



IFABRIC CORP.

CONSOLIDATED  
FINANCIAL STATEMENTS

SEPTEMBER 30, 2022 AND 2021

(EXPRESSED IN CANADIAN DOLLARS)

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## Independent Auditor's Report

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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 September 30, 2022 and 2021, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years 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 September 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years 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 16 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 year, 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  
December 28, 2022

IFABRIC CORP.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)

As at	September 30, 2022	September 30, 2021
<b>ASSETS</b>		
Current assets		
Cash	944,725	8,901,718
Accounts receivable (note 4)	7,017,329	6,452,896
Inventories (note 5)	9,353,200	3,015,010
Income taxes recoverable	39,780	90,521
Prepaid expenses and deposits (note 6)	5,338,748	4,734,352
<b>Total current assets</b>	<b>22,693,782</b>	<b>23,194,497</b>
Non-current assets		
Due from related parties (note 7)	87,248	131,404
Property, plant and equipment (note 8)	3,110,330	2,942,104
Right-of-use assets (note 9)	52,548	54,168
Deferred development costs (note 10)	204,838	231,658
Deferred income taxes (note 11)	1,165,700	1,020,984
Goodwill	55,050	55,050
<b>Total non-current assets</b>	<b>4,675,714</b>	<b>4,435,368</b>
<b>Total assets</b>	<b>27,369,496</b>	<b>27,629,865</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	2,520,095	2,941,445
Customer deposits	85,326	151,315
Income taxes payable	195,097	256,426
Deferred revenue	13,090	25,609
Current portion of contract liability	-	180,509
Current portion of lease liability	19,208	30,613
Current portion due to related parties (note 14)	4,559	-
Current portion of car loan payable	12,792	-
Current portion of bank loan payable (note 15)	1,138,704	1,215,464
<b>Total current liabilities</b>	<b>3,988,871</b>	<b>4,801,381</b>
Non-current liabilities		
Non-current portion of lease liability	33,340	20,855
Non-current portion of car loan payable	33,948	-
Due to related parties (note 14)	547,372	530,422
<b>Total non-current liabilities</b>	<b>614,660</b>	<b>551,277</b>
<b>Total liabilities</b>	<b>4,603,531</b>	<b>5,352,658</b>
Commitments (note 22)		
<b>EQUITY</b>		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 21)	13,660,614	13,585,774
Reserves	3,675,458	3,264,746
Retained earnings	5,157,927	5,612,925
Accumulated other comprehensive earnings	259,111	(196,551)
<b>Total equity attributable to iFabric Corp. shareholders</b>	<b>22,753,110</b>	<b>22,266,894</b>
Non-controlling interest	12,855	10,313
<b>Total equity</b>	<b>22,765,965</b>	<b>22,277,207</b>
<b>Total liabilities and equity</b>	<b>27,369,496</b>	<b>27,629,865</b>

Approved on behalf of the Board of Directors on December 28, 2022:

"Hylton Karon"  
Director

"Hilton Price"  
Director

IFABRIC CORP.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS

(Expressed in Canadian Dollars)

For the year ended September 30,	2022	2021
REVENUE	19,743,008	19,763,672
COST OF SALES	12,716,732	12,002,784
GROSS PROFIT	7,026,276	7,760,888
EXPENSES		
General and administrative costs (note 17)	5,092,819	4,082,203
Selling costs (note 17)	1,347,699	982,641
Interest on bank loan	49,723	53,402
Depreciation of property, plant and equipment and right-of-use assets	103,847	90,095
Amortization of deferred development costs	26,820	26,820
Share-based compensation	472,952	21,994
	7,093,860	5,257,155
EARNINGS (LOSS) FROM OPERATIONS	(67,584)	2,503,733
OTHER EXPENSES (INCOME)		
Loss (gain) on foreign exchange	175,292	(223,000)
Gain on disposal of capital assets	(17,500)	-
Government grants (note 3q)	(17,895)	(315,360)
	139,897	(538,360)
EARNINGS (LOSS) BEFORE INCOME TAXES	(207,481)	3,042,093
PROVISION (RECOVERY) OF INCOME TAXES (note 19)		
Current	457,091	378,071
Deferred	(212,116)	289,016
	244,975	667,087
NET EARNINGS (LOSS)	(452,456)	2,375,006
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
IFabric Corp. shareholders	(454,998)	2,369,698
Non-controlling interest	2,542	5,308
	(452,456)	2,375,006
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain (loss) on translation of foreign operations	455,662	(242,697)
TOTAL COMPREHENSIVE EARNINGS	3,206	2,132,309
EARNINGS (LOSS) PER SHARE (note 20)		
Basic	(0.015)	0.084
Diluted	(0.015)	0.081

IFABRIC CORP.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Expressed in Canadian Dollars)

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves			Retained earnings	Accumulated Other Comprehensive Earnings	Total Comprehensive Earnings (Loss)		
	Capital stock	Contributed surplus	Options					
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

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves			Retained earnings	Accumulated Other Comprehensive Earnings	Total Comprehensive Earnings (Loss)		
	Capital stock	Contributed surplus	Options					
Balance at September 30, 2020	3,282,276	852,679	1,915,538	3,243,227	46,146	9,339,866	5,005	9,344,871
Total comprehensive earnings (loss)	-	-	-	2,369,698	(242,697)	2,127,001	5,308	2,132,309
Private placement (note 21)	11,499,996	-	-	-	-	11,499,996	-	11,499,996
Share issue costs - cash (note 21)	(1,271,563)	-	-	-	-	(1,271,563)	-	(1,271,563)
Deferred tax on share issue costs (note 11)	269,600	-	-	-	-	269,600	-	269,600
Share issue costs - fair value of compensation options issued to agents (note 21)	(619,987)	-	619,987	-	-	-	-	-
Exercise of options	425,452	-	(145,452)	-	-	280,000	-	280,000
Share-based compensation	-	-	21,994	-	-	21,994	-	21,994
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

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 year ended September 30,	2022	2021
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings (loss)	(452,456)	2,375,006
Items not affecting cash		
Interest on lease liability	2,944	2,944
Depreciation of property, plant and equipment and right-of-use assets	103,847	90,095
Amortization of deferred development costs	26,820	26,820
Share-based compensation	472,952	21,994
Deferred income tax provision	(212,116)	289,016
	(58,009)	2,805,875
Changes in operating assets and liabilities		
Accounts receivable	(564,433)	(2,010,109)
Inventories	(6,338,190)	123,118
Income taxes recoverable	50,741	175,461
Prepaid expenses and deposits	(604,396)	(627,366)
Foreign exchange forward contracts	-	126,994
Due from related parties	44,156	(19,156)
Accounts payable and accrued liabilities	(421,350)	1,169,462
Customer deposits	(65,989)	(3,757,778)
Deferred revenue	(12,519)	(32,161)
Contract liability	(180,509)	(107,662)
Income taxes payable	(61,329)	(68,349)
	(8,153,818)	(5,027,546)
	(8,211,827)	(2,221,671)
FINANCING ACTIVITIES		
Due to related parties	21,509	28,212
Share and warrant issuances (note 21)	80,000	11,779,996
Share and warrant issuances costs (note 21)	-	(1,271,563)
Increase in bank loan (note 15)	-	40,000
Increase in car loan	46,740	-
Repayment of bank loan (note 15)	(76,760)	(84,319)
Interest paid	(2,944)	(2,944)
Repayment of lease liability	(26,617)	(30,325)
	41,928	10,459,057
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(242,756)	(253,399)
	(242,756)	(253,399)
CHANGE IN CASH POSITION	(8,412,655)	7,983,987
CASH, beginning of year	8,901,718	1,160,428
Effect of foreign currency translation	455,662	(242,697)
CASH, end of year	944,725	8,901,718

(i) Actual taxes paid: \$406,105



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").

(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, and after making allowance for anticipated discounts and rebates in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

## (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, and deferred development costs at each reporting date to determine whether events or changed circumstances indicate that the carrying value may not be recoverable. For goodwill, the recoverability is estimated annually, on September 30 or more often when there are indicators of impairment.

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

Where lease contracts contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due, 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.

Rent expected to be collected over the term of the agreement is as follows:

Lessor Rental Income	
2023	102,869
2024	43,307
	<u>146,176</u>

## (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

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.

## (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	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	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 and long term receivables. 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.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

#### 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. 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.

#### (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) Government grants

The Company applied for assistance from multiple government programs, including the Canadian Emergency Wage Subsidy ("CEWS"), as a result of the impact of the COVID-19 pandemic on the Company's operations. The subsidy has been recognized as a separate line item as a recovery in expenses under "Government grants". During the year, the Company did not receive any grants (2021 - \$296,004) relating to CEWS.

As the lessor, the Company applied for the Canada Emergency Commercial Rent Assistance ("CECRA"). The program is designed to assist businesses in meeting rent obligations through forgivable loans to property owners. Under the program, property owners will reduce rent by at least 75% for the months of April through September 2020, for qualified small business tenants. CECRA will provide for 50% of the rent, with the tenant paying up to 25% and the property owner forgiving 25%. During fiscal 2020, the Company received \$69,893 relating to CECRA. The amount received is being amortized over the remaining lease term. Any unamortized amount is included in deferred rent asset in accounts receivable.

#### (s) Management judgments and use of estimates

On March 11, 2020, the World Health Organization declared the outbreak of Coronavirus ("COVID-19") a pandemic. There is significant uncertainty regarding the extent and duration of the impact that the COVID-19 pandemic will have on Company's operations. The Company did experience a reduction in sales in 2020 for its Intimate Apparel division due to government lockdowns and restrictions. As the restrictions were lifted in 2022, the Company experienced an improvement in its Intimate Apparel operations, but still faces global supply chain issues due to lockdowns and vessel shortages around the world. Management continues to monitor and assess the impact of the pandemic on its judgments, estimates, accounting policies and amounts recognized in the consolidated financial statements.

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:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

## Recoverability of deferred development costs

Recoverability of deferred development costs are tested when indicators of impairment exist. When an indicator of impairment exists, the deferred development costs are tested to determine if the carrying amount exceeds its recoverable amount, which is the highest of its fair value less costs to sell and its value in use. The fair value less costs to sell is based on data from binding sales transactions with an arm's length party of similar assets or other observable market prices less costs to sell. Value in use is based on a discounted cash flow model which reviews discounted cash flows. There are judgments and estimates associated with determining whether indicators of impairment exist as well as the subsequent testing. Recoverable amounts can be sensitive to the discount rate as well as the estimated future cash flows.

## 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 project unit sales. Projections of future sales is based on historical data and projections provided by customers.

## Recoverability of deposit

The Company has an outstanding deposit from a foreign supplier which was partially fulfilled (note 6). Recoverability of the deposit has been delayed due to government shutdowns and closures from COVID-19. Given the arbitrators ruling in favour of the Company, management has not concluded that a loss relating to the deposit is probable. Although it may be possible, there does not appear to be sufficient information to determine the amount or range of reasonably possible loss, if any. There are judgments and estimates associated with determining whether the amount is recoverable.

## 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.

## 4. ACCOUNTS RECEIVABLE

	September 30, 2022	September 30, 2021
Trade receivables	7,045,514	6,434,597
Expected credit loss	(121,320)	-
Allowance for discounts and rebates	(4,769)	(38,132)
Deferred rent asset	26,424	43,447
Contract asset	69,480	-
Grant receivable	-	10,984
Other	2,000	2,000
	<u>7,017,329</u>	<u>6,452,896</u>

## 5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the year, the amount of inventories charged to net earnings (loss) was \$11,149,393 (2021 - \$11,278,956) and the amount of inventory write-downs were \$193,730 (2021 - \$0). There were no reversals of prior years write-downs of inventory.

## 6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2022	September 30, 2021
Prepaid expenses and other assets	147,524	103,530
Deposits paid to suppliers (i)	5,191,224	4,630,822
	<b>5,338,748</b>	<b>4,734,352</b>

(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 has been seeking 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 is in the court enforcement process 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. No amounts have been accrued for damages, interest or arbitration reimbursement as at September 30, 2022.

## 7. 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.

## 8. PROPERTY, PLANT AND EQUIPMENT

	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
	<b>3,860,103</b>	<b>749,773</b>	<b>3,110,330</b>

  

	September 30, 2021		
	Cost	Accumulated depreciation	Net carrying amount
Land and buildings (i)	3,359,424	471,798	2,887,626
Computer and office equipment	249,170	196,473	52,697
Factory machinery	8,753	6,972	1,781
	<b>3,617,347</b>	<b>675,243</b>	<b>2,942,104</b>

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



IFABRIC CORP.

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8. PROPERTY, PLANT AND EQUIPMENT, *continued*

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

	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

	September 30, 2020				September 30, 2021
	Net carrying amount	Additions	Depreciation	Disposals	Net carrying amount
Land and buildings	2,680,371	247,418	(40,163)	-	2,887,626
Computer and office equipment	62,278	5,981	(15,562)	-	52,697
Factory machinery	2,226	-	(445)	-	1,781
	2,744,875	253,399	(56,170)	-	2,942,104

9. RIGHT-OF-USE ASSETS

	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, 2020				September 30, 2021
	Net carrying amount	Additions	Depreciation	Disposals	Net carrying amount
Right-of-use assets	61,735	44,041	(33,925)	(17,683)	54,168
	61,735	44,041	(33,925)	(17,683)	54,168

10. DEFERRED DEVELOPMENT COSTS

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

			September 30, 2021
	Cost	Accumulated amortization	Net carrying amount
Product development costs	1,119,446	887,788	231,658

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

10. DEFERRED DEVELOPMENT COSTS, *continued*

	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

  

	September 30, 2020				September 30, 2021
	Net carrying amount	Additions	Amortization	Disposals	Net carrying amount
Product development costs	258,478	-	(26,820)	-	231,658
	258,478	-	(26,820)	-	231,658

## 11. DEFERRED INCOME TAXES

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

	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

  

	September 30, 2020	Changes in profit or loss	Changes in equity	September 30, 2021
Non-capital losses carryforward	1,117,600	(296,216)	-	821,384
Property and equipment	(8,700)	100	-	(8,600)
Intangible assets	(68,500)	7,100	-	(61,400)
Share issuance costs	-	-	269,600	269,600
	1,040,400	(289,016)	269,600	1,020,984

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 September 30, 2022, a deferred tax liability related to any remaining undistributed foreign earnings has not been recognized to represent the outside basis difference in Protix (Shanghai) Trading Co., Ltd. The estimated deferred tax liability not recognized is approximately \$270,000.

## 12. CREDIT FACILITIES

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$3,750,000, against which \$0 was outstanding as at September 30, 2022 (2021 - \$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.

## 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	September 30, 2021
Trade payables	1,962,660	2,231,223
Government remittances	151,412	57,391
Accrued liabilities	386,109	632,917
Tenants deposits	19,914	19,914
	2,520,095	2,941,445

## 14. DUE TO RELATED PARTIES

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

	September 30, 2022	September 30, 2021
Due to director	4,559	-
Due to director of subsidiary co. (i)	547,372	530,422
	551,931	530,422
Less current portion	4,559	-
Due beyond one year	547,372	530,422

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

## 15. BANK LOAN PAYABLE

	September 30, 2022	September 30, 2021
Bank loan	1,018,704	1,095,464
CEBA	120,000	120,000
	1,138,704	1,215,464
Less current portion	(1,138,704)	(1,215,464)
Due beyond one year	-	-

One of the Company's subsidiaries has a variable rate demand loan, payable in monthly payments of \$10,331 comprising principal and interest 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.

The Company has a total loan of \$120,000, which was funded by the Canada Emergency Business Account ("CEBA"). CEBA is interest free until December 31, 2023 with one third of the balance forgiven if repaid by December 31, 2023. Management expects to pay the two thirds of the balance of \$120,000 of CEBA 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.

## 16. 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.

IFABRIC CORP.

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16. SEGMENTED INFORMATION, *continued*

Operating Segments 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

Operating Segments 2021	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	3,979,319	15,672,469	111,884	-	19,763,672
Inter-segment	75,000	1,447,334	161,876	(1,684,210)	-
Total Revenues	4,054,319	17,119,803	273,760	(1,684,210)	19,763,672
Earnings (loss) before income taxes	(50,075)	3,435,241	24,531	(367,604)	3,042,093
Provision for (recovery of) income taxes	(90,521)	933,493	3,299	(179,184)	667,087
Amortization of deferred development costs	-	26,820	-	-	26,820
Depreciation of property, plant and equipment and right-of-use asset	36,774	1,594	51,727	-	90,095
Interest on lease liability and bank loan	13,747	-	39,655	-	53,402
Segment assets	5,711,471	11,534,673	2,993,498	7,390,223	27,629,865
Expenditures on property, plant, and equipment	-	5,981	247,418	-	253,399

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

	2022	2021
External sales revenue		
Canada	6,735,977	5,703,211
United States	5,187,828	7,279,293
United Kingdom	287,020	41,214
Southeast Asia and other	7,532,183	6,739,954
Total	19,743,008	19,763,672

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

17. SELLING, GENERAL AND ADMINISTRATIVE COSTS

	2022	2021
Office salaries and benefits	1,593,323	1,110,838
Professional fees	1,958,483	1,780,941
Management and directors' fees	407,750	448,550
Insurance	256,060	215,579
Listing fees	137,293	110,599
Other general and administrative costs	739,910	415,696
	5,092,819	4,082,203

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

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18. PERSONNEL EXPENSES

	2022	2021
Wages, salaries and short-term benefits	1,801,026	1,258,412
Management, professional, and directors' fees	559,250	668,550
Share-based compensation	472,952	21,994
	<b>2,833,228</b>	<b>1,948,956</b>
Included in cost of sales	207,703	147,574
Included in selling, general and administrative costs	2,152,573	1,779,388
Included in share-based compensation	472,952	21,994
	<b>2,833,228</b>	<b>1,948,956</b>

19. 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% (2021 - 26.5%) to the earnings for the year as follows:

	2022	2021
Earnings (loss) for the year before income taxes	(207,481)	3,042,093
Tax (recovery) on accounting earnings	(55,000)	806,200
Tax effect of the following:		
Non-deductible share-based compensation	125,300	5,800
Items not deductible for tax purposes	8,100	5,800
Professional fees re: issuance of shares	(87,700)	(87,700)
Unrealized foreign exchange gains/losses	120,800	-
Difference in tax rates and other	133,475	(63,013)
Provision (recovery) for income taxes	<b>244,975</b>	<b>667,087</b>

20. EARNINGS (LOSS) PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. 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 year ended September 30, 2022 of \$454,998 (earnings of \$2,369,698 for the year ended September 30, 2021). The number of shares used in the earnings (loss) per share calculation is as follows:

	2022	2021
Weighted average number of shares outstanding - basic	29,689,399	28,136,650
Dilutive effect of options	687,950	1,074,870
Weighted average number of shares outstanding - diluted	<b>30,379,371</b>	<b>29,213,542</b>

For the year ended September 30, 2022 and 2021, 1,211,923 and 85,000 options were deemed to be anti-dilutive respectively. For the year ended September 30, 2022 and 2021, 2,948,717 warrants were deemed to be anti-dilutive.

## 21. CAPITAL STOCK

## (a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

	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)
<b>Balance at September 30, 2022</b>	<b>29,824,467</b>	<b>13,660,614</b>

	Number of common shares	Common share capital
Balance at September 30, 2020	26,475,750	3,282,276
Private placement (i)	2,948,717	11,499,996
Share issuance costs - cash (ii)	-	(1,271,563)
Deferred tax on share issuance costs (ii)	-	269,600
Share issuance costs - fair value of compensation options issued to agent (ii)	-	(619,987)
Shares issued pursuant to exercise of stock options	200,000	280,000
Ascribed value credited to share capital on exercise of options	-	145,452
<b>Balance at September 30, 2021</b>	<b>29,624,467</b>	<b>13,585,774</b>

(i) On February 22, 2021, the Company closed an offering of equity comprising 2,948,717 subscription receipts at a price per unit of \$3.90 for gross proceeds of \$11,499,996. The Escrow release conditions were satisfied on March 22, 2021 at which time, funds were released and each unit is automatically converted to one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$4.60 per share for a period of 2 years from March 22, 2021. The share price at the date of grant was \$5.40.

(ii) As compensation for the issue, the agent received a cash fee of 6% of the gross proceeds, totaling \$690,000 as well as 176,923 compensation options receipts which was automatically converted into compensation options on March 23, 2021. Each compensation option entitles the holder to acquire one common share of the Company at a price of \$3.90 for a period of 2 years from March 23, 2021. The share price at the date of grant was \$5.36.

The Company incurred \$582,025 in legal costs and disbursements in connection with the issue.

The fair value of the agent compensation options has been estimated by management at \$619,987 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	116.36%
Risk-free interest rate	0.27%
Expected maturity	2 years

21. CAPITAL STOCK, *continued*

## (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, 2021	1,629,000	1.58
Granted, during the year (i)	200,000	3.40
Exercised, during the year	(200,000)	0.40
Balance at September 30, 2022	1,629,000	1.95

  

	Number of stock options	Weighted average exercise price
Balance at September 30, 2020	1,829,000	1.56
Exercised, during the year	(200,000)	1.40
Balance at September 30, 2021	1,629,000	1.58

(i) On February 9, 2022, the Company issued 150,000 stock options to a new member of the Board of Directors. Each option entitles the holder to acquire one common share of the Company at a price of \$3.50, and is exercisable for a period of 5 years from the grant date. All 150,000 options vested immediately. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$252,000 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	85.79%
Risk-free interest rate	1.68%
Expected maturity	5 years

On March 1, 2022, the Company issued 50,000 additional stock options to an existing member of the Board of Directors. Each option entitles the holder to acquire one common share of the Company at a price of \$3.10, and is exercisable for a period of 5 years from the grant date. All 50,000 options vested immediately. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$72,500 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	85.73%
Risk-free interest rate	1.48%
Expected maturity	5 years

As of September 30, 2022, the following options were outstanding and exercisable:

Expiry date	Options Outstanding			Options Exercisable	
	Number of stock options	Weighted average contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
January 16, 2023	594,000	0.29	0.40	594,000	0.40
April 1, 2024	75,000	1.50	4.15	75,000	4.15
May 6, 2025	100,000	2.60	2.70	100,000	2.70
June 5, 2027	450,000	4.68	2.40	450,000	2.40
February 9, 2027	150,000	4.36	3.50	150,000	3.50
March 1, 2027	50,000	4.41	3.10	50,000	3.10
April 7, 2030	200,000	7.52	2.70	200,000	2.70
June 30, 2025	10,000	2.75	6.05	10,000	6.05
	1,629,000	3.10	1.95	1,629,000	1.95

21. CAPITAL STOCK, *continued*

## (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, 2021 and September 30, 2022	2,948,717	4.60

	Number of warrants	Weighted average exercise price
Balance, September 30, 2020	-	-
Issued, during the period (note 21(a)(i))	2,948,717	4.60
Balance, September 30, 2021	2,948,717	4.60

## (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, 2021 and September 30, 2022	176,923	3.90

	Number of compensation options	Weighted average exercise price
Balance, September 30, 2020	-	-
Issued, during the period (note 21(a)(ii))	176,923	3.90
Balance, September 30, 2021	176,923	3.90

## 22. COMMITMENTS

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

2023	356,713
2024	23,080
2025	12,572
2026	4,535
	<u>396,900</u>

- (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, 2022 and 2023 in U.S. dollar amounts of \$160,000 and \$200,000 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, 2023. Management expects to renew this agreement for a further term.



- (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 periods ending December 31, 2022, 2023 and 2024, in amounts of \$15,000, \$125,000 and \$175,000 respectively. The license term is in effect until December 31, 2024.

## 23. 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:

	2022	2021
Salaries, management and professional fees, directors' fees, and short-term benefits	944,182	933,213
Share-based compensation	472,952	21,994
	1,417,134	955,207

- (b) Included in selling, general and administrative costs are management fees in the amount of \$15,000 (2021 - \$25,000) paid to a company controlled by a director of one of the Company's subsidiaries.
- (c) Included in revenue is rental income earned in the amount of \$24,300 (2021 - \$34,200) 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 \$82,000 (2021 - \$222,000) 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 \$69,908 (2021 - \$32,333) paid to the spouse of an executive officer of the Company for marketing and administrative services rendered.
- (f) There is an amount of \$87,248 due from an executive officer (2021 - \$131,404) in respect to a housing loan and an amount of \$547,372 due to a director of one of the Company's subsidiaries (2021 - \$530,422). Refer to notes 7 and 14 respectively.

## 24. 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	1,138,704	1,138,704

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 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.

IFABRIC CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending September 30, 2022 and 2021 (Expressed in Canadian Dollars)

24. FINANCIAL RISK MANAGEMENT, *continued*

The Company's maximum exposure to credit risk is \$6,924,194 (2021 - \$6,452,896). Included in selling, general and administrative costs are bad debts of \$122,402 (2021 - \$0) expensed during the year.

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

	September 30, 2022	September 30, 2021
Trade receivables not past due	4,727,673	4,178,421
Trade receivables past due and not impaired		
Under 31 days	1,137,396	940,264
31 - 60 days	519,545	513,530
61 - 90 days	309,031	448,772
Over 90 days	230,549	353,610
Trade receivables, net of expected credit loss allowance	6,924,194	6,434,597

Economic Dependence

Approximately 61% of the Company's total sales were to four customers (2021 - 72% of sales were to four customers). At September 30, 2022, four customers accounted for 78% (September 30, 2021 - four customers accounted for 80%) of the Company's accounts receivable. Approximately 73% of the Company's total purchases were to four vendors (2021 - 67% of purchases were to four vendors), one of which is related to a distributor of the Company.

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	2023	2024	2025	2026
Minimum guaranteed royalties	-	274,140	274,140	-	-	-
Lease obligations	63,267	63,267	23,080	23,080	12,572	4,535
Car loan	46,740	46,740	14,388	14,388	14,388	3,576
Bank loan payable	1,138,704	1,138,704	1,138,704	-	-	-
Trade and other payables	2,520,095	2,520,095	2,520,095	-	-	-
Related party loans	547,372	547,372	-	547,372	-	-
	4,316,178	4,590,318	3,970,407	584,840	26,960	8,111

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:

24. FINANCIAL RISK MANAGEMENT, *continued*

USD	September 30, 2022	September 30, 2021
Cash	84,799	730,865
Accounts receivable	1,548,004	1,028,472
Accounts payable and accrued liabilities	(1,190,712)	(1,150,481)
Prepays and deposits	3,586,587	3,031,763
	4,028,678	3,640,619

TWD	September 30, 2022	September 30, 2021
Cash	2,537,417	6,277,565
Accounts receivable	17,802,959	10,807,553
Accounts payable and accrued liabilities	(91,930)	(121,924)
	20,248,446	16,963,194

RMB	September 30, 2022	September 30, 2021
Cash	1,210,179	4,158,944
Accounts receivable	6,158,745	10,885,585
Accounts payable and accrued liabilities	(1,225,126)	(4,410,153)
	6,143,798	10,634,376

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 September 30, 2022, in relation to the net amount of USD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$203,000 to net comprehensive earnings for 2022, all other variables held constant. The effect of a 5% strengthening (weakening) of the TWD against the Canadian Dollar as at September 30, 2022, in relation to the net amount of TWD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$32,000 to net comprehensive earnings for 2022, all other variables held constant. The effect of a 5% strengthening (weakening) of the RMB against the Canadian Dollar as at September 30, 2022, in relation to the net amount of RMB-denominated currency balances, would have resulted in an increase (decrease) of approximately \$43,000 to net comprehensive earnings for 2022, 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 \$8,000 to net earnings for 2022, all other variables held constant.

25. 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 12, 15 and 21. As at September 30, 2022, the Company met these financial covenant requirements.