Covalon Technologies Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2024, and 2023

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, 2024 and 2023, 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 Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at September 30, 2024 and 2023;
- the consolidated statements of operations and 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, comprising material accounting policy information 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.

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 for the year ended September 30, 2024. 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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Inventory provision related to obsolescence

Refer to note 2 – Summary of material accounting policies and basis of presentation, note 3 – Critical accounting estimates and judgments and note 5 – Inventories to the consolidated financial statements.

The carrying amount of inventory in the consolidated financial statements of the Company amounted to $7.7 million as at September 30, 2024, net of an inventory provision of $2.2 million. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Management applies judgment when estimating the inventory provision related to obsolescence based on the consideration of a variety of factors, including expiry dates and the timing of forecasted revenue by product.

We considered this a key audit matter due to the judgment applied by management in estimating the inventory provision related to obsolescence. This has resulted in a high degree of subjectivity and audit effort in performing procedures to test the inventory provision related to obsolescence.

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Our approach to addressing the matter included the following procedures, among others:

- Tested how management determined the inventory provision related to obsolescence, which included the following:
  - Evaluated the appropriateness of management's method to determine the inventory provision related to obsolescence and tested the mathematical accuracy of the underlying calculation.
  - Tested the underlying data used by management in the calculation of the inventory provision related to obsolescence, by comparing the expiry dates by product on a sample basis to a report obtained from the product manufacturer.
  - Evaluated the reasonableness of the timing of forecasted revenue by product by considering the historical demand.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available 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.

When we read the Management's Discussion and Analysis, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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 Grant Redpath.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
January 6, 2025

Covalon Technologies Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

	September 30, 2024	September 30, 2023
Assets		
Current assets		
Cash and cash equivalents	**$16,746,781**	$8,794,650
Accounts receivable	**3,645,252**	6,162,069
Inventories (Note 5)	**7,696,084**	5,944,534
Prepaid expenses	**686,106**	390,060
Finance lease receivable (Note 10)	**264,728**	-
Total current assets	**29,038,951**	21,291,313
Non-current assets		
Restricted cash	**-**	135,200
Property, plant and equipment (Note 7)	**1,010,728**	1,242,938
Intangible assets (Note 6)	**1,439,714**	1,791,305
Finance lease receivable (Note 10)	**148,728**	-
Right-of-use assets (Note 8)	**168,453**	439,837
Total non-current assets	**2,767,623**	3,609,280
Total assets	**$31,806,574**	$24,900,593
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$3,323,790**	$4,464,609
Lease liabilities (Note 9)	**600,485**	643,385
Deferred revenue	**72,082**	80,702
Total current liabilities	**3,996,357**	5,188,696
Non-current liabilities		
Accounts payable	**4,423**	-
Lease liabilities (Note 9)	**301,186**	919,080
Total non-current liabilities	**305,609**	919,080
Total liabilities	**4,301,966**	6,107,776
Shareholders' equity		
Share capital (Note 11)	**51,748,095**	42,770,879
Contributed surplus	**8,322,591**	11,436,826
Foreign exchange translation reserve	**3,130,413**	2,951,395
Accumulated deficit	**(35,696,491)**	(38,366,283)
Total shareholders' equity	**27,504,608**	18,792,817
Total liabilities and shareholders' equity	**$31,806,574**	$24,900,593

Contingencies and commitments (Note 20)

On behalf of the Board:

(signed) "Amir Boloor" *Director*

(signed) "Brent Ashton" *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,
	2024	2023
Revenue		
Product	**$31,020,731**	$23,920,670
Development and consulting services	**62,479**	2,451,288
Licensing and royalty fees	**85,322**	223,328
Total revenue	**31,168,532**	26,595,286
Cost of sales	**12,235,807**	12,233,447
Gross profit	**18,932,725**	14,361,839
Operating expenses		
Operations	**1,973,752**	1,904,941
Research and development activities	**1,594,079**	1,413,278
Sales, marketing, and agency fees	**5,432,463**	8,167,894
General and administrative	**7,781,398**	7,404,226
	16,781,692	18,890,339
Finance expenses (income)	**91,249**	(67,502)
Gain on finance lease receivable (Note 10)	**(610,008)**	-
Net income (loss)	**$2,669,792**	$(4,460,998)
Other comprehensive income (loss)		
Amount that may be reclassified to profit or loss		
Foreign currency translation adjustment	**179,018**	(61,814)
Total comprehensive income (loss)	**$2,848,810**	$(4,522,812)
Earnings (loss) per common share		
Basic earnings (loss) per share (Note 18)	**$0.11**	$(0.18)
Diluted earnings (loss) per share (Note 18)	**$0.11**	$(0.18)

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, 2022	25,287,777	$43,843,344	$11,277,493	$(33,905,285)	$3,013,209	$24,228,761
Share-based payment expense	-	-	559,154	-	-	559,154
Buyback of common shares (Note 11)	(618,200)	(1,072,465)	(399,821)	-	-	(1,472,286)
Exercise of warrants	-	-	-	-	-	-
Net loss for the year	-	-	-	(4,460,998)	-	(4,460,998)
Foreign currency translation Adjustment	-	-	-	-	(61,814)	(61,814)
Balance at September 30, 2023	**24,669,577**	**$ 42,770,879**	**$11,436,826**	**$(38,366,283)**	**$2,951,395**	**$18,792,817**
Balance at October 1, 2023	24,669,577	$42,770,879	$11,436,826	$(38,366,283)	$2,951,395	$18,792,817
Share-based payment expense	-	-	405,981	-	-	405,981
Exercise of warrants (Note 11)	2,728,500	8,977,216	(3,520,216)	-	-	5,457,000
Net income for the year	-	-	-	2,669,792	-	2,669,792
Foreign currency translation adjustment	-	-	-	-	179,018	179,018
Balance at September 30, 2024	**27,398,077**	**$ 51,748,095**	**$8,322,591**	**$(35,696,491)**	**$3,130,413**	**$27,504,608**

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, 2024	2023
Cash flows from (used in) operating activities		
Net income (loss) for the period from continuing operations	**$2,669,792**	$(4,460,998)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of property, plant and equipment (Note 7)	**442,132**	521,981
Amortization of intangible assets (Note 6)	**302,367**	239,315
Impairment of intangible assets (Note 6)	**175,052**	-
Depreciation - right of use assets (Note 8)	**241,959**	208,074
Share-based payment expense (Note 12)	**405,981**	559,154
Accrued interest income	**-**	(19,144)
Interest expense and accretion	**56,246**	85,358
Deferred revenue	**(7,982)**	(183,175)
Gain on finance lease receivable (Note 10)	**(610,008)**	-
Loss on disposal of property, plant and equipment	**80,443**	-
Cash flows from (used in) operating activities before net changes in working capital balances:	**3,755,982**	(3,049,435)
Net changes in working capital balances:		
Accounts receivable	**2,659,804**	(1,470,010)
Prepaid expenses	**(279,771)**	1,687,013
Inventories	**(1,604,838)**	(1,043,597)
Accounts payable and accrued liabilities	**(1,058,192)**	692,021
Total net changes in working capital balances	**(282,997)**	(134,573)
Total cash flows from (used in) operating activities	**3,472,985**	(3,184,008)
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	**(290,645)**	(494,635)
Purchase of intangible assets	**(126,190)**	(821,882)
Restricted cash	**135,200**	(135,200)
Total cash flows used in investing activities	**(281,635)**	(1,451,717)
Cash flows from (used in) financing activities		
Exercise of warrants (Note 11)	**5,457,000**	-
Buyback of common shares (Note 11)	**-**	(1,472,286)
Finance lease receivable (Note 10)	**214,005**	-
Payment of lease liabilities (Note 9)	**(698,943)**	(683,768)
Total cash flows used in financing activities	**4,972,062**	(2,156,054)
Effect of foreign exchange rate changes on cash	**(211,281)**	154,098
Total cash flows during the year of continuing operations	**7,952,131**	(6,637,681)
Total cash flows during the year of discontinued operations	**-**	1,370,700
Total cash flows during the year	**7,952,131**	(5,266,981)
Cash and cash equivalents, beginning of the year	**$8,794,650**	$14,061,631
Cash and cash equivalents, end of the year	**$16,746,781**	$8,794,650

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, 2024, 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 both manufactures certain products, leverages contract manufacturers to make certain products, and utilizes 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.

The Company is listed on the TSX Venture Exchange (the "TSX-V"), 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. SUMMARY OF MATERIAL 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 Accounting Standards). The consolidated financial statements were authorized for issue by the Board of Directors on January 6, 2025.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards 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 material to the consolidated financial statements are disclosed in Note 3.

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.; and Covalon Technologies (USA) Ltd. The consolidated financial statements include former subsidiaries: Covalon Technologies (Europe) up until the winddown on September 30, 2022, and was legally striked off in the United Kingdom on April 18, 2023. The Company dissolved Covalon Medical Device Shanghai Co., Ltd. on September 8, 2022, Covalon Technologies (Israel) Ltd. on March 15, 2023, and Covalon Healthcare Inc. on August 5, 2023. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and can 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 advanced wound care and 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, Financial Instruments, 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 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	straight-line over five years
Computer Equipment	straight-line over three years
Production and Lab equipment	straight-line over five years
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. Deferred development costs 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	straight-line over 20 years
Computer software	straight-line over 5 years
Deferred development costs	straight-line over 20 years

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 generating units (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 CGUs). 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.

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.

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.

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

Cost of sales includes the cost of finished goods, inventory provisions, distribution costs, rework costs, direct overhead expenses, raw materials, and direct labour costs.

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 payments

The Company operates a long-term incentive plan under which the Company issues equity instruments of the Company as consideration in exchange for employee or director services (the "Plan"). The Plan is open to certain directors and employees of the Company. The Plan regulates the issuance of the following equity instruments: stock options, deferred share units ("DSUs") and restricted share units ("RSUs").

Stock options currently outstanding vest over three or four years and have a contractual life between five and ten 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. For performance-based stock options these are measured at the grant date fair value of the awards and are recognized over the vesting period of four years on a straight-line basis. The Company employs the Monte Carlo simulation model to determine the fair value of performance-based stock options, due to the model's ability to incorporate the complexities and specific conditions of these awards.

For each DSU or RSU granted under the Plan, the Company recognizes an expense equal to the market value of a common share at the date of grant based on the number of DSUs or RSUs expected to vest, recognized over the term of the vesting period, with a corresponding credit to contributed surplus for share-based compensation anticipated to be equity settled or a corresponding credit to a liability for those anticipated to be cash settled. Share-based compensation expense is adjusted for subsequent changes in management's estimate of the number of DSUs or RSUs that are expected to vest, for DSUs or RSUs anticipated to be cash settled and changes in the market value of a common share. The effect of these changes are recognized in the period of the change. Vested DSUs or RSUs are settled either in common shares or in cash or a combination thereof at the discretion of the Company.

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 finance lease receivable 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 finance lease receivable is subsequently measured by increasing the carrying amount to recognize interest income based on the effective interest rate method, and reducing the carrying amount by the lease payments received. Adjustments are made to the receivable if there are changes to the lease terms, such as modifications, reassessments, or changes in expectations regarding renewal or termination options.

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.

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 income (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 income (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.

Accounting standards adopted during the period

Beginning on October 1, 2023, the Company adopted certain IFRS Accounting Standards and amendments. The nature and the effect of these changes are disclosed below:

Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)

Beginning on October 1, 2023, the Company adopted the amendments to IAS 1 Presentation of financial statements (IAS 1) and IFRS Practice Statement 2 Making Materiality Judgements. These amendments help companies provide useful accounting policy disclosures and requires the disclosure of material accounting policy information rather than disclosing significant accounting policies. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Definition of accounting estimates (Amendments to IAS 8)

Beginning October 1, 2023, the Company adopted the amendments to IAS 8 Accounting policies, changes in accounting estimates and errors. These amendments show how to distinguish changes in accounting policies from changes in accounting estimates. The adoption of the amendments did not have a material impact on the consolidated financial statements.

International tax reform – Pillar Two model rules (Amendments to IAS 12)

Beginning on October 1, 2023, the Company adopted amendments to IAS 12 Income Taxes. This introduced a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes and targeted disclosure requirements for affected entities. The adoption of the amendments did not have a material impact on the consolidated financial statements.

Accounting pronouncements issued but not yet effective

The IASB has issued classification, measurement and disclosure amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures with an effective date for annual reporting periods beginning on or after January 1, 2026. The amendments clarify the date of recognition and derecognition of some financial assets and liabilities and introduce a new exception for some financial liabilities settled through an electronic payment system. Other changes include a clarification of the requirements when assessing whether a financial asset meets the solely payments of principal and interest criteria and new disclosures for certain instruments with contractual terms that can change cash flows (including instruments where cash flows changes are linked to environment, social or governance targets).

IFRS 18, Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that will provide new presentation and disclosure requirements and which will replace IAS 1, Presentation of Financial Statements (IAS 1). IFRS 18 introduces changes to the structure of the income statement; provides required disclosures in financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements; and provides enhanced principles on aggregation and disaggregation in financial statements. Many other existing principles in IAS 1 have been maintained. IFRS 18 is effective for years beginning on or after January 1, 2027.

The impact of the adoption of these pronouncements is currently being assessed.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Inventory Obsolescence

Management applies judgement when estimating the inventory provision related to obsolescence based on the consideration of a variety of factors, including expiry dates and the timing of forecasted revenue by product. In many cases, product manufactured or purchased by the Company turns quickly and inventory on-hand values are low, thus reducing the risk of inventory obsolescence. However, expiry dates are important in the determination of net realizable value of inventory.

Management ensures that systems are in place to highlight and properly value inventory that has an expiry date within six months of period end. To the extent that actual losses on inventory obsolescence differ from those estimated, inventory, net loss, and comprehensive income (loss) will be affected in future periods.

Expressed in Canadian Dollars

4. 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. 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. 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 included $2,513,200 placed in escrow for indemnity claims. On August 2, 2022, 50% of the funds were received from escrow, and on October 3, 2022, the final 50% was received from escrow.

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

	September 30, 2024	September 30, 2023
Cash flows from investing activities	**-**	1,370,700
Total cash flow	**-**	1,370,000

5. INVENTORIES

Inventories consist of the following:

	September 30, 2024	September 30, 2023
Raw materials	**$3,520,835**	$2,107,970
Finished goods	**6,372,772**	5,775,340
Inventory provision	**(2,197,523)**	(1,938,776)
	$7,696,084	$5,944,534

Cost of product sales for the year ended September 30, 2024, includes $12,010,022 (2023 - $12,008,403), respectively in inventoried materials. The company wrote-off inventories against the inventory provision during the year ended September 30, 2024, totaling $783,217 (2023 - $1,274,853). Write-downs of inventories to net realizable value amounted to $1,041,964 (2023 - $317,521) and is included in cost of sales in the statement of operations and comprehensive income (loss).

Expressed in Canadian Dollars

6. **INTANGIBLE ASSETS**

Intangible assets are comprised of the following amounts:

	Deferred Development Costs ($)	Patents ($)	Trademarks ($)	Computer Software ($)	Total ($)
Cost					
Balance at September 30, 2022	2 286 362	1,080,912	82,362	372,252	3,821,888
Additions	175,325	-	-	660,495	835,820
Foreign exchange	(31,193)	(14,746)	(1,124)	(2,851)	(49,914)
Transfer to property, plant and equipment	-	-	-	(66,724)	(66,724)
Balance at September 30, 2023	**2,430,494**	**1,066,166**	**81,238**	**963,172**	**4,541,070**
Additions	-	-	-	126,190	126,190
Impairment	(175,052)	-	-	-	(175,052)
Foreign exchange	(3,775)	(1,656)	(127)	(1,496)	(7,054)
Balance at September 30, 2024	**2,251,667**	**1,064,510**	**81,111**	**1,087,866**	**4,485,154**
Accumulated amortization					
Balance at September 30, 2022	1,996,030	548,531	-	-	2,544,561
Amortization	112,475	52,386	-	74,454	239,315
Foreign exchange	(26,948)	(7,350)	-	187	(34,111)
Balance at September 30, 2023	**2,081,557**	**593,567**	-	**74,641**	**2,749,765**
Amortization	113,492	51,678	-	137,197	302,367
Foreign exchange	(4,142)	(1,337)	-	(1,213)	(6,692)
Balance at September 30, 2024	**2,190,907**	**643,908**	**-**	**210,625**	**3,045,440**
Carrying amounts					
At September 30, 2023	**348,937**	**472,599**	**81,238**	**888,531**	**1,791,305**
At September 30, 2024	**60,760**	**420,602**	**81,111**	**877,241**	**1,439,714**

As at September 30, 2024, included in computer software is an amount of $11,272 (September 30, 2023 - $413,932) which primarily relates to new information systems where amortization has not yet commenced as they had not yet been placed into service.

Expressed in Canadian Dollars

7. PROPERTY, PLANT AND EQUIPMENT

	Furniture and Fixtures ($)	Production and Lab Equipment ($)	Leasehold Improvements ($)	Total ($)
Cost				
Balance at September 30, 2022	689,748	1,988,726	377,492	3,055,966
Additions	66,289	425,735	11,008	503,032
Transfer from intangible assets	-	66,724	-	66,724
Foreign exchange	(9,410)	(29,358)	(5,149)	(43,917)
Balance at September 30, 2023	**746,627**	**2,451,827**	**383,351**	**3,581,805**
Additions	42,305	248,340	-	290,645
Foreign exchange	(1,160)	(3,809)	(596)	(5,565)
Sale of assets	(75,139)	(9,882)	-	(85,021)
Write-off of fully depreciated assets	(227,519)	(3,682)	-	(231,201)
Balance at September 30, 2024	**485,114**	**2,682,794**	**382,755**	**3,550,663**
Accumulated depreciation				
Balance at September 30, 2022	350,312	1,170,877	318,807	1,839,996
Depreciation	160,861	320,769	40,351	521,981
Foreign exchange	(4,373)	(15,167)	(3,570)	(23,110)
Balance at September 30, 2023	**506,800**	**1,476,479**	**355,588**	**2,338,867**
Depreciation	118,381	301,774	21,977	442,132
Foreign exchange	123	(4,679)	(729)	(5,285)
Sale of assets	(4,386)	(192)	-	(4,578)
Write-off of fully depreciated assets	(227,519)	(3,682)	-	(231,201)
Balance at September 30, 2023	**393,399**	**1,769,700**	**376,836**	**2,539,935**
Carrying amounts				
At September 30, 2023	239,827	975,348	27,763	1,242,938
At September 30, 2024	**91,715**	**913,094**	**5,919**	**1,010,728**

As at September 30, 2024, included in production and lab equipment is an amount of $242,397 which primarily relates to new production equipment where amortization has not yet commenced as they had not yet been placed into service.

Expressed in Canadian Dollars

8. RIGHT-OF-USE ASSETS

	Right-of-use assets ($)
Balance at October 1, 2023	656,727
Depreciation	(208,074)
Foreign exchange	(8,816)
Balance at September 30, 2023	**439,837**
Balance at October 1, 2023	439,837
Depreciation	(241,959)
Foreign exchange	(29,425)
Balance at September 30, 2024	**168,453**

The Company leases office space in Mississauga, Canada and Seattle, USA. During the year ended September 30, 2024, the Company has subleased a portion of its Seattle facility (Note 10).

9. LEASE LIABILITIES

Lease liabilities are comprised of the following amounts:

	Lease liabilities ($)
Balance at October 1, 2022	2,168,641
Interest	85,358
Payments	(683,768)
Foreign exchange	(7,766)
Balance at September 30, 2023	**1,562,465**
Interest	56,881
Payments	(698,943)
Foreign exchange	(18,732)
Balance at September 30, 2024	**901,671**
Current portion	600,485
Non-current portion	301,186

Following the impairment of the right of use asset related to the Company's Seattle lease agreement, an onerous contract liability at September 30, 2024 of $223,020 (September 30, 2023 - $309,562) has been recognized in accounts payable and accrued liabilities related to future variable lease payments that are not included in the lease liability.

Expressed in Canadian Dollars

10. FINANCE LEASE RECEIVABLE

During the year ended September 30, 2024, the Company entered into two sublease agreements for a total of 10,451 square feet out of a total of 18,246 square feet that comprises its Seattle facility. Both subleases are considered finance leases as it is reasonably certain that the sublease term will match that of the Company's existing lease agreements to April 2026. As a result of this transaction the company has recognized a finance lease receivable at the inception of the subleases in the amount of $610,008 with an offsetting gain recognized in the consolidated statements of operations and comprehensive income (loss).

The movement in lease receivables during the period is as follows:

	Finance lease receivables ($)
Balance at October 1, 2023	-
Addition	610,008
Interest income	16,757
Brokerage fees	(16,122)
Payments received	(214,005)
Foreign exchange	16,818
Balance at September 30, 2024	**413,456**
Current portion	264,728
Non-current portion	148,728

A maturity analysis of the lease payments receivable is as follows:

2025	251,490
2026	145,046
Total future minimum payments receivable	**396,536**
Imputed interest	16,920
Finance lease receivable	**413,456**

Termination of Sublease Subsequent to September 30, 2024

On December 19, 2024, a sublease tenant notified us of their intention to terminate their sublease early, providing a 60-day notice. The tenant plans to vacate the premises by February 19, 2025. This will reduce future cash receipts in relation to the finance lease receivable by $144,519.

Expressed in Canadian Dollars

11. 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 May 25, 2022, the Company announced that it had filed its intention to make a normal course issuer bid ("NCIB") for its common shares with the TSX Venture Exchange for up to 1,296,433 shares, representing 5% of the issued and outstanding common shares. Repurchases under the NCIB program were approved by the TSX Venture Exchange, commenced on June 2, 2022, and were authorized to continue until the earlier of: (a) May 31, 2023; and (b) the date in which the maximum number of common shares purchasable under the NCIB have been acquired by the Company. The NCIB ended on May 31, 2023. All common shares that were repurchased by the Company under the NCIB program were cancelled, with any excess or deficiency as compared to the weighted average cost of common shares being charged to contributed surplus.

On June 29, 2022, in connection with the NCIB, the Company entered into an automatic share purchase plan ("ASPP") with a designated broker. The ASPP was intended to allow for the purchase of the Company's common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, prior to entering into a blackout period, the Company could instruct the designated broker to make purchases under the NCIB in accordance with the terms of the ASPP. Such purchases could be made by the designated broker in its sole discretion based on parameters established by the Company prior to the blackout period in accordance with the rules of the TSX Venture Exchange, applicable securities laws and the terms of the ASPP. In accordance with the terms of the ASPP, the Company was able to terminate any instructions given to the designated broker with minimal notice. The Company continued with the ASPP from June 29, 2022 through to May 31, 2023.

For the twelve months ended September 30, 2024, the Company has repurchased nil (September 30, 2023 – 618,200) of its common shares under the NCIB.

Warrants

The following is a summary of all warrants outstanding:

	Number of Warrants	Weighted average exercise Price	Weighted Average Expiry (years)
Balance at September 30, 2022	**2,928,500**	**$2.14**	**2.10**
Exercised during the period	-	-	-
Balance at September 30, 2023	**2,928,500**	**$2.14**	**1.10**
Exercised during the period	2,728,500	2.00	**-**
Balance at September 30, 2024	**200,000**	**$4.00**	**1.83**

During the year ended September 30, 2024, the Company issued 2,728,500 common shares upon the exercise of 2,728,500 warrants at an exercise price of $2.00 per share. This resulted in total cash proceeds of $5,457,000. In addition, an amount of $3,520,216 was transferred to share capital from contributed surplus, representing the fair value of the warrants on the date of issuance.

Expressed in Canadian Dollars

12. SHARE-BASED PAYMENTS

Long-Term Incentive Plan

On March 8, 2023, the shareholders approved the Plan.

Stock Options

Stock options outstanding are non-transferable options to purchase common shares of the Company which may be granted to Directors, officers, employees, or service providers of the Company. The terms of the stock options 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 ten years. No amounts are paid or payable by the recipient on receipt of the stock option. All stock options issued to date 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. Future grants of stock options may vest over alternative periods as authorized by the Directors.

RSUs and DSUs

RSUs and DSUs vest over a period of three years on each anniversary of the grant date unless a different vesting schedule is approved by the Board of Directors. DSUs are only eligible to be converted into common shares of the Company when the holder ceases its relationship to the Company.

The maximum number of common shares which may be issued under the Plan cannot exceed 10% of the common shares issued and outstanding at any given time, calculated on a non-diluted basis. Grants held by non-employee directors of the Company are at all times limited to no more than 1% of the common shares issued and outstanding, calculated on a non-diluted basis, and the total annual grant to any one non-employee director under the Plan cannot exceed a grant value of $150,000 in total equity.

The following is a summary of changes in stock options from October 1, 2022, to September 30, 2023:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
25-Oct-17	25-Oct-22	$3.80	60,000	-	-	(60,000)	-	-	-	-
21-Dec-17	21-Dec-22	$4.65	55,000	-	-	(55,000)	-	-	-	-
24-Jan-18	24-Jan-23	$6.02	60,000	-	-	(60,000)	-	-	-	-
27-Sep-18	27-Sep-23	$8.50	67,500	-	-	(67,500)	-	-	-	-
22-Dec-18	22-Dec-23	$4.28	47,500	-	-	(12,500)	35,000	35,000	-	0.23
15-Mar-19	15-Mar-24	$5.03	40,000	-	-	-	40,000	40,000	-	0.46
28-Mar-22	28-Mar-27	$2.19	465,000	-	-	(47,500)	417,500	141,950	275,550	3.49
06-Sep-22	06-Sep-27	$2.50	437,500	-	-	(5,000)	432,500	147,050	285,450	3.93
			1,232,500	**-**	**-**	**(307.500)**	**925,000**	**364,000**	**561,000**	**3.44**
Weighted Average Exercise Price			**$3.19**	**-**	**-**	**$5.17**	**$2.54**	**$2.83**	**$2.35**	

Expressed in Canadian Dollars

The following is a summary of changes in stock options from October 1, 2023, to September 30, 2024:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
22-Dec-18	22-Dec-23	$4.28	35,000	-	-	(35,000)	-	-	-	-
15-Mar-19	15-Mar-24	$5.03	40,000	-	-	(40,000)	-	-	-	-
28-Mar-22	28-Mar-27	$2.19	417,500	-	-	(35,000)	382,500	126,225	256,275	2.74
06-Sep-22	06-Sep-27	$2.50	432,500	-	-	(287,500)	145,000	49,300	95,700	3.18
10-Jan-24	10-Jan-29	$1.50	-	800,000	-	-	800,000	-	800,000	4.53
			925,000	**800,000**	**-**	**(397,500)**	**1,327,500**	**175,525**	**1,151,975**	**3.87**
Weighted Average Exercise Price			**$2.54**	**$1.50**	**-**	**$2.88**	**$1.81**	**$2.28**	**$1.74**	

Issuance of Share Options

On January 10, 2024 Company's Board of Directors approved the grant of 800,000 stock options to the Chief Executive Officer. Of the 800,000 stock options, 400,000 stock options will vest over four years, with 25% vesting on each anniversary date, and the remaining 400,000 stock options will vest based on increases in the Company's share price as follows:

i) 100,000 stock options will vest only after the first anniversary date and if the Company's share price is $2.50 for 120 days after the first anniversary date.

ii) 100,000 stock options will vest only after the first anniversary date and if the Company's share price is $3.00 for 120 days after the first anniversary date.

iii) 100,000 stock options will vest only after the second anniversary date and if the Company's share price is $3.50 for 120 days after the first anniversary date; and

iv) 100,000 stock options will vest only after the third anniversary date and if the Company's share price is $4.00 for 120 days after the first anniversary date.

The fair value of performance-based stock options issued during the period that have market based vesting conditions was estimated using the Monte Carlo simulation model. The Monte Carlo model was chosen due to its ability to simulate the complex vesting conditions tied to the performance targets, providing a more accurate reflection of the potential outcome. The assumptions used in the model were: weighted average probability of expected time to maturity, share volatility, risk free rates and the assumption that the Company will not pay dividends. The fair value of the remaining stock options granted was determined using the Black-Scholes valuation model with the following assumptions: average risk-free rate of 3.58%, dividend rate – nil, volatility – 90% and an expected life of 5 years. The estimated forfeiture rate is 2.95%.

Expressed in Canadian Dollars

The following is a summary of changes in deferred shared units from October 1, 2023, to September 30, 2024:

Grant Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested	Unvested
20-Oct-23	$1.44	-	295,000	-	(15,000)	280,000	-	280,000
		-	**295,000**	**-**	**(15,000)**	**280,000**	**-**	**280,000**
	Weighted Average Exercise Price	**$1.44**	**$1.44**	**-**	**$1.44**	**$1.44**	**-**	**$1.44**

Issuance of Deferred Share Units

On October 20, 2023 Company's Board of Directors approved the grant of 295,000 DSUs to certain of its directors and officers. 200,000 DSUs vest within one year of the grant date and the remaining 95,000 will vest equally over three years with one third of the DSUs vesting on each anniversary date following the grant date.

Share Based Payment Expense

Total share-based payment expense recognized during the year ended September 30, 2024 as part of employee benefits was $405,981 (2023 - $559,154).

13. 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, accounts receivable and finance lease 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 measuring expected credit losses, which uses a lifetime expected loss allowance for all accounts receivables. To measure the expected credit losses, accounts receivables are grouped based on shared credit risk characteristics and the days past due. On the basis, the loss allowance as at September 30, 2024 and 2023 is nominal as the Company only transacts with hospitals, distributors and private clinics and has not incurred a sustained trend of any credit losses. The Company's cash management policies include ensuring cash and cash equivalents are deposited in Canadian chartered banks.

Accounts receivables 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.

Expressed in Canadian Dollars

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, 2024, five customers accounted for 75% (2023 – five customers for 71%) 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, 2024	September 30, 2023
Current	**$3,628,070**	$5,755,494
30-60 days past due	**17,182**	192,489
Over 60 days past due	**-**	214,086
	3,645,252	6,162,069

Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents. The Company believes that interest rate risk is low due to market based variable interest rates.

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, 2024				**September 30, 2023**			
	Canadian	USD	GBP	**Total**	CAD	USD	GBP	**Total**
Cash and cash equivalents	$5,549,162	$11,197,619	-	**$16,746,781**	$178,723	$8,615,927	-	**$8,794,650**
Accounts receivable	$396,849	$3,185,530	$62,873	**$3,645,252**	$385,193	$5,713,905	$62,971	**$6,162,069**
Finance lease receivable	-	$413,456	-	**$413,456**	-	-	-	**-**
Restricted cash and cash held in escrow	-	-	-	**-**	-	$135,200	-	**$135,200**
Accounts payable and accrued liabilities	$337,881	$2,973,128	$17,204	**$3,328,213**	$344,159	$4,092,500	$27,950	**$4,464,609**
Lease liabilities	$225,094	$676,577	-	**$901,671**	$537,808	$1,024,657	-	**$1,562,465**

If exchange rates were to change by 5% at September 30, 2024 total comprehensive income (loss) would change by $559,628 (2023 - $469,145).

Fair Value

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

Expressed in Canadian Dollars

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	3,328,213	3,328,213	3,323,790	4,423	-
Lease liabilities	901,671	910,121	604,056	306,065	-
Total	**4,229,884**	**4,238,334**	**3,927,846**	**310,488**	-

14. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity comprising share capital, contributed surplus, foreign exchange translation reserve and accumulated deficit. 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, 2024 is $27,504,608 (September 30, 2023 – $18,792,817).

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.

15. INCOME TAXES

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

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 26.0% - 26.5% for the year ended September 30, 2024 (2023 – 26.0% - 26.5%).

Reconciliation between statutory rate and actual rate

	September 30, 2024	2023
Income tax computed at statutory tax rates	**707,495**	(1,182,164)
Permanent differences	**134,008**	(85,165)
Rate differences and other	**17,807**	29,154
Change in deferred tax assets not recognized	**(859,310)**	1,238,175
	$ -	$ -

Expressed in Canadian Dollars

Deferred tax assets (liabilities)

The tax effect of the temporary differences that gives rise to deferred tax assets (liabilities) as of September 30, 2024 and 2023 is presented below. No benefit has been recorded in these consolidated financial statements for deferred tax assets arising from temporary differences and carry forward amounts. This is because it is not considered probable that the Company will generate sufficient taxable income in the foreseeable future to utilize these amounts. The Company evaluates the recoverability of deferred tax assets on an ongoing basis and will recognize such benefits when it becomes probable that they will be realized.

	September 30,	
	2024	2023
Non-capital loss carry forwards	**$4,186,523**	$4,582,891
Capital and other assets	**(9,151)**	341,592
Investment tax credits	**1,170,505**	1,164,971
Research and development expenditure pool	**2,299,756**	2,299,756
Deferred revenue and other liabilities	**224,265**	266,082
Other deductible differences	**913,749**	913,749
Deferred tax assets not recognized	**(8,785,647)**	(9,569,041)
	$ -	$ -

The Company has non-capital losses carried forward available for income tax purposes as at September 30, 2024 which are available to reduce taxable income of future years. These losses expire as follows:

Year	Canada	United States
2031	-	31,812
2032	-	187,651
2033	-	169,267
2034	-	202,041
2035	-	272,359
2036	-	293,536
2037	-	203,618
2041	197,779	-
2042	1,858,077	-
2043	1,135,651	-
2044	1,668,685	-
No expiry	-	9,788,071
	$4,860,192	$11,148,355

Investment tax credits

At September 30, 2024, the Company has $1,592,524 (2023 - $1,564,179) of unclaimed federal and provincial investment tax credits for qualifying scientific research and experimental development activities which may be applied to reduce income taxes payable in future years. If not utilized, these investment tax credits will start expiring in 2026. These unclaimed investment tax credits have not been recognized as a deferred tax asset.

Expressed in Canadian Dollars

16. 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,	
	2024	2023
Compensation and short-term employee benefits	**$1,478,114**	$1,203,822
Termination benefits	**-**	667,969
Share based payment expense	**381,163**	65,668
	1,859,277	1,937,459

The Company had previously accrued $667,969 for termination benefits related to a former senior management team member during the last fiscal year. The amount continues to represent management's best estimate of the termination benefits owed. On April 5, 2024, this former senior executive filed a claim for wrongful dismissal. An additional amount of $1,832,031 has been claimed, which the Company has not accrued for and believes to be unwarranted. There can be no assurance as to the final outcome of the claim and termination benefits owed.

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, 2024, $10,000 of this loan remained outstanding.

17. EXPENSES BY NATURE

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

	Year ended September 30,	
	2024	**2023**
Inventoried materials	**$12,010,022**	$12,008,403
Wages, benefits, consulting fees, director compensation	**10,412,085**	12,085,278
Share based payments	**405,981**	559,154
Depreciation and amortization	**986,458**	969,370
Facilities	**255,279**	160,409
Patent and trademark maintenance	**195,736**	307,175
Insurance	**400,212**	414,427
Information technology system costs	**779,152**	674,700
Professional fees	**1,261,819**	1,287,235
Impairment of intangible assets	**175,052**	-
Other expenses	**2,135,703**	2,657,635
Total	**$29,017,499**	$31,123,786

Expressed in Canadian Dollars

Depreciation and amortization	**For the year ended September 30,**	
	2024	2023
Cost of product sales	**$225,785**	$225,044
Operations	**65,138**	67,943
Research and development activities	**149,510**	151,838
General and administrative	**546,025**	524,545
Total depreciation and amortization	**$986,458**	$969,370

18. EARNINGS (LOSS) PER SHARE

	For the year ended September 30	
	2024	2023
Weighted average number of common shares outstanding – basic	**24,804,201**	24,880,782
Dilutive effect of securities outstanding		
Stock Options/DSU's	**152,543**	10,955
Warrants	**-**	178,434
Weighted average number of common shares outstanding – diluted	**24,956,744**	25,070,171

For the year ending September 30, 2023, diluted loss per share is equal to the basic loss per share due to the anti dilutive effect of the stock options, DSUs and warrants.

19. SEGMENT REPORTING

The Company generated revenue of $27,009,122 (2023 – $18,849,488) in the US, $2,697,771 (2023 – $5,864,416) in the Middle East, $40,340 (2023 – $52,647) in Canada, and $1,421,299 (2023 – $1,828,735) in the rest of the world.

As of September 30, 2024, the Company had $2,606,782 (2023 - $3,444,738) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and $12,113 (2023 - $29,342) in the USA.

Expressed in Canadian Dollars

20. CONTINGENCIES AND COMMITMENTS

The following are additional commitments of the Company beyond September 30, 2024 during the following years ended:

	September 30,			
	2025	2026	2027	Thereafter
Telecommunications & office equipment leases	**47,830**	38,196	23,006	16,818
	$47,830	$38,196	$23,006	$16,818

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 (note 16).