issue costs (note 11)	(84,500)	-	-	-	-	(84,500)	-	(84,500)
Share-based compensation	-	-	162,199	-	-	162,199	-	162,199
Balance at December 31, 2023	8,989,049	6,434,584	2,180,138	3,050,405	34,924	20,689,100	10,535	20,699,635

	Attributable to iFabric Corp. shareholders							
		Reserves						
	Capital stock	Contributed surplus	Options	Retained earnings	Accumulated Other Comprehensive Earnings	Total Comprehensive Earnings (Loss)	Non-controlling interest	Total equity
Balance at September 30, 2021	13,585,774	852,679	2,412,067	5,612,925	(196,551)	22,266,894	10,313	22,277,207
Total comprehensive earnings (loss)	-	-	-	(454,998)	455,662	664	2,542	3,206
Exercise of options	142,240	-	(62,240)	-	-	80,000	-	80,000
Deferred tax on share issue costs (note 11)	(67,400)	-	-	-	-	(67,400)	-	(67,400)
Share-based compensation	-	-	472,952	-	-	472,952	-	472,952
Balance at September 30, 2022	13,660,614	852,679	2,822,779	5,157,927	259,111	22,753,110	12,855	22,765,965

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

IFABRIC CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

For the period ending	Fifteen months December 31, 2023	Twelve months September 30, 2022
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings (loss)	(2,109,842)	(452,456)
Items not affecting cash		
Interest on lease liability	6,944	2,944
impairment provision - legal claim	3,842,153	-
Depreciation of property, plant and equipment and right-of-use assets	160,920	103,847
Amortization of deferred development costs	26,820	26,820
Fair value adjustment on foreign exchange contracts	(50,800)	-
Gain on disposal of property, plant and equipment	(7,827)	-
Share-based compensation	162,199	472,952
Deferred income tax provision	(1,050,900)	(212,116)
	979,667	(58,009)
Changes in operatings assets and liabilities		
Accounts receivable	(798,250)	(564,433)
Inventories	(124,765)	(6,338,190)
Income taxes recoverable	(7,330)	50,741
Prepaid expenses and deposits	596,721	(604,396)
Foreign exchange forward contracts	(15,335)	-
Due from related parties	37,500	44,156
Accounts payable and accrued liabilities	547,328	(421,350)
Customer deposits	(7,513)	(65,989)
Deferred revenue	(13,090)	(12,519)
Contract liability	-	(180,509)
Income taxes payable	(152,726)	(61,329)
	62,540	(8,153,818)
	1,042,207	(8,211,827)
FINANCING ACTIVITIES		
Due to related parties	82,136	21,509
Share and warrant issuances (note 21)	190,000	80,000
Repayment of (proceeds) from car loan	(12,484)	46,740
Repayment of bank loan (note 15)	(248,999)	(76,760)
Repayment of lease liability	(28,681)	(29,561)
	(18,028)	41,928
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(235,973)	(242,756)
Proceeds on property, plant and equipment	63,000	-
	(172,973)	(242,756)
CHANGE IN CASH POSITION	851,206	(8,412,655)
CASH, beginning of year	944,725	8,901,718
Effect of foreign currency translation	(224,187)	455,662
CASH, end of year	1,571,744	944,725

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

1. NATURE OF OPERATIONS

iFabric Corp. ("iFabric" or the "Company") is a Canadian public company, incorporated under the Alberta Business Corporations Act and is domiciled in Canada. iFabric is listed on the Toronto Stock Exchange ("TSX") under the trading symbol "IFA". The head office is located at 525 Denison Street, Unit 1, Markham, Ontario, Canada.

The Company's principle activities relate to the business of designing and distributing women's intimate apparel as well as a range of complimenting accessories. The Company is also in the business of developing and distributing a range of innovative products and treatments that are suitable for application to textiles, plastics, liquids, and hard surfaces as well as finished performance apparel which integrate one or more such treatments. These products are designed to provide added benefits to the user in terms of protection and performance enhancements.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). With effect from October 1, 2022 the Company changed its year end to December 31 from September 30. Accordingly, these financial statements are presented for a period of fifteen months compared to twelve months in the prior period. As a result, the amounts presented in the consolidated statements may not be directly comparable.

(b) Basis of measurement

These consolidated financial statements were prepared on a historical cost basis except for certain items which may be accounted for at fair value as further discussed in subsequent notes, using the significant accounting policies and measurement basis summarized below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of consolidation

The consolidated financial statements include the accounts of iFabric Corp., and its wholly-owned subsidiaries:

(i) Coconut Grove Textiles Inc., which includes the consolidated accounts of:

- a. Coconut Grove Pads Inc., a wholly-owned subsidiary;
- b. CG Intimates Inc., a U.S. company and wholly-owned subsidiary;
- c. 2074160 Ontario Inc., a 75%-owned subsidiary;
- d. Intelligent Fabric Technologies (North America) Inc. a wholly-owned subsidiary, which includes the consolidated accounts of:
    - i. Intelligent Fabric Technologies Inc., a U.S. company and wholly-owned subsidiary;
    - ii. Intelligent Fabric Technologies (Taiwan), a Taiwanese branch office.

(ii) Protx (Shanghai) Trading Co., Ltd., a company incorporated in China.

All inter-corporate balances and transactions have been eliminated on consolidation.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars.

The functional currency of the Coconut Grove Pads Inc., Protx (Shanghai) Trading Co., Ltd., and Intelligent Fabric Technologies (North America) Inc., is the United States Dollar ("USD") given the prevalence of USD transactions in operations. The functional currency of the parent company and remaining subsidiaries is Canadian dollars.

The results and financial position of the subsidiaries with USD functional currency are translated into Canadian dollars as follows:

- i. Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- ii. Income and expenses are translated at average exchange rates;
- iii. All resulting exchange differences are recognized in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*Continued)*

(c) Revenue recognition

The Company recognizes revenue when a contract specifying the number of units ordered, price and timing of delivery exists with a customer and control of the goods has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur. Variable consideration received in excess of the performance obligation is recorded as a contract liability. If the performance obligation is in excess of the consideration received, a contract asset is recognized.

At the inception of any contracts with a customer that include a milestone payment, which may be payable upon the successful achievement of development or a regulatory event, the Company evaluates whether the milestone is considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If the Company concludes it is highly probable that a significant revenue reversal will not occur, the associated milestone payment is included in the transaction price. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue when (or as) the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company reassesses the probability of achievement of milestones and any related constraints, and, if necessary, adjusts the estimate of the overall transaction price on a cumulative catch-up basis.

Net revenue reflects the Company's sale of merchandise, less returns, slotting fees and other funded costs from retail partners, and after making allowance for anticipated discounts and rebates in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Standard payment terms range from 30 to 90 days.

(d) Cash

Cash consists of cash on hand and bank balances held at various major financial institutions.

(e) Inventories

Inventories are comprised of merchandise for resale and are valued at the lower of cost (determined on a first-in, first-out basis) and net realizable value.

Cost includes the cost of purchase, duty, brokerage and transportation costs that are directly incurred to bring inventories to their present location and condition.

The Company estimates net realizable value as the amount at which inventories are expected to be sold less any costs to complete the sale. Inventories are written down to net realizable value when it is determined that the cost of inventories is not recoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual depreciation rates and methods are as follows:

Buildings	4% Declining balance
Computer and office equipment	30% Declining balance
Factory machinery	20% Declining balance

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

(g) Goodwill

Goodwill is measured at cost less accumulated impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*Continued)*

(h) Finite-life intangible assets

Research and development costs

Costs related to research are expensed as incurred.

Development costs of new products for sale, net of government assistance, are capitalized as deferred development costs if they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the product. Otherwise, development costs are expensed as incurred.

Deferred development costs are amortized, commencing when the product in question is commercially available for sale, over the estimated product life of five years using the straight-line method.

Subsequent to initial measurement, deferred development costs are stated at cost less accumulated amortization and accumulated impairment losses.

(i) Impairment of non-financial assets

The Company reviews the carrying value of its non-financial assets, which include property, plant and equipment, deferred development costs and goodwill whenever changed circumstances indicate that the carrying value may not be recoverable. For goodwill, the carrying value is tested at the end of each fiscal period.

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"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing 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. An impairment loss is recognized if the carrying value of a non-financial asset exceeds the recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, 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 amortization, if no impairment loss had been recognized.

(j) Foreign currency translation

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are recognized in net earnings (loss).

(k) Leases

The Company as the lessee

At the commencement date of the lease, the Company recognizes a lease liability comprising of fixed payments less incentive receivables, variable payments, residual value guarantees, exercise price of purchase options and termination penalties, which is discounted at the implicit lease rate or, if the rate cannot be determined, the Company's incremental borrowing rate. At the same time, the right-of-use asset is measured initially at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The initial cost recognized includes the amount of lease liability, initial direct costs, costs of removal and restoring, payments made prior to commencement less any incentives received,

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*Continued*)

is recognized. Subsequently, the lease liability is reduced by lease payments less finance charges, which are expensed as part of financing cost while the right-of-use asset is depreciated over the shorter of the useful life of the asset and the lease term.

The Company has elected to account for all short-term leases with terms less than 12 months and all leases for which the underlying asset is of low value as expenses on either a straight-line basis over the lease term or another systematic basis.

The Company as the lessor

The Company records the total income on a straight-line basis over the term of the relevant lease contract. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense on a straight-line basis over the lease term.

(l) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of earnings (loss) and comprehensive earnings (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Tax for current and prior periods is, to the extent unpaid, recognized as a tax payable in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as a tax recoverable in the statement of financial position.

Deferred tax

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable earnings will be available against which the difference can be utilized.

(m) Share-based payments

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, key employees and consultants. Terms and conditions of options granted under the Plan are determined by the Board of Directors.

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded over the vesting period as share-based compensation expense in the consolidated financial statements. The fair value determined by using the Black-Scholes option pricing model at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche separately based on the Company's estimate of shares that will eventually vest factoring in any forfeitures. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital.

Compensation expense on stock options, shares or warrants granted to non-employees is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, the value is measured by reference to the fair value of the equity instruments granted by use of a Black-Scholes option pricing model.

In order to determine the fair value using the Black-Scholes option pricing model, the expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*Continued)*

(n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a reduction to equity, net of any tax effects. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value of the shares on the date of issue.

(o) Financial instruments

Classification and measurement

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

On initial recognition, all financial instruments are measured at fair value, adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value through profit or loss, the amount of transaction costs directly attributable to the instrument.

After initial recognition, the measurement of financial instruments depends on their classification described below:

Amortized cost: Financial assets under this classification primarily arise from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contract cash flows are solely the payments of principal and interest. Financial liabilities, other than those held for trading or elected to measure at fair value through profit or loss, are measured at amortized cost. Financial instruments of the Company that are classified as amortized cost include cash, accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, due to related parties, and loan payable.

Fair value through profit or loss: Financial instruments under this classification include foreign exchange forward contracts. Transaction costs associated with these financial instruments are expensed as incurred.

Fair value through other comprehensive income: The Company has no financial instruments under this classification.

Financial Instrument	Category	Measurement
Cash	Financial assets measured at amortized cost	Amortized cost
Accounts receivable	Financial assets measured at amortized cost	Amortized cost
Due from related parties	Financial assets measured at amortized cost	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Bank loan payable	Other financial liabilities	Amortized cost
Car loan	Other financial liabilities	Amortized cost

Financial instruments measured at amortized cost are done so using the effective interest method.

Impairment of financial assets

The Company applies the simplified approach of the expected credit loss model when assessing impairment of accounts receivable. Under this approach, lifetime expected credit losses are recognized and are calculated using a provision matrix based on historical impairment rates, which is adjusted based on current conditions and future expectations.

Fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy is as follows:
Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data.
Forward foreign exchange contracts are measured at the fair value based on the mark-to-market variance calculated between the forward and spot rate (refer to note 25). These derivative instruments are categorized as Level 2 in the fair value hierarchy. The Company has no financial instruments classified as Level 3 on the fair value hierarchy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*Continued)*

(p) Earnings (loss) per share

Basic and diluted earnings (loss) per share is calculated by dividing the net earnings (loss) attributable to the Company's shareholders by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method of calculating diluted per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

(q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company also reports on the external revenues received from different geographical regions.

(r) Management judgments and use of estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant judgments include the following:

Benefits of deferred income tax assets

The recognition of deferred income tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which the deferred income tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve based on its internal projections. The estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credit. Deferred income tax assets are recognized to the extent it is probable that estimated taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized.

Revenue recognition

Revenue recognized from contracts with variable consideration is based on estimates and judgments on achieving future milestones and unit sales. Projections of future sales is based on historical data and projections from customers.

Recoverability of deposit

The Company has an outstanding deposit from a foreign supplier in respect of a contract that was partially fulfilled (refer note 4). Recoverability of the deposit has been delayed due to government closures from COVID-19 and a backlog in the court system after reopening in this foreign jurisdiction. An arbitrator has ruled in favour of the Company and the Company has, in addition, registered its claim with the competent court in China. As a result, the amount has been reclassified as receivable and an allowance for the full amount has been recognized. The Company is currently following a court supervised process in order to recover the deposit.

Valuation of inventories

Provisions for non-saleable inventories are prepared by management based on estimates and judgments that include current market prices, current economic trends and past experience in the measurement of net realizable value.

(s) Changes in accounting policies

i) New standards, interpretations, and amendments adopted from October 1, 2022

The following amendments are effective for the period beginning October 1, 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*Continued)*

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

IAS 37 defines an onerous contract as a contract in which the unavoidable costs (costs that the Company has committed to pursuant to the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amendments to IAS 37.68A clarify that the costs relating directly to the contract consist of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

These amendments had no impact on the year-end consolidated financial statements of the Company.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now r14ecognized in profit or loss.

These amendments had no impact on the year-end consolidated financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 & IAS 41)

- IFRS 1: Subsidiary as a First-time Adopter (FTA)
- IFRS 9: Fees in the '10 per cent' Test for Derecognition of Financial liabilities
- IAS 41: Taxation in Fair Value Measurements

These amendments had no impact on the year-end consolidated financial statements of the Company.

References to Conceptual Framework (Amendments to IFRS 3)

In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

These amendments had no impact on the year-end consolidated financial statements of the Company.

ii) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2023:

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- International Tax Reform – Pillar Two Model Rules

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)
- IAS 7 and IFRS 7 (Amendment – Supplier Finance Arrangements)

The Company is currently assessing the impact of these new accounting standards and amendments. The Company does not believe that the new accounting standards or amendments will have a significant impact on the consolidated financial statements.

(Expressed in Canadian Dollars)

4. ACCOUNTS RECEIVABLE

	December 31, 2023	September 30, 2022
Trade receivables	7,677,861	7,045,514
Deposit recoverable (i)	3,842,153	-
Expected credit loss	(3,976,166)	(121,320)
Allowance for discounts and rebates	(8,608)	(4,769)
Deferred rent asset	-	26,424
Contract asset	261,964	69,480
Other	18,375	2,000
	7,815,579	7,017,329

i) On May 4, 2020, the Company entered into an agreement to purchase 1,000,000 N95 masks from a foreign supplier. The contract required full delivery by June 2020 but was partially fulfilled, with the supplier defaulting on the timing of the remaining delivery. The Company sourced these products from a different supplier to fulfill the order to its customer in Q1 2021. The Company pursued recovery of the deposit through an arbitration process in the foreign jurisdiction, which was delayed due to COVID-19 restrictions and lockdowns. On December 21, 2021, the arbitration court ruled in the Company's favor and confirmed that the Company was entitled to recover its remaining deposit of USD $2,905,000, plus liquidated damages of USD $146,942, interest at the rate of 12% per annum calculated from the date of payment of the deposit, and reimbursement of the arbitration cost of RMB 445,902. In December 2023, the Company's claim was registered with the competent court in China and the Company is currently following a court supervised process in order to recover all amounts owing to it. Given the uncertain recovery timeline and its inability to fully assess the degree of recoverability at the date of the financial statements, the Company has made provision for the full impairment of its claim.

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the period, the amount of inventories charged to net earnings (loss) was $15,591,058 (2022 - $11,149,393) and the amount of inventory write-downs were $153,471 (2022 - $193,730). There were no reversals of prior years write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2023	September 30, 2022
Prepaid expenses and other assets	268,910	147,524
Deposits paid to suppliers (refer note 4)	630,964	5,191,224
	899,874	5,338,748

7. FOREIGN EXCHANGE FORWARD CONTRACTS

The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. The balance is comprised of the following:

	December 31, 2023	September 30, 2022
Margin balance – cash deposit	116,935	-
Mark to market variance – loss on foreign exchange	(50,800)	-
	66,135	-

As at December 31, 2023, the Company had contracted to buy 2,000,000 U.S. Dollars.

For the period ended December 31, 2023, there is an unrealized loss on foreign exchange of $50,800 (2022 - $0) recognized in net earnings (loss), in respect to changes in fair value of the Company's foreign exchange forward contracts.

(Expressed in Canadian Dollars)

8. DUE FROM RELATED PARTIES

The amounts due from related parties represent a housing loan to an executive officer. The loan bears interest at a rate that is the greater of 1% per annum and the minimum interest rate per the Canada Revenue Agency, and, is repayable in full by May 5, 2024. The fair market value of the loan using the applicable market interest rate would not result in a material adjustment to the carrying value of the loan, and as such, no adjustment has been made by the Company in this regard.

9. PROPERTY, PLANT AND EQUIPMENT

			December 31, 2023
	Cost	Accumulated depreciation	Net carrying amount
Land and buildings (i)	3,566,804	577,601	2,989,203
Computer and office equipment	348,205	239,739	108,466
Factory machinery	35,179	16,020	19,159
Motor vehicle	66,000	14,107	51,893
	4,016,188	847,467	3,168,721

			September 30, 2022
	Cost	Accumulated depreciation	Net carrying amount
Land and buildings (i)	3,469,233	517,499	2,951,734
Computer and office equipment	275,803	210,320	65,483
Factory machinery	35,179	9,971	25,208
Motor vehicle	79,888	11,983	67,905
	3,860,103	749,773	3,110,330

(i) Land and buildings are owned by a subsidiary of the Company with a 25% non-controlling interest.

The tables below summarize the changes in the net carrying amounts of property, plant and equipment during the years presented:

	September 30, 2022				December 31, 2023
	Net carrying amount	Additions	Depreciation	Disposals	Net carrying amount
Land and buildings	2,951,734	97,572	(60,103)	-	2,989,203
Computer and office equipment	65,483	72,401	(29,418)	-	108,466
Factory machinery	25,208	-	(6,049)	-	19,159
Motor vehicle	67,905	66,000	(26,839)	(55,173)	51,893
	3,110,330	235,973	(122,409)	(55,173)	3,168,721

	September 30, 2021				September 30, 2022
	Net carrying amount	Additions	Depreciation	Disposals	Net carrying amount
Land and buildings	2,887,626	109,809	(45,701)	-	2,951,734
Computer and office equipment	52,697	26,633	(13,847)	-	65,483
Factory machinery	1,781	26,426	(2,999)	-	25,208
Motor vehicle	-	79,888	(11,983)	-	67,905
	2,942,104	242,756	(74,530)	-	3,110,330

(Expressed in Canadian Dollars)

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	September 30, 2022				December 31, 2023
	Net carrying amount	Additions	Depreciation	Disposals	Net carrying amount
Right-of-use assets	52,548	437,853	(38,511)	-	451,890
	52,548	437,853	(38,511)	-	451,890

	September 30, 2021				September 30, 2022
	Net carrying amount	Additions	Depreciation	Disposals	Net carrying amount
Right-of-use assets	54,168	29,855	(29,317)	(2,158)	52,548
	54,168	29,855	(29,317)	(2,158)	52,548

	September 30, 2022				December 31, 2023
	Opening Balance	Additions	Accretion Interest	Payments	Ending Balance
Lease liabilities	52,548	437,853	6,944	(28,681)	468,664
	52,548	437,853	6,944	(28,681)	468,664

	September 30, 2021				September 30, 2022
	Opening Balance	Additions	Accretion Interest	Payments	Ending Balance
Lease liabilities	51,468	27,697	2,944	(29,561)	52,548
	51,468	27,697	2,944	(29,561)	52,548

An amount of $384,400 in relation to the office lease and an amount of $53,453 in relation to an office printer was added to lease liabilities. The incremental borrowing rate used in the calculations was 7.95% and 7.2% respectively

11. DEFERRED DEVELOPMENT COSTS

			December 31, 2023
	Cost	Accumulated amortization	Net carrying amount
Product development costs	1,119,446	941,428	178,018

			September 30, 2022
	Cost	Accumulated amortization	Net carrying amount
Product development costs	1,119,446	914,608	204,838

The tables below summarize the changes in the net carrying amounts of deferred development costs during the years shown:

	September 30, 2022				December 31, 2023
	Net carrying amount	Additions	Amortization	Disposals	Net carrying amount
Product development costs	204,838	-	(26,820)	-	178,018
	204,838	-	(26,820)	-	178,018

	September 30, 2021				September 30, 2022
	Net carrying amount	Additions	Amortization	Disposals	Net carrying amount
Product development costs	231,658	-	(26,820)	-	204,838
	231,658	-	(26,820)	-	204,838

(Expressed in Canadian Dollars)

12. DEFERRED INCOME TAXES

Temporary differences between accounting and taxable income which result in deferred income tax assets (liabilities) are as follows:

	September 30, 2022	Changes in profit or loss	Changes in equity	December 31, 2023
Non-capital losses carryforward	1,038,000	1,036,800	-	2,074,800
Property and equipment	(20,200)	7,000	-	(13,200)
Intangible assets	(54,300)	7,100	-	(47,200)
Share issuance costs	202,200	-	(84,500)	117,700
	1,165,700	1,050,900	(84,500)	2,132,100

	September 30, 2021	Changes in profit or loss	Changes in equity	September 30, 2022
Non-capital losses carryforward	821,384	216,616	-	1,038,000
Property and equipment	(8,600)	(11,600)	-	(20,200)
Intangible assets	(61,400)	7,100	-	(54,300)
Share issuance costs	269,600	-	(67,400)	202,200
	1,020,984	212,116	(67,400)	1,165,700

The Company provides for income taxes on the undistributed earnings and other outside basis temporary differences of foreign subsidiaries unless they are considered indefinitely reinvested outside Canada. As at December 31, 2023, a deferred tax liability related to any remaining undistributed foreign earnings has not been recognized to represent the outside basis difference in Protx (Shanghai) Trading Co., Ltd. The estimated deferred tax liability not recognized is approximately $230,000 (2022 - $270,000).

13. CREDIT FACILITIES

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of $6,750,000 (2022 - $6,750,000), against which $0 was outstanding as at December 31, 2023 (2022 - $0). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of $3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2023	September 30, 2022
Trade payables	2,579,270	1,962,660
Government remittances	156,968	151,412
Accrued liabilities	331,185	386,109
Tenants deposits	-	19,914
	3,067,423	2,520,095

15. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, non-interest bearing and due on demand.

	December 31, 2023	September 30, 2022
Due to director	146,695	4,559
Due to director of subsidiary co. (i)	487,372	547,372
	634,067	551,931
Less current portion	146,695	4,559
Due beyond one year	487,372	547,372

(i) This creditor has waived their right to call for payment over the next year, this loan has been classified as non-current.

(Expressed in Canadian Dollars)

16. BANK LOAN PAYABLE

	December 31, 2023	September 30, 2022
Bank loan	889,705	1,018,704
CEBA	-	120,000
	889,705	1,138,704
Less current portion	(889,705)	(1,138,704)
Due beyond one year	-	-

One of the Company's subsidiaries has a variable rate demand loan, payable in monthly principal payments of $9,172 and variable monthly interest payments at the bank's prime interest rate plus 0.75% per annum, amortized over a fifteen-year period ending February 28, 2032, and secured by a first-ranking all-indebtedness collateral mortgage in the amount of $3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and three of its subsidiary companies. The bank loan payable is owed by a subsidiary of the Company with a 25% non-controlling interest. Management expects to pay the minimum monthly payments within the next 12 months.

Refer to note 25 regarding the Company's capital management strategy as well as compliance with covenants associated with the bank loan.

17. SEGMENTED INFORMATION

The Company has three reportable operating segments, as described below. The reportable segments offer different products and services, and are managed separately because they require different marketing strategies, technologies, and resource allocations. For each of the operating segments, the CEO and CFO (the chief operating decision makers) review internal management reports on at least a quarterly basis. The following describes the operations in each of the reportable segments:

- Intimate Apparel: Includes the design and distribution of women's intimate apparel and accessories.
- Intelligent Fabrics: Includes the development and distribution of innovative products and treatments that are suitable for application to textiles, plastics, liquids, and hard surfaces as well as finished performance apparel which integrate one or more such treatments. These products are designed to provide added benefits to the user.
- Other: Includes leasing of property to group companies, related parties and third parties.

Inter-segment transactions are made at prices that approximate market rates.

Operating Segments Fifteen Months December 31, 2023	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	8,504,393	19,852,953	41,396	-	28,398,742
Inter-segment	-	2,836,316	304,566	(3,140,882)	-
Total Revenues	8,504,393	22,689,269	345,962	(3,140,882)	28,398,742
Earnings (loss) before income taxes	(190,561)	(2,433,874)	(7,525)	(430,817)	(3,062,777)
Provision for (recovery of) income taxes	(107,900)	(730,934)	1,753	(115,854)	(952,935)
Amortization of deferred development costs	-	26,820	-	-	26,820
Depreciation of property, plant and equipment and right-of-use asset	63,903	5,708	79,481	11,828	160,920
Interest on bank loan	15,241	-	90,020	4,946	110,207
Segment assets	5,456,263	15,104,499	3,085,280	2,267,892	25,913,934
Expenditures on property, plant and equipment	66,000	-	169,973	-	235,973

(Expressed in Canadian Dollars)

17. SEGMENTED INFORMATION – (*Continued*)

Operating Segments Twelve Months September 30, 2022	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	6,976,621	12,658,907	107,480	-	19,743,008
Inter-segment	45,000	2,467,392	162,270	(2,674,662)	-
Total Revenues	7,021,621	15,126,299	269,750	(2,674,662)	19,743,008
Earnings (loss) before income taxes	(541,949)	988,659	15,576	(669,767)	(207,481)
Provision for (recovery of) income taxes	(9,900)	227,887	5,407	21,581	244,975
Amortization of deferred development costs	-	26,820	-	-	26,820
Depreciation of property, plant and equipment and right-of-use asset	46,252	2,643	54,952	-	103,847
Interest on bank loan	7,817	-	41,906	-	49,723
Segment assets	7,174,507	16,135,314	3,040,172	1,019,503	27,369,496
Expenditures on property, plant and equipment	106,521	26,426	109,809	-	242,756

The following table summarizes external sales revenue for the Company by geographic operating segments:

For the year ended	Fifteen months December 31, 2023	Twelve months September 30, 2022
External sales revenue		
Canada	15,272,260	6,735,977
United States	5,397,527	5,187,828
United Kingdom	543,786	287,020
Southeast Asia and other	7,185,169	7,532,183
Total	28,398,742	19,743,008

All of the Company's non-current assets are located in Canada.

18. SELLING, GENERAL AND ADMINISTRATIVE COSTS

For the period ending	Fifteen months December 31, 2023	Twelve months September 30, 2022
Office salaries and benefits	2,571,218	1,593,323
Professional fees	2,026,652	1,958,483
Management and directors' fees	696,814	407,750
Insurance	390,457	256,060
Listing fees	133,511	137,293
Expected credit loss	83,799	122,402
Other general and administrative costs	978,488	617,508
	6,880,939	5,092,819

Selling costs are primarily comprised of commissions, royalties, advertising and promotional costs, distribution costs, and travel costs.

(Expressed in Canadian Dollars)

19. PERSONNEL EXPENSES

For the period ending	Fifteen months December 31, 2023	Twelve months September 30, 2022
Wages, salaries and short-term benefits	2,820,205	1,801,026
Management, professional, and directors' fees	964,614	559,250
Share-based compensation	162,199	472,952
	3,947,018	2,833,228
Included in cost of sales	248,987	207,703
Included in selling, general and administrative costs	3,535,832	2,152,573
Included in share-based compensation	162,199	472,952
	3,947,018	2,833,228

20. INCOME TAXES

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2022 - 26.5%) to the earnings for the year as follows:

For the period ending	Fifteen months December 31, 2023	Twelve months September 30, 2022
Earnings (loss) for the year before income taxes	(3,062,777)	(207,481)
Tax (recovery) on accounting earnings	(811,600)	(55,000)
Tax effect of the following:		
Non-deductible share-based compensation	43,000	125,300
Items not deductible for tax purposes	12,600	8,100
Professional fees re: issuance of shares	(84,500)	(87,700)
Unrealized foreign exchange gains/losses	(59,400)	120,800
Difference in tax rates and other	(53,035)	133,475
Provision (recovery) for income taxes	(952,935)	244,975

21. EARNINGS (LOSS) PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic earnings (loss) per share is based on net loss attributable to iFabric Corp.'s shareholders for the period ended December 31, 2023 of $2,107,522 (loss of $454,998 for the year ended September 30, 2022). The number of shares used in the earnings (loss) per share calculation is as follows:

For the period ending	Fifteen months December 31, 2023	Twelve months September 30, 2022
Weighted average number of shares outstanding - basic	30,200,288	29,689,399
Dilutive effect of options	78,645	687,950
Weighted average number of shares outstanding - diluted	30,278,933	30,377,349

For the period ended December 31, 2023, 1,345,000 options were deemed to be anti-dilutive. (September 30, 2022 – 1,211,923 options) For the period ended December 31, 2023, 2,943,717 warrants were deemed to be anti-dilutive. (September 30, 2022 – 2,948,717 warrants)

(Expressed in Canadian Dollars)

22. CAPITAL STOCK

(a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2022	29,824,467	13,660,614
Shares issued pursuant to exercise of stock options	475,000	190,000
Ascribed value credited to share capital on exercise of options	-	147,820
Warrants extension (note 22c)	-	(4,924,885)
Deferred tax on share issue costs	-	(84,500)
Balance at December 31, 2023	30,299,467	8,989,049

	Number of common shares	Common share capital
Balance at September 30, 2021	29,624,467	13,585,774
Shares issued pursuant to exercise of stock options	200,000	80,000
Ascribed value credited to share capital on exercise of options	-	62,240
Deferred tax on share issue costs	-	(67,400)
Balance at September 30, 2022	29,824,467	13,660,614

(b) Stock option plan

The Company has reserved 10% of the issued and outstanding common shares for issuance under its stock option plan. The status of the Company's stock option plan is summarized as follows:

	Number of stock options	Weighted average exercise price
Balance at September 30, 2022	1,629,000	1.95
Granted, during the period (i)	310,000	1.44
Exercised, during the period (ii)	(475,000)	0.40
Expired, during the period	(119,000)	0.40
Balance at December 31, 2023	1,345,000	2.52

	Number of stock options	Weighted average exercise price
Balance at September 30, 2021	1,629,000	1.58
Granted, during the period (i)	200,000	3.40
Exercised, during the period	(200,000)	0.40
Balance at September 30, 2022	1,629,000	1.95

(i) On May 15, 2023 the Company issued 10,000 stock options to a member of the Board of Directors. Each option entitles the holder to acquire one common share of the Company at a price of $1.29, and is exercisable for a period of 5 years from the grant date. 5,000 options vested immediately and, 5,000 options vested on August 15, 2023. Share-based compensation expense, based on the fair value of the options, had been estimated by management at $7,819 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	94.56%
Risk-free interest rate	3.08%
Expected maturity	5 years

On July 25, 2023 the Company issued 300,000 stock options to three members of executive management. Each option entitles the holder to acquire one common share of the Company at a price of $1.44, and is exercisable for a period of 5 years from the vesting date. 75,000 options vested immediately and 75,000 options will each vest on October 25, 2023, January 25, 2024 and April 25, 2024 respectively. Share-based compensation expense, based on the fair value of the options, had been estimated by management at $308,760 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	94.92%
Risk-free interest rate	3.93%
Expected maturity	5 years

(ii) 400,000 options were exercised on Jan 3, 2023 and 75,000 options were exercised on Jan 12, 2023. The fair value of the shares on the exercise date was $0.79 and $0.81 per share respectively.

(Expressed in Canadian Dollars)

22. CAPITAL STOCK – (*Continued)*

As of December 31, 2023, the following options were outstanding and exercisable:

	Options Outstanding			Options Exercisable	
Expiry date	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
April 1, 2024	75,000	0.25	4.15	75,000	4.15
May 6, 2025	100,000	1.34	2.70	100,000	2.70
June 5, 2027	450,000	3.42	2.40	450,000	2.40
February 9, 2027	150,000	3.11	3.50	150,000	3.50
March 1, 2027	50,000	3.16	3.10	50,000	3.10
May 15, 2028	5,000	4.37	1.29	5,000	1.29
August 15, 2028	5,000	4.62	1.29	5,000	1.29
July 25, 2028	75,000	4.56	1.44	75,000	1.44
October 25, 2028	75,000	4.82	1.44	75,000	1.44
January 25, 2029	75,000	5.07	1.44	-	1.44
April 25, 2029	75,000	5.31	1.44	-	1.44
April 7, 2030	200,000	6.26	2.70	200,000	2.70
June 30, 2025	10,000	1.49	6.05	10,000	6.05
	1,345,000	3.80	2.52	1,195,000	2.65

(c) Warrants

The following table summarizes warrants that have been issued, exercised, or expired during the years presented:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2022	2,948,717	4.60
Expired, during the period	(5,000)	4.60
Balance, December 31, 2023	2,943,717	4.60

Expiry date	Number of warrants	Weighted average exercise price
March 23, 2024 (i)	2,943,717	4.60

(i) 2,943,717 share purchase warrants, which expired on March 23, 2023 were extended for a further period of 12 months.

(d) Compensation options

The following tables summarize changes in the status of the Company's outstanding compensation options:

	Number of compensation options	Weighted average exercise price
Balance, September 30, 2022	176,923	3.90
Expired, during the period	(176,923)	3.90
Balance, December 31, 2023	-	3.90

	Number of compensation options	Weighted average exercise price
Balance, September 30, 2021 and September 30, 2022	176,923	3.90

23. COMMITMENTS

(a) The Company's total commitments, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

2024	645,233
2025	527,533
2026	203,307
2027	207,976
2028	207,885
2029	65,736
	1,857,670

(b) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 0%-10%. Minimum annual royalties have been established for the balance of the contract period ending December 31, 2024 and 2025 in U.S. dollar amounts of $220,000 and $240,000 respectively. If minimum amount is not met, an accrual for the difference is included in accrued liabilities. In addition, the Company is required to pay an advertising fee of 1%-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2025.

(c) In terms of a Canadian license agreement pursuant to which the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 10-12%. Minimum annual royalties have been established for the contract period ending December 31, 2024, in amount of $175,000. The license term is in effect until December 31, 2024.

(d) On October 16, 2023, the Company executed a lease agreement for the rental of 5,202 square feet of office space in Markham, Ontario, at a location in close proximity to its current warehouse location. After the move of management and all administrative staff to the new location, the Company's Markham owned building will be fully repurposed as warehouse space, in order to accommodate the warehousing of products for new Canadian apparel programs. The lease agreement is for a period of 5 years commencing on April 1, 2024 and expiring March 31, 2029, with the option of renewal for a further period of 5 years. Basic rent payable is $17.95 per square foot for years 1-3 of the lease amounting to $93,376 per annum and $18.95 per square foot for years 4-5, amounting to $98,578 per annum. Additional rent will be calculated each year and, is estimated at $17.96 per square foot for the first year of the lease, or $93,428 per annum. A right of use asset and lease liability has been recognized during the period (refer to note 10).

24. RELATED PARTY TRANSACTIONS

(a) Key management personnel of the Company are those individuals having authority and responsibility for planning, directing, and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Company's Board of Directors, which includes three executive officers of the Company.

Remuneration of key management personnel of the Company was as follows:

For the year ended	Fifteen months December 31, 2023	Twelve months September 30, 2022
Salaries, management and professional fees, directors' fees, and short-term benefits	1,535,485	944,182
Share-based compensation	162,199	472,952
	1,697,684	1,417,134

(b) Included in selling, general and administrative costs are management fees (2022 - $15,000) paid to a company controlled by a director of one of the Company's subsidiaries.

(Expressed in Canadian Dollars)

24. RELATED PARTY TRANSACTIONS – (*Continued)*

(c) Included in revenue is rental income earned in the amount of $24,500 (2022 - $24,300) from a company controlled by a director of one of the Company's subsidiaries.

(d) Included in accounts payable and accrued liabilities is an amount of $50,000 (2022 - $82,000) due to directors and key management personnel of the Company in respect of unpaid fees.

(e) Included in selling, general and administrative costs is an amount of $106,490 (2022 - $69,908) paid to the spouse of an executive officer of the Company for marketing and administrative services rendered.

(f) There is an amount of $49,748 due from an executive officer (2022 - $87,248) in respect to a housing loan and an amount of $487,372 due to a director of one of the Company's subsidiaries (2022 - $547,372). Refer to notes 8 and 15 respectively.

25. FINANCIAL RISK MANAGEMENT

Fair Value

The fair values of financial assets and liabilities, together with the carrying amounts presented in the balance sheets, are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
Bank loan payable	Level 2	889,705	889,705

The carrying values of cash, accounts receivables, balances with related party and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. These financial instruments have been classified as level 2 within the fair value hierarchy.

The fair value of bank loan payable bearing interest at variable rates approximates its carrying value as interest rate charges fluctuate with changes in the bank's prime rate.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company's cash and accounts receivable are subject to concentrations of credit risk. Management mitigates the risk associated with cash by making deposits with large banks and financial institutions that are considered to be highly creditworthy. The Company routinely assesses the financial strength of its customers to mitigate its exposure to credit risk. Management of the Company monitors the credit worthiness of its customers by performing background checks on all new customers focusing on publicity, reputation in the market and relationships with customers and other vendors. Further, the Company reviews forward looking information such as indications of customers going through financial difficulties that may create doubt over the receipt of funds.

The Company's maximum exposure to credit risk is $9,115,592 (2022 - $7,868,919). Included in selling, general and administrative costs is a provision for doubtful accounts of $134,013 (2023 - $122,402) expensed during the year.

The following table provides further details on trade receivables not impaired:

	December 31, 2023	September 30, 2022
Trade receivables not past due	5,820,278	4,727,673
Trade receivables past due and not impaired		
Under 31 days	1,260,981	1,137,396
31 - 60 days	303,061	519,545
61 - 90 days	81,449	309,031
Over 90 days	78,079	230,549
Trade receivables, net of expected credit loss allowance	7,543,848	6,924,194

Economic Dependence

Approximately 61% of the Company's total sales were to four customers (2022 - 61% of sales were to four customers). At December 31, 2023, four customers accounted for 78% (2022 - four customers accounted for 78%) of the Company's accounts receivable. Approximately 73% of the Company's total purchases were to four vendors (2022 – 73% of purchases were to four vendors), one of which is related to a distributor of the Company.

25. FINANCIAL RISK MANAGEMENT – (*Continued)*

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities. The Company is exposed to this risk mainly with respect to its accounts payable and accrued liabilities, income taxes payable, related party loans, bank loan payable, and commitments. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to pay trade creditors and repays long term debt interest and principal as it becomes due using cash generated from operations.

	Carrying amount	Contractual cash flow	2024	2025	2026	2027	2028	2029
Minimum guaranteed royalties	-	783,396	465,972	317,424	-	-	-	-
Lease obligations	1,056,866	1,056,866	161,852	210,110	203,307	207,976	207,885	65,736
Car loan	34,256	34,256	12,358	12,358	9,540	-	-	-
Bank loan payable	889,705	889,705	889,705	-	-	-	-	-
Trade and other payables	2,916,763	2,916,763	2,916,763	-	-	-	-	-
Related party loans	487,372	487,372	-	487,372	-	-	-	-
	5,384,962	6,168,358	4,446,650	1,027,264	212,847	207,976	207,885	65,736

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to currency risk and interest rate risk.

Currency risk

The Company conducts certain of its operations in U.S. Dollars (“USD”), New Taiwanese Dollars (“TWD”) and Chinese Yuan (“RMB”). The following balances were included in the consolidated financial statements:

USD	December 31, 2023	September 30, 2022
Cash	111,355	84,799
Accounts receivable	3,725,053	1,548,004
Accounts payable and accrued liabilities	(722,814)	(1,190,712)
Prepaids and deposits	374,059	3,586,587
	3,487,653	4,028,678

TWD	December 31, 2023	September 30, 2022
Cash	1,352,102	2,537,417
Accounts receivable	20,212,208	17,802,959
Accounts payable and accrued liabilities	139,168	(91,930)
	21,703,478	20,248,446

RMB	December 31, 2023	September 30, 2022
Cash	615,954	1,210,179
Accounts receivable	7,847,275	6,158,745
Accounts payable and accrued liabilities	(3,513,238)	(1,225,126)
	4,949,991	6,143,798

25. FINANCIAL RISK MANAGEMENT – (*Continued)*

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. The effect of a 5% strengthening (weakening) of the USD against the Canadian Dollar as at December 31, 2023, in relation to the net amount of USD-denominated currency balances, would have resulted in an increase (decrease) of approximately $170,000 to net comprehensive earnings for 2023, all other variables held constant. The effect of a 5% strengthening (weakening) of the TWD against the Canadian Dollar as at December 31, 2023, in relation to the net amount of TWD-denominated currency balances, would have resulted in an increase (decrease) of approximately $34,000 to net comprehensive earnings for 2023, all other variables held constant. The effect of a 5% strengthening (weakening) of the RMB against the Canadian Dollar as at December 31, 2023, in relation to the net amount of RMB-denominated currency balances, would have resulted in an increase (decrease) of approximately $34,000 to net comprehensive earnings for 2023, all other variables held constant.

The RMB located in China is not freely convertible into other currencies. However, under China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its secured bank loan and its bank operating line, which bear interest at variable rates, since changes in market rates can cause fluctuations in cash flows

The Company has performed a sensitivity analysis on its interest rate risk. The effect of a 1% decrease (increase) in the average interest rate paid during the year would have resulted in an increase (decrease) of approximately $7,000 to net earnings for 2023, all other variables held constant.

26. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while providing a return to its stakeholders.

The capital structure of the Company is composed of bank loan payable, and equity attributable to iFabric Corp.'s shareholders.

The Company's primary uses of capital are to finance working capital and capital expenditures.

The Company is subject to capital requirements on debt described in notes 13, 16 and 22. As at December 31, 2023, the Company met these financial covenant requirements.

27. SUBSEQUENT EVENTS

On March 7, 2024, the Company received approval to extend the exercise period of a total of 2,943,717 outstanding common share purchase warrants for a period of one year from their current expiry date to March 23, 2025.