Covalon Technologies Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2021, and 2020

Contents

Independent auditor's report

To the Shareholders of Covalon Technologies Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Covalon Technologies Ltd. and its subsidiaries (together, the Company) as at September 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at September 30, 2021 and 2020;
- the consolidated statements of operations and other comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

The engagement partner on the audit resulting in this independent auditor's report is Grant Redpath.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
December 10, 2021

Covalon Technologies Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

	September 30, 2021	September 30, 2020
Assets		
Current assets		
Cash and cash equivalents	**$22,946,923**	$3,506,991
Cash in escrow (Note 5)	**2,548,200**	-
Accounts receivable	**6,395,547**	3,333,437
Inventories (Note 7)	**4,702,201**	7,199,774
Prepaid expenses	**845,451**	809,404
Total current assets	**37,438,322**	14,849,606
Non-current assets		
Restricted cash (Note 5)	**137,061**	37,309
Property, plant and equipment (Note 9)	**1,256,594**	1,824,959
Intangible assets (Note 8)	**897,865**	2,151,274
Right-of-use assets (Note 12)	**852,262**	2,815,724
Goodwill (Note 5)	**-**	13,018,102
Total non-current assets	**3,143,782**	19,847,368
Total assets	**$40,582,104**	$34,696,974
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$4,039,607**	$3,899,266
Short-term debt (Note 10)	**-**	7,649,027
Lease liabilities (Note 12)	**541,378**	516,372
Acquisition note payable (Note 6)	**-**	10,074,013
Deferred revenue	**414,649**	498,149
Total current liabilities	**4,995,634**	22,636,827
Non-current liabilities		
Deferred revenue	**162,448**	290,123
Lease liabilities (Note 12)	**2,049,495**	2,663,346
Total non-current liabilities	**2,211,943**	2,953,469
Total liabilities	**7,207,577**	25,590,296
Shareholders' equity		
Share capital (Note 14)	**44,676,999**	44,607,119
Contributed surplus (Note 14)	**11,833,354**	11,652,765
Foreign exchange translation reserve	**1,106,246**	565,772
Accumulated deficit	**(24,242,072)**	(47,718,978)
Total shareholders' equity	**33,374,527**	9,106,678
Total liabilities and shareholders' equity	**$40,582,104**	$34,696,974

On behalf of the Board:

(signed) "Abe Schwartz" *Director*

(signed) "Brian Pedlar" *Director*

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

Covalon Technologies Ltd.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Expressed in Canadian Dollars

		Year ended September 30,
	2021	2020
Revenue		
Product	**$17,650,865**	$11,329,716
Development and consulting services	**1,691,380**	1,979,282
Licensing and royalty fees	**219,056**	199,436
Total revenue	**19,561,301**	13,508,434
Cost of sales	**9,864,970**	8,861,011
Gross profit before operating expenses	**9,696,331**	4,647,423
Operating expenses		
Operations	**995,158**	1,040,499
Research and development activities	**1,140,517**	794,241
Sales, marketing, and agency fees	**1,927,181**	2,916,571
General and administrative	**4,795,132**	7,283,315
	8,857,988	12,034,626
Finance expenses	**419,379**	435,587
Net income (loss) from continuing operations	**418,964**	(7,822,790)
Net income from discontinued operations (Note 5)	**23,057,942**	870,566
Net income (loss)	**$23,476,906**	$(6,952,224)
Other comprehensive income (loss)		
Amount that may be reclassified to profit or loss		
Foreign currency translation adjustment continued operations	**746,227**	170,270
Foreign currency translation adjustment discontinued operations	**(356,665)**	22,890
Total comprehensive income (loss)	**$23,866,468**	$(6,759,064)
Income (loss) per common share of continuing operations		
Basic earnings (loss) per share (Note 21)	**$0.02**	$(0.30)
Diluted earnings (loss) per share (Note 21)	**$0.02**	$(0.30)
Income (loss) per common share of discontinued operations		
Basic earnings per share (Note 21)	**$0.89**	$0.03
Diluted earnings per share (Note 21)	**$0.89**	$0.03
Income (loss) per common share		
Basic earnings (loss) per share (Note 21)	**$0.91**	$(0.27)
Diluted earnings (loss) per share (Note 21)	**$0.91**	$(0.27)

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

Covalon Technologies Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in Canadian Dollars

	Number of shares	Share capital	Contributed surplus	Accumulated deficit	Foreign exchange translation reserve	Total
Balance at October 1, 2019	25,818,677	$44,607,119	$10,717,141	$(40,766,754)	$372,612	$14,930,118
Share-based payment expense	-	-	935,624	-	-	935,624
Net loss for the year	-	-	-	(6,952,224)	-	(6,952,224)
Foreign currency translation adjustment	-	-	-	-	193,160	193,160
Balance at September 30, 2020	**25,818,677**	**$44,607,119**	**$11,652,765**	**$(47,718,978)**	**$565,772**	**$9,106,678**
Balance at October 1, 2020	25,818,677	$44,607,119	$11,652,765	$(47,718,978)	$565,772	$9,106,678
Share-based payment expense	-	-	97,740	-	-	97,740
Exercise of stock options	50,000	69,880	(62,730)	-	-	7,150
Issuance of warrants (Note 5)	-	-	145,579	-	-	145,579
Net income for the year	-	-	-	23,476,906	-	23,476,906
Foreign currency translation adjustment	-	-	-	-	389,562	389,562
Reclassification upon disposal of subsidiaries (Note 5)	-	-	-	-	150,912	150,912
Balance at September 30, 2021	**25,868,677**	**$44,676,999**	**$11,833,354**	**$(24,242,072)**	**$1,106,246**	**$33,374,527**

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

Covalon Technologies Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in Canadian Dollars

	Year ended September 30,	
	2021	2020
Cash flows from (used in) operating activities		
Net income (loss) for the period from continuing operations	**$418,964**	$(7,822,790)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment	**308,434**	357,303
Amortization of intangible assets	**150,881**	160,283
Depreciation - right of use assets (Note 12)	**241,151**	239,034
Share-based payment expense (Note 15)	**163,769**	715,428
Interest expense and accretion	**419,379**	424,570
Cash generated by operating activities before change in non-cash working capital balances	**1,702,578**	(5,926.172)
Change in non-cash working capital (Note 24)	**(1,081,212)**	(75,092)
Total cash flows generated from (used in) operating activities	**621,366**	(6,001,264)
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	**(175,802)**	(206,047)
Purchase of intangible assets	**(1,858)**	-
Restricted cash	**(100,869)**	685
Total cash flows used in investing activities	**(278,529)**	(205,362)
Cash flows from financing activities		
Exercise of stock options (Note 6)	**7,150**	-
Interest paid	**(293,175)**	(343,013)
Repayment of debt	**(8,660,529)**	(1,365,000)
Proceeds from debt	**1,000,000**	570,000
Payment of lease liabilities	**(305,613)**	(275,346)
Total cash flows used in financing activities	**(8,252,167)**	(1,413,359)
Foreign exchange rate changes on cash	**731,902**	80,458
Total cash flows during the year of continuing operations	**(7,177,428)**	(7,539,527)
Total cash flows during the year of discontinued operations	**26,617,360**	1,471,369
Total cash flows during the year	**19,439,932**	(6,068,158)
Cash and cash equivalents, beginning of the year	**$3,506,991**	$9,575,149
Cash and cash equivalents, end of the year	**$22,946,923**	$3,506,991

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

1. CORPORATE INFORMATION

Covalon Technologies Ltd. ("the Company") is incorporated under the laws of Ontario and is engaged in the business of researching, developing, manufacturing, and marketing of patent-protected medical products that improve patient outcomes and save lives in the areas of infection management, advanced wound care and surgical procedures. The consolidated financial statements of Covalon Technologies Ltd. for the year ended September 30, 2021, comprise the results of the Company and its wholly owned subsidiaries. The Company leverages its patented medical technology platforms and expertise in two ways: (i) by developing products that are sold under the Company's name; and, (ii) by developing and commercializing medical products for other medical companies under development and license contracts. The Company has received regulatory approval on numerous products and leverages contract manufacturers to make its products and distribution contracts to sell its commercialized products to medical customers. The Company generates its revenues through development contracts, licensing agreements, distribution contracts, and sales of products.

On July 29, 2021, the Company sold its AquaGuard product line and all its interest in two subsidiaries (see note 5.

The Company is listed on the TSX Venture Exchange, having the symbol COV. The Company also trades on the OTCQX Best Market, having the symbol of CVALF.

The address of the Company's corporate office and principal place of business is 1660 Tech Avenue, Unit 5, Mississauga, Ontario, Canada.

2. COVID-19

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The governmental responses have caused material disruption to business globally, economic slowdowns, and shifts in economic markets. The significant uncertainty related to the virus, and the governmental responses, has negatively impacted the Company's suppliers, as well as customers and their demand for our products and services.

Included in continuing, and discontinued, operations for the year ended September 30, 2021, the Company received funding of $535,275 (2020 - $520,500) under the Canadian Emergency Wage Subsidy Program ("CEWS"). During the period, the Company also applied for, and received, $1,384,581 (2020 – $1,523,829) as a United States Paycheck Protection Program loan ("US PPP Loan") from the US Small Business Administration under the US Paycheck Protection Program. The Company also received funds from other government subsidy programs of $65,631 (2020 - $102,845) during the year ended September 30, 2021.

During the year, the Company's first draw of the US PPP Loan ($1,523,829) and second draw of the US PPP Loan ($1,384,581), was forgiven by the U.S. Small Business Administration ("SBA") and no repayments were required. The Company has no outstanding draws or amounts that have not been forgiven as of September 30, 2021, related to the US PPP Loan program.

Operationally, the Company has been negatively impacted by the COVID-19 pandemic, and the efforts to mitigate the pandemic, as have many of the Company's employees, customers, and vendors regardless of geographic location. The Company's direct sales staff were limited in their ability to call on customers in the United States and the United Kingdom. There have also been increased costs associated with shipping products, and a slow-down in receiving regulatory approvals. As a result of this uncertainty there is a higher level of estimation uncertainty as it relates to the assessment provisions for inventory and receivables, and general future cash flows. Our distribution relationships with several companies in North America and internationally have been impacted due to the material disruption to business globally, economic slowdowns, and shifts in economic markets caused by governmental responses to the COVID-19 pandemic. Demand for some of the Company's products also temporarily decreased as facilities adjust to patient demand and procedure types. The Company has not experienced material payment delays or defaults from customers as a result of the COVID-19 pandemic and its impact on their respective businesses. Future events related to COVID-19, including, for example, government responses to future COVID-19 variants, may impact both the Company's ability to collect cash and demand for some of the Company's products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). The consolidated financial statements were authorized for issue by the Board of Directors on December 10, 2021.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries over which the Company has control: Covalon Technologies Inc.; Covalon Technologies (USA) Ltd.; Covalon Medical Device Shanghai Co., Ltd.; Covalon Technologies (Israel) Ltd.; and, Covalon Technologies (Europe) Limited. The consolidated financial statements include the Former Subsidiaries: Covalon Technologies Holdings (USA), Ltd; and, Covalon Technologies AG Ltd. up until the AquaGuard Sale on July 29, 2021. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The wholly owned subsidiaries of the Company are consolidated from the date control is obtained. All intercompany transactions, balances, income and expenses have been eliminated upon consolidation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company's operations are categorized into one industry which is medical technology with a focus on infection prevention. The chief operating decision maker has been identified as the chief executive officer. The Company's revenue is managed geographically and disclosed accordingly.

Foreign currency translation

The Company has a functional currency of Canadian dollars and the functional currency of each subsidiary is determined based on facts and circumstances relevant for each subsidiary. Where the Company's presentation currency of Canadian dollars differs from the functional currency of a subsidiary, the assets and liabilities of the subsidiary are translated from the functional currency into the presentation currency at the exchange rates as at the reporting date. The income and expenses of the subsidiaries are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the consolidated financial statements of the Company's subsidiaries are recognized in other comprehensive income (loss).

Foreign currency transactions are translated into the functional currency of the Company or its subsidiaries, using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statements of operations and comprehensive income (loss).

Financial Assets

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (loss), or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company does not currently have any assets measured subsequently at fair value.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. For accounts receivable, the Company applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognized at the time of initial recognition of the receivables.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the first-in, first-out method for the moisture barrier products and all other inventory is measured at the weighted average cost method.

Property, plant and equipment

On initial recognition property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. When parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment. Property, plant and equipment is subsequently measured at cost less accumulated depreciation, and any accumulated impairment losses.

Depreciation methods, useful lives, and residual values are reviewed at each financial reporting date and adjusted if appropriate. Depreciation is calculated using the following methods and rates:

Furniture and fixtures	20% diminishing balance basis
Lab equipment	20% diminishing balance basis
Leasehold improvements	same as related right of use asset

Intangible assets

Intangible assets include expenditures related to obtaining patents and technology rights associated with patents, trademarks, computer software, and brands. Intangible assets are stated at cost, less accumulated amortization except for trademarks, which are considered to have an indefinite useful life. Amortization methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in operations as incurred.

Development activities involve a plan or design for the production of new, or substantially improved, products and processes related to the Company’s technology platforms. Development expenditures are capitalized only if the relevant criteria are met. Capitalized development expenditures are amortized from the beginning of commercial production and sales and are amortized on a straight-line basis over the remaining life of the related patents.

Amortization is calculated using the following methods and rates:

Patents	5% straight-line
Computer software	20% diminishing balance basis
Brand	5% straight-line

Goodwill

Goodwill represents the excess fair value of the consideration transferred over the fair value of the underlying net assets in a business combination and is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment on an annual basis on September 30 or more frequently if there are indications the goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Company’s cash generating units (CGUs) or group of CGUs that are expected to benefit from the synergies of the acquisition. If the recoverable amount of the CGU or group of CGUs is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU or group of CGUs.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flow CGUs.

The recoverable amount is the higher of an asset’s fair value, less costs of disposal and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized as the amount by which the asset’s carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration. Goodwill impairments are not subsequently reversed.

Accounts payable and accrued liabilities

These amounts represent liabilities for goods and services provided to the Company before the end of the financial year, which are unpaid. Accounts payable and accrued liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Debt

Debt is initially recognized at fair value, net of transaction costs incurred. Debt is subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the consolidated statements of operations and comprehensive income (loss) over the period of the debt using the effective interest method.

Debt is removed from the consolidated balance sheets when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognized in the consolidated statements of operations and comprehensive income (loss) within finance expenses.

Revenue

The Company generates revenue from product sales, development and consulting services, as well as licensing, and royalty fees.

Product revenue is recognized when control over products has been transferred to the customer and this either occurs when products are shipped or delivered based upon the contractual agreements in place. The amount of revenue is recorded as the amount that the Company expects to be entitled to in exchange for transferring the promised goods net of estimated returns, chargebacks, or discounts.

Development, and consulting revenue is recognized over the period in which the services are performed.

The Company may enter into product development, consulting, licensing, and royalty agreements with customers. The terms of the agreements may include non-refundable signing fees, milestone payments, hourly rates, or royalty fees. These multiple element arrangements are analysed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. Upfront fees are recognized as revenue when they are determined to be a distinct component and that performance obligations have been completed. If performance obligations are satisfied over the life of the contract, revenue is deferred and recognized over the performance period. The term over which upfront fees are recognized is revised if the period over which the Company maintains substantive contractual obligations changes. Service revenue is recognized over the period in which the services are performed.

In some instances, cash is received before the Company has satisfied the performance obligations and this amount is recorded as deferred revenue.

Cost of sales

The cost of sales includes the cost of finished goods, inventory provisions, distribution costs, rework costs, direct overhead expenses, and allocations of time spent on development work.

Income taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for the differences between the tax basis and carrying amounts of assets and liabilities, for operating losses and for tax credit carry-forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which temporary differences can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws.

Investment tax credits

Investment tax credits are accrued when there is reasonable assurance of realization and these are reflected as a reduction of the related expense. In the event the investment tax credits received are less than the amount previously recognized, the difference will be reflected in operations for the period in which it is determined.

Share-based compensation

The Company grants stock options periodically to certain directors, officers, employees or service providers.

Options currently outstanding vest over three years and have a contractual life of five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period using the graded vesting method by increasing contributed surplus based on the number of awards expected to vest.

Leases

The Company recognises a right-of-use asset and lease liability at the lease commencement date after the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to renew if the Company is reasonably certain to exercise that option. Lease terms range from seven to ten years for offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate if the implicit interest rate cannot be readily determined. The liability is subsequently increased by the interest cost associated with the lease and decreased by payments made against the least. If there is a change in future lease payments arising from a change in assessment related to a renewal, or termination, the liability is remeasured as appropriate. The Company has applied judgement to determine the lease term for some lease contract in which it is a lessee in a lease that includes a renewal option. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Government Grants

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in accounts receivable on the consolidated statements of financial position. The Company recognizes government grants in the consolidated statements of operations and comprehensive income (loss) in the same period as the expenses for which the grant is intended to compensate and nets the amount off the related expenses. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in profit or loss in the period in which it becomes receivable.

Discontinued Operations

The Company reports financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Discontinued operations reporting occurs when the disposal of a component of the Company represents a strategic shift that will impact the Company's operations and financial results, and where the operations and cash flows can be distinguished from the rest of the Company.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing the applicable net loss by the sum of the weighted average number of shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

Adoption of new accounting standards

IAS 1 – Presentation of Financial Statements

On October 31, 2018, amendments to IAS 1 and IAS 8 to clarify and align the definition of material information and provide guidance to help improve consistency in the application of materiality when used in other IFRS standards. These amendments were effective for years beginning on or after January 1, 2020 and are to be applied prospectively. The Company adopted the amendments on October 1, 2020, and there was no impact on the consolidated financial statements.

Accounting standards issued but not yet adopted

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The standard is effective for periods beginning on or after January 1, 2023, and the Company continues to evaluate the impact of applying the new standard.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Impairment of non-financial assets

The Company reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may be impaired. It also reviews goodwill annually for impairment. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

5. AQUAGUARD SALE

On July 29, 2021, the Company sold the AquaGuard product line to TIDI Products, LLC ("TIDI"), an arm's length party, for $37,837,852 including post-closing adjustments related to actual amounts of inventory and indebtedness ("AquaGuard Sale"). The financial information related to the AquaGuard product line is reported in the current, and comparative periods, as discontinued operations.

Under the terms of the purchase agreement, the Company sold all its interest in Covalon Technologies Holdings (USA), Ltd. and Covalon Technologies AG Ltd. ("Former Subsidiaries") to TIDI. The transaction included the sale of moisture barrier products sold under the AquaGuard brand, certain trademarks and intellectual property, related customer contracts, and the manufacturing assets to support the AquaGuard business. The purchase price of $37,837,852 includes $2,513,200 placed in escrow for indemnity claims (which escrow amount will be released 50% in 12 months following closing and the remaining 50% on September 30, 2022, assuming no claims). The Company used proceeds of $8,660,529 from the AquaGuard Sale to fully satisfy its indebtedness to its senior lender, HSBC, and the credit facility with HSBC Bank Canada ("HSBC") has now been terminated (Note 10). The Company also paid off the Acquisition Note Payable (Note 6).

Expressed in Canadian Dollars

The following table outlines the gain on sale of AquaGuard:

Purchase price	$37,837,852
Less:	
Inventory	672,986
Property, plant and equipment	106,530
Intangible assets	931,414
Goodwill	12,263,698
Reclassification of foreign currency translation reserve upon disposal of subsidiaries	150,912
Transaction costs	2,369,346
Gain on sale	**21,342,966**

The financial performance information presented for the year ended September 30, 2021, and comparatives, are summarized below and included in the consolidated statements of operations and comprehensive income (loss) as net income from discontinued operations:

	September 30, 2021	September 30, 2020
Revenue	**10,558,447**	12,291,672
Cost of sales and operating expenses	**11,761,765**	10,996,536
Impairment of right of use asset (Note 12)	**1,310,191**	-
Finance expenses	**65,946**	424,570
Net income (loss) before gain on sale and gain on extinguishment of acquisition note payable	**(2,579,455)**	870,566
Gain on sale	**21,342,966**	-
Gain on extinguishment of acquisition note payable (Note 6)	**4,294,431**	-
Net income from discontinued operations	**23,057,942**	870,566

Disclosures with respect to the consolidated statements of cash flows are as follows:

	September 30, 2021	September 30, 2020
Cash flows from operating activities	**(314,329)**	1,975,823
Cash flows from investing activities	**36,650,614**	(165,045)
Cash flows from financing activities	**(9,718,925)**	(339,409)
Total cash flow	**26,617,360**	1,471,369

Expressed in Canadian Dollars

6. ACQUISITION NOTE PAYABLE

In March 2021, the Company entered into an agreement that allowed for the repayment of the acquisition note payable. This agreement allowed the debt to be settled with the repayment of USD$4,000,000 and the issuance of 200,000 common share purchase warrants with an exercise price of $4.00.

On July 29, 2021, the Company extinguished $9,490,221 of secured indebtedness owed to Cenorin, LLC ("Cenorin") under a promissory note dated as of October 1, 2018, as amended, by making a cash payment of $5,026,400 (US$4,000,000) and issuing to 200,000 warrants for the purchase of common shares in the capital of the Company (the "Warrants") to Cenorin. The Company used proceeds from the AquaGuard sale (note 5) to make the required cash payment. Each Warrant entitles the holder to acquire a common share of the Company at an exercise price of $4.00 for a period of five years. The weighted average fair value of the warrants granted was $0.73 using the Black-Scholes option pricing model with a risk-free interest rate of 0.87%, and a term of 5 years.

	September 30, 2021	September 30, 2020
Balance - opening	**10,074,013**	9,674,211
Accretion	**-**	334,495
Repayment - cash	**(5,026,400)**	-
Fair value of Warrants	**(145,579)**	-
Gain on extinguishment	**(4,294,431)**	-
Foreign exchange	**(607,603)**	65,307
Balance - ending	**-**	**10,074,013**

7. INVENTORIES

Inventories consist of the following:

	September 30, 2021	September 30, 2020
Raw materials	**$2,475,604**	$2,983,418
Finished goods	**4,059,465**	6,300,288
Inventory provision	**(1,832,868)**	(2,083,932)
	$4,702,201	$7,199,774

Cost of product sales for the year ended September 30, 2021, includes $8,040,289 (2020 - $7,952,980), respectively in inventoried materials.

8. INTANGIBLE ASSETS AND GOODWILL

Goodwill is comprised of the following amounts:

	Goodwill ($)
Balance at October 1, 2019	12,924,412
Foreign exchange	93,690
Balance at September 30, 2020	**13,018,102**
Balance at October 1, 2020	13,018,102
Foreign exchange	(754,404)
AquaGuard Sale (Note 5)	(12,263,698)
Balance at September 30, 2021	**-**

Expressed in Canadian Dollars

The Company completed its annual goodwill impairment test at September 30, 2020 on the goodwill related to the AquaGuard CGU, which comprises all of the goodwill of the Company and is the level at which management monitors this goodwill. The recoverable amount of the AquaGuard CGU was calculated using fair value less costs of disposal (FVLCD).

The calculation of the recoverable amount of the AquaGuard CGU was determined using discounted cash flow projections based on financial forecasts approved by management covering a five-year period (Level 3 of the fair value hierarchy) and a terminal growth assumption of 2%. The key assumptions and estimates used in determining the FVLCD are related to revenue and EBITDA assumptions, which are based on the financial forecast and assumed growth rates, working capital assumptions, the effective tax rate of 29% and the discount rate of 19.4 % applied to the cash flow projections. As a result of the impairment testing performed, it was determined that the recoverable amount of the AquaGuard CGU of $15.1m exceeded the carrying value of $13.6m and no impairment writedown was required. The following table presents a sensitivity to show the impact on the recoverable amount for changes in certain assumptions:

	Discount Rate		**Terminal revenue growth assumption**	
	+1%	**-1%**	**+1%**	**-1%**
Impact on impairment calculation	(1,170,000)	1,300,000	900,000	(900,000)

Intangible assets are comprised of the following amounts:

	Deferred Development Costs ($)	**Brand ($)**	**Patents ($)**	**Trademarks ($)**	**Computer Software ($)**	**Total ($)**
Cost						
Balance at September 30, 2019	2,208,965	1,125,655	964,645	83,102	176,713	4,559,080
Additions	-	-	-	-	-	-
Foreign exchange	16,013	8,160	6,993	602	1,281	33,049
Balance at September 30, 2020	2,224,978	1,133,815	971,638	83,704	177,994	4,592,129
Additions	-	-	-	-	1,858	1,858
Foreign exchange	(99,747)	(65,705)	(43,907)	(3,799)	(30,132)	(243,290)
Sale of assets (Note 5)	-	(1,068,110)	(24,925)	(3,348)	-	(1,096,383)
Balance at September 30, 2021	**2,125,231**	**-**	**902,806**	**76,557**	**149,720**	**3,254,314**
Accumulated amortization						
Balance at September 30, 2019	1,597,118	56,283	392,915	-	154,576	2,200,892
Amortization	112,223	53,093	52,628	-	5,661	223,605
Foreign exchange	10,603	4,006	2,770	-	(1,021)	16,358
Balance at September 30, 2020	1,719,944	113,382	448,313	-	159,216	2,440,855
Amortization	105,680	40,390	48,663	-	4,247	198,980
Foreign exchange	(76,526)	(2,887)	(19,645)	-	(19,359)	(118,417)
Sale of assets (Note 5)	-	(150,885)	(14,084)	-	-	(164,969)
Balance at September 30, 2021	**1,749,098**	**-**	**463,247**	**-**	**144,104**	**2,356,449**
Carrying amounts						
At September 30, 2020	505,034	1,020,433	523,325	83,704	18,778	2,151,274
At September 30, 2021	**376,133**	**-**	**439,559**	**76,557**	**5,616**	**897,865**

Expressed in Canadian Dollars

9. PROPERTY, PLANT AND EQUIPMENT

	Furniture and Fixtures ($)	Lab Equipment ($)	Leasehold Improvements ($)	Total ($)
Cost				
Balance at September 30, 2019	851,066	2,451,773	443,169	3,746,008
Additions	45,200	285,881	40,011	371,092
Foreign exchange	4,780	14,332	1,135	20,247
Balance at September 30, 2020	901,046	2,751,986	484,315	4,137,347
Additions	61,364	130,517	5,679	197,560
Foreign exchange	(157,407)	(151,817)	(52,647)	(361,871)
Sale of assets (Note 5)	-	(156,650)	-	(156,650)
Balance at September 30, 2021	**805,003**	**2,574,036**	**437,347**	**3,816,386**
Accumulated depreciation				
Balance at September 30, 2019	446,156	1,240,243	165,041	1,851,440
Depreciation	106,060	277,143	70,279	453,482
Foreign exchange	636	6,593	237	7,466
Balance at September 30, 2020	552,852	1,523,979	235,557	2,312,388
Depreciation	160,156	253,452	159,515	573,123
Foreign exchange	(140,623)	(87,192)	(47,784)	(275,599)
Sale of assets (Note 5)	-	(50,120)	-	(50,120)
Balance at September 30, 2021	**572,385**	**1,640,119**	**347,288**	**2,559,792**
Carrying amounts				
At September 30, 2020	348,194	1,228,007	248,758	1,824,959
At September 30, 2021	**232,618**	**933,917**	**90,059**	**1,256,594**

10. DEBT

During the year ended September 30, 2018, the Company entered into the Facility with HSBC. This Facility provided credit comprised of: 1) an acquisition line of $9,000,000; 2) a revolving operating line of $5,000,000; 3) a guarantee facility of $2,000,000 (USD); and, 4) Other facilities of $480,000 (USD) and $100,000 for other liabilities.

This Facility was amended during the year ended September 30, 2020, to allow for an additional borrowing line supported by the Business Credit Availability Program ("BCAP") with the Business Development Bank of Canada ("BDC"), in the amount of $1,000,000. During the year ended September 30, 2021, the Company drew $1,000,000 against the BCAP facility through HSBC.

The Facility was secured by a General Security Agreement which also included all wholly owned subsidiaries. The Company was also subject to financial covenant and certain reporting requirements. These covenants included: 1) funded debt to adjusted EBITDA; 2) fixed charged coverage ratio; 3) current ratio, and 4) maintaining a cash balance of $1,500,000, as well as other reporting requirements. In the prior year, the Company was not able to fulfill all financial covenants as stipulated under the Facility, for the Acquisition Line, which constituted an event of default. Since the Company did not have an unconditional right to defer the settlement of the debt for at least 12 months, IFRS required the liability to be classified as current as at September 30, 2020.

Expressed in Canadian Dollars

During the year ended September 30, 2021, the Company completed the AquaGuard sale (Note 5) and used certain proceeds to satisfy all outstanding debt, including the BCAP facility, with HSBC. All facilities with HSBC, including the BCAP facility were terminated upon repayment.

A reconciliation of the Operating Line is as follows:

	September 30, 2021 ($)	September 30, 2020 ($)
Balance – Opening	**3,955,000**	3,550,000
Proceeds received	**-**	570,000
Interest accrued during the year	**148,547**	124,920
Interest paid during the year	**(148,547)**	(124,920)
Repayment of principal	**(3,955,000)**	(165,000)
Balance – Ending	**-**	3,955,000
Current portion	**-**	3,955,000

A reconciliation of the Acquisition Line is as follows:

	September 30, 2021 ($)	September 30, 2020 ($)
Balance – Opening	**3,694,027**	4,872,966
Repayments of principal	**(3,705,529)**	(1,200,000)
Interest accrued during the period	**130,364**	218,093
Interest paid during the period	**(130,364)**	(218,093)
Accretion of finance expense	**11,502**	21,061
Balance – Ending	**-**	3,694,027

A reconciliation of the BCAP facility is as follows:

	September 30, 2021 ($)
Balance – Opening	**-**
Proceeds received	**1,000,000**
Repayments of principal	**(1,000,000)**
Interest accrued during the period	**14,264**
Interest paid during the period	**(14,264)**
Balance – Ending	**-**

11. DEFERRED REVENUE

	September 30, 2021	September 30, 2020
Balance, beginning of year	**$788,272**	$598,367
Add:		
Deferred licensing and services revenue	**488,490**	1,740,309
Deferred product	**1,121,085**	2,568,033
Less:		
Recognition of deferred product	**(1,312,094)**	(2,681,896)
Recognition of deferred licensing and services revenue	**(589,104)**	(1,446,844)
Foreign exchange	**80,448**	10,303
Balance, end of year	**577,097**	788,272
Current portion	**(414,649)**	(498,149)
Non-current portion	**$162,448**	$290,123

Expressed in Canadian Dollars

12. RIGHT-OF-USE ASSETS

	Right-of-use assets ($)
Balance at October 1, 2019	3,321,034
Depreciation	(529,007)
Foreign exchange	23,697
Balance at September 30, 2020	**2,815,724**
Balance at October 1, 2020	2,815,724
Depreciation	(468,785)
Impairment of Seattle lease	(1,310,191)
Foreign exchange	(184,486)
Balance at September 30, 2021	**852,262**

The Company leases office space in Mississauga, Canada and Seattle, USA. Following the sale of AquaGuard (note 5) the leased facility in Seattle has been impaired during the year ended September 30, 2021, as it is not currently expected to generate any future cash in flows, and the amount of the impairment has been included within the net income from discontinued operations. The Company intends to pursue sublease arrangements and will assess for reversal of impairment should the facts change.

13. LEASE LIABILITIES

Lease liabilities are comprised of the following amounts:

	Lease liabilities ($)
Balance at October 1, 2019	3,616,812
Interest	161,588
Payments	(614,755)
Foreign exchange	16,073
Balance at September 30, 2020	**3,179,718**
Balance at October 1, 2020	3,179,718
Interest	121,396
Payments	(637,678)
Foreign exchange	(72,563)
Balance at September 30, 2021	**2,590,873**
Current portion	541,378
Non-current portion	2,049,495

Following the impairment of the right of use asset related to the Company's Seattle lease agreement, an onerous contract liability of $352,809 was recognized in accounts payable and accrued liabilities related to future variable lease payments that are not included in the lease liability.

14. SHAREHOLDERS' EQUITY

Common Shares

The Company is authorized to issue an unlimited number of common shares with no par value. All shares are fully paid.

On October 1, 2018, Covalon acquired AquaGuard, a division of Cenorin LLC., and issued 75,136 common shares of the Company in escrow with release dates of 12 months, 18 months and 24 months after the acquisition date. During the year ended September 30, 2021, 25,045 (2020 - 25,045) shares were released from escrow leaving a balance of nil.

Expressed in Canadian Dollars

During the year ended September 30, 2021, the Company issued 200,000 common share purchase warrants in relation to the AquaGuard Sale (Notes 5 and 6).

Warrants

The following is a summary of all warrants:

	Number of Warrants	Weighted average exercise Price	Weighted Average Expiry (years)
Balance at September 30, 2019	**3,025,447**	**$2.03**	**4.58**
Expired during the year	275,447	2.30	
Balance at September 30, 2020	**2,750,000**	**$2.00**	**4.58**
Issued during the period	200,000	4.00	
Balance at September 30, 2021	**2,950,000**	**$2.14**	**3.10**

15. SHARE-BASED PAYMENTS

Option Plan Details

The Company has a Stock Option Plan ("the Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees, or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. Unless the Board of Directors decides otherwise, options granted under the plan will vest as follows: 34% of the options vest in one year, with a further 33% vesting in each of the subsequent two years on the anniversary of the initial grant date.

The following is a summary of changes in stock options from October 1, 2019, to September 30, 2020:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Expired	Forfeited	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
26-Mar-15	26-Mar-20	$1.40	73,999	(73,999)	-	-	-	-	-
7-Mar-16	7-Mar-21	$1.13	100,000	-	-	100,000	100,000	-	0.44
23-Jun-16	23-Jun-21	$1.29	115,832	-	(4,998)	110,834	110,834	-	0.73
14-Sep-16	14-Sep-21	$2.29	20,000	-	-	20,000	20,000	-	0.96
8-Feb-17	8-Feb-22	$2.20	168,333	-	-	168,333	168,333	-	1.36
20-Jun-17	20-Jun-22	$2.47	348,333	-	-	348,333	348,333	-	1.72
25-Oct-17	25-Oct-22	$3.80	60,000	-	-	60,000	40,000	20,000	2.07
21-Dec-17	21-Dec-22	$4.65	167,500	-	(30,000)	137,500	91,667	45,833	2.23
24-Jan-18	24-Jan-23	$6.02	60,000	-	-	60,000	40,000	20,000	2.32
27-Sep-18	27-Sep-23	$8.50	142,500	-	(12,500)	130,000	86,667	43,333	2.99
22-Dec-18	22-Dec-23	$4.28	351,667	-	(29,166)	322,501	109,650	212,851	3.23
15-Mar-19	15-Mar-24	$5.03	182,500	-	(32,500)	150,000	51,000	99,000	3.46
			1,790,664	**(73,999)**	**(109,164)**	**1,607,501**	**1,166,484**	**441,017**	**2.17**
Weighted Average Exercise Price			**$3.71**	**$1.40**	**$4.95**	**$3.73**	**$3.27**	**$4.96**	

Expressed in Canadian Dollars

The following is a summary of changes in stock options from October 1, 2020, to September 30, 2021:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Exercised	Expired	Forfeited	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
07-Mar-16	07-Mar-21	$1.13	100,000	-	(100,000)	-	-	-	-	0.00
23-Jun-16	23-Jun-21	$1.29	110,834	(45,000)	(65,834)	-	-	-	-	0.00
14-Sep-16	14-Sep-21	$2.29	20,000	(5,000)	(15,000)	-	-	-	-	0.00
08-Feb-17	08-Feb-22	$2.20	168,333	-	-	(35,000)	133,333	133,333	-	0.36
20-Jun-17	20-Jun-22	$2.47	348,333	-	-	(5,000)	343,333	343,333	-	0.72
25-Oct-17	25-Oct-22	$3.80	60,000	-	-	-	60,000	60,000	-	1.07
21-Dec-17	21-Dec-22	$4.65	137,500	-	-	(40,000)	97,500	97,500	-	1.23
24-Jan-18	24-Jan-23	$6.02	60,000	-	-	-	60,000	60,000	-	1.32
27-Sep-18	27-Sep-23	$8.50	130,000	-	-	(32,500)	97,500	97,500	-	1.99
22-Dec-18	22-Dec-23	$4.28	322,501	-	-	(95,831)	226,670	74,801	151,869	2.23
15-Mar-19	15-Mar-24	$5.03	150,000	-	-	(29,900)	120,100	39,633	80,467	2.46
			1,607,501	**(50,000)**	**(180,834)**	**(238,231)**	**1,138,436**	**906,100**	**232,336**	**1.36**
Weighted Average Exercise Price			**$3.73**	**$1.39**	**$1.28**	**$4.67**	**$4.03**	**$3.90**	**$4.54**	

Share Based Payment Expense

Total share-based payment expense recognized during the year ended September 30, 2021 for continuing operations, as part of employee benefits was $163,769 (2020 - $715,428).

Total share-based payment expense recognized during the year ended September 30, 2021 for discontinued operations, as part of employee benefits was ($66,029) (2020 - $220,196).

16. FINANCIAL RISK MANAGEMENT

The following is a discussion of market, credit, and liquidity risks and related mitigation strategies that have been identified.

Credit Risk

The Company is exposed to credit risk associated with its cash and cash equivalents and accounts receivable. The risk is reduced by having accounts receivables insured or obtaining letters of credit when the Company determines that it is warranted. The Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss for all receivables. Receivables have been grouped based on shared credit risk characteristics and the days outstanding to measure the expected credit loss. On this basis the loss allowance at September 30, 2021 and September 30, 2020 is nominal.

Accounts receivable are written off when there is no reasonable expectation of recovery which may be supported by failure to make contractual payments for more than 180 days as well as other factors.

Accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks by dealing with creditworthy customers; however, due to the limited number of potential customers in each market this is not always possible. As at September 30, 2021, three customers accounted for 67% (2020 – three customers for 51%) of the accounts receivable balance. These customers, who are distributors and strategic partners of the Company, represent a large portion of the Company's sales. Credit risk exposure is mitigated by strong credit granting policies, the use of Letters of Credit, and due diligence procedures for new customers.

The aging of accounts receivable is as follows:

	September 30, 2021	September 30, 2020
Current	**$5,962,535**	$3,283,144
30-60 days past due	**388,241**	22,053
Over 60 days past due	**44,771**	28,240
	6,395,547	3,333,437

Interest Rate Risk

The Company is subject to interest rate risk on its cash and cash equivalents and debt. The Company believes that interest rate risk is low due to market based variable interest rates. During fiscal 2019, the Company took on floating rate debt to fund an acquisition and working capital. At September 30, 2021, if interest rates had been 1% higher or lower then the interest expense would have been $86,490 (2020 - $76,490) higher or lower, respectively, during the year. During the year, the Company repaid all outstanding debt with proceeds from the AquaGuard sale (note 5).

Currency Risk

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Canadian dollars, was as follows:

	September 30, 2021				**September 30, 2020**			
	Canadian	USD	GBP	**Total**	CAD	USD	GBP	**Total**
Cash and cash equivalents	$135,807	$22,783,541	$27,575	**$22,946,923**	$199,176	$3,267,280	$40,535	**$3,506,991**
Accounts receivable	$6,181	$6,138,265	$251,101	**$6,395,547**	$2,283	$3,324,634	$6,520	**$3,333,437**
Restricted cash and cash held in escrow	$137,061	$2,548,200	-	**$2,685,261**	$37,309	-	-	**$37,309**
Acquisition note payable	-	-	-	-	-	$10,074,013	-	**$10,074,013**
Accounts payable and accrued liabilities	$292,110	$3,581,504	$165,993	**$4,039,607**	$609,370	$3,122,046	$167,850	**$3,899,266**
Lease liabilities	$1,046,758	$1,544,115	-	**$2,590,873**	$1,296,801	$1,882,917	-	**$3,179,718**

If exchange rates were to change by 5% at September 30, 2021 total comprehensive income (loss) would change by $1,322,853 (2020 - $430,393).

Expressed in Canadian Dollars

Fair Value

The fair values of cash and cash equivalents, cash held in escrow, accounts receivable, accounts payable and accrued liabilities, acquisition note payable and lease liabilities approximate their carrying values, due to their relatively short periods to maturity.

Liquidity risk

The Company continually monitors working capital to ensure sufficient cash is available to meet operational and capital expenditure requirements. The Company has contractual obligations related to lease liabilities and accounts payable and accrued liabilities that are due as reflected in the following table:

	Carrying amount ($)	Future cash flows ($)	Less than 1 year ($)	Between 1 and 5 years ($)	Greater than 5 years ($)
Accounts payable and accrued liabilities	4,039,607	4,039,607	4,039,607	-	-
Lease liabilities	2,590,873	2,867,653	651,407	2,216,246	-
Total	**6,630,480**	**6,907,260**	**4,691,014**	**2,216,246**	**-**

17. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity comprising share capital, contributed surplus, foreign exchange translation reserve, accumulated deficit, and short-term debt. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide services to its customers and returns to its shareholders. The capital at September 30, 2021 is $33,374,527 (September 30, 2020 – $16,755,705).

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

18. INCOME TAXES

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income. The income tax expense has been calculated on a combined basis for continuing operations and discontinued operations given there is no income tax payable in either year presented.

The Company computes an income tax provision in each of the jurisdictions in which it operates. The operations in Canada and the United States are subject to income tax at average rates of 21.0% - 26.5% for the year ended September 30, 2021 (2010 – 21.0% - 26.5%).

Reconciliation between statutory rate and actual rate

	September 30,	
	2021	2020
Income tax computed at statutory tax rates	**6,221,380**	(1,768,700)
Permanent differences	**(2,409,700)**	276,900
Rate differences and other	**(135,800)**	81,900
Change in deferred tax assets not recognized	**(3,675,880)**	1,409,900
	$ -	$ -

Expressed in Canadian Dollars

Deferred tax assets

The tax effect of the temporary differences that gives rise to deferred tax assets (liabilities) as of September 30, 2021, and 2020 is presented below. No benefit has been recorded in these consolidated financial statements as it is not probable that the Company will generate taxable income in the future to utilize these differences.

	September 30,	
	2021	2020
Non-capital loss carry forwards	**$2,154,645**	$6,269,644
Capital loss carry forwards	-	127,582
Capital and other assets	**52,958**	(647,374)
Deferred development costs	**2,222,531**	2,135,891
Deferred revenue and other liabilities	-	296,304
Deferred tax assets not recognized	**(4,430,134)**	(8,182,047)
	$ -	$ -

The Company has non-capital losses carried forward available for income tax purposes as at September 30, 2021 which are available to reduce taxable income of future years. These losses expire as follows:

Year	Canada Amount	US Amount	UK Amount
2037	-	-	1,108,000
2038	-	-	1,864,400
2039	-	-	1,894,900
2040	1,814,200	-	1,092,200
2041	-	-	433,800
No expiry	-	2,237,200	-
	$1,814,200	$2,237,200	$6,393,300

Other income tax items

The Company has capital losses carry forward for income tax purposes as at September 30, 2021 of approximately $nil (2020 - $962,883), which are available to reduce taxable capital gains in future years. These losses do not expire.

Investment tax credits

The Company is eligible for the Ontario Innovation Tax Credit ("OITC") at the rate of 10.0% on its research and development expenditures and refundable in cash to the Company. The Company is also eligible for a 20.0% federal research and development investment tax credit and a 4.5% Ontario Research and Development Tax Credit (“ORDTC”) which are available to offset federal income taxes payable and Ontario income taxes payable, respectively, in the future.

The tax credits ultimately received by the Company are subject to review by Canada Revenue Agency and the Ontario Ministry of Finance.

At September 30, 2021, the Company has $1,679,947 (2020 - $1,679,947) of unclaimed investment tax credits available to reduce federal income taxes payable in future years. If not utilized, these investment tax credits will start expiring in 2023. These unclaimed investment tax credits have not been recognized as a deferred tax asset.

At September 30, 2021, the Company has $160,043 (2020 – $160,043) of unclaimed ORDTC available to reduce Ontario income taxes payable in future years. If not utilized, these ORDTC will start expiring in 2029. These unclaimed ORDTC have not been recognized as a deferred tax asset.

Expressed in Canadian Dollars

19. RELATED PARTY TRANSACTIONS

Key management personnel includes the Company's directors and senior management team. These individuals are responsible for planning, directing and controlling the activities of an entity. Key management personnel compensation comprised:

	Year ended September 30,	
	2021	2020
Compensation and short-term employee benefits	**$1,003,055**	$1,173,661
Share based payment expense	**90,247**	441,990
	1,093,302	1,615,651

During the year end September 30, 2013, a non-interest bearing loan of $50,000 was made to a key employee. As of September 30, 2021, $10,000 of this loan remained outstanding.

20. EXPENSES BY NATURE

The consolidated statements of operations and comprehensive income (loss) include the following expenses by nature:

	Year ended	**September 30,**
	2021	2020
Inventoried materials	**$8,040,289**	$7,952,980
Wages, benefits, consulting fees, director compensation	**5,512,070**	6,715,709
Government subsidies	**(801,821)**	(1,132,479)
Share based payments	**163,769**	715,428
Depreciation and amortization	**700,466**	756,620
Professional fees	**687,262**	1,926,924
Accounts receivable write-off	**-**	1,420,002
Other expenses	**4,420,923**	2,540,453
Total	**$18,722,958**	$20,895,637

Depreciation and amortization

	For the year ended September 30,	
	2021	2020
Cost of product sales	**$282,843**	$326,041
Operations	**2,748**	3,408
Research and development activities	**29,848**	36,363
General and administrative	**385,027**	390,808
Total depreciation and amortization	**$700,466**	$756,620

Expressed in Canadian Dollars

21. EARNINGS (LOSS) PER SHARE

The weighted average number of shares outstanding during the year ended September 30, 2021, was 25,821,239 (September 30, 2020 – 25,818,677).

Details of dilutive securities outstanding are as follows:

	September 30,	
Potentially dilutive securities	**2021**	2020
Common shares potentially dilutive		
- stock options	**5,723**	63,473
- warrants	**3,914**	-
Total potentially dilutive shares	**9,637**	63,473

22. SEGMENT REPORTING

The Company generated continuing operations revenue of $12,700,564 (2020 – $8,860,636) in the US, $4,466,500 (2020 – $2,335,856) in the Middle East, $243,668 (2020 – $109,711) in Canada, and $2,150,569 (2020 – $2,202,231) in the rest of the world.

As of September 30, 2021, the Company had $2,652,698 (2020 - $5,582,127) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and $354,023 (2020 - $1,209,830) in the USA. Goodwill in the amount of $Nil (2020 - $13,018,102) is attributed to the US.

23. CONTINGENCIES

From time to time, the Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period that a loss becomes probable.

24. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

Net changes in non-cash working capital balances are as follows:

	Year ended September 30,	
	2021	2020
Accounts receivable	**$(3,193,970)**	$327,754
Prepaid expenses	**(71,937)**	(203,437)
Inventories	**2,162,894**	1,441,863
Accounts payable and accrued liabilities	**313,424**	(1,820,874)
Deferred revenue	**(291,623)**	179,602
	$(1,081,212)	$(75,092)