



**iFABRIC CORP.**

**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**MARCH 31, 2023**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED)**



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**NOTICE TO READER**

The accompanying unaudited condensed consolidated interim financial statements of iFabric Corp. have been prepared by, and are the responsibility of, management. The unaudited condensed consolidated interim financial statements have not been reviewed by iFabric Corp.'s auditors.

**iFABRIC CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

**(Unaudited, Expressed in Canadian Dollars)**

As at	March 31, 2023	September 30, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	2,019,844	944,725
Accounts receivable (note 4)	6,290,451	7,017,329
Inventories (note 5)	9,096,529	9,353,200
Income taxes recoverable	-	39,780
Prepaid expenses and deposits (note 6)	4,996,343	5,338,748
<b>Total current assets</b>	<b>22,403,167</b>	<b>22,693,782</b>
<b>Non-current assets</b>		
Due from related parties (note 7)	87,248	87,248
Property, plant and equipment	3,195,105	3,110,330
Right-of-use assets	42,944	52,548
Deferred development costs	191,428	204,838
Deferred income taxes	1,095,100	1,165,700
Goodwill	55,050	55,050
<b>Total non-current assets</b>	<b>4,666,875</b>	<b>4,675,714</b>
<b>Total assets</b>	<b>27,070,042</b>	<b>27,369,496</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	1,807,069	2,520,095
Customer deposits	84,243	85,326
Income taxes payable	56,093	195,097
Deferred revenue	-	13,090
Current portion of lease liability	19,208	19,208
Current portion due to related parties	119	4,559
Current portion of car loan payable	12,792	12,792
Current portion of bank loan payable (note 10)	1,092,255	1,138,704
<b>Total current liabilities</b>	<b>3,071,779</b>	<b>3,988,871</b>
<b>Non-current liabilities</b>		
Deferred income taxes	18,400	-
Non-current portion of lease liability	23,736	33,340
Non-current portion of car loan payable	26,076	33,948
Due to related parties	487,372	547,372
<b>Total non-current liabilities</b>	<b>555,584</b>	<b>614,660</b>
<b>Total liabilities</b>	<b>3,627,363</b>	<b>4,603,531</b>
<b>Commitments (note 14)</b>		
<b>EQUITY</b>		
<b>Equity attributable to iFabric Corp. shareholders</b>		
Capital stock (note 13)	9,039,749	13,660,614
Reserves	8,452,523	3,675,458
Retained earnings	5,761,912	5,157,927
Accumulated other comprehensive earnings (loss)	177,137	259,111
<b>Total equity attributable to iFabric Corp. shareholders</b>	<b>23,431,321</b>	<b>22,753,110</b>
<b>Non-controlling interest</b>	<b>11,358</b>	<b>12,855</b>
<b>Total equity</b>	<b>23,442,679</b>	<b>22,765,965</b>
<b>Total liabilities and equity</b>	<b>27,070,042</b>	<b>27,369,496</b>

Approved on behalf of the Board of Directors on May 15, 2023:

"Hylton Karon"  
Director

"Hilton Price"  
Director

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

**iFABRIC CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)**  
**(Unaudited, Expressed in Canadian Dollars)**

For the period ended March 31,	Three months		Six months	
	2023	2022	2023	2022
<b>REVENUE</b>	<b>6,642,563</b>	<b>3,477,287</b>	<b>11,558,928</b>	<b>8,471,158</b>
<b>COST OF SALES</b>	<b>3,984,055</b>	<b>2,237,520</b>	<b>6,944,532</b>	<b>5,381,891</b>
<b>GROSS PROFIT</b>	<b>2,658,508</b>	<b>1,239,767</b>	<b>4,614,396</b>	<b>3,089,267</b>
<b>EXPENSES</b>				
General and administrative costs	1,355,907	1,191,897	2,682,300	2,312,523
Selling costs	671,984	257,339	1,136,786	570,457
Interest expense	20,905	10,915	40,542	21,560
Depreciation of property, plant and equipment and right-of-use assets	29,108	23,610	57,641	45,937
Amortization of deferred development costs	6,705	6,705	13,410	13,410
Share-based compensation	-	327,433	-	330,431
	<b>2,084,609</b>	<b>1,817,899</b>	<b>3,930,679</b>	<b>3,294,318</b>
<b>EARNINGS (LOSS) FROM OPERATIONS</b>	<b>573,899</b>	<b>(578,132)</b>	<b>683,717</b>	<b>(205,051)</b>
<b>OTHER EXPENSES (INCOME)</b>				
Loss (gain) on foreign exchange	(25,076)	195,103	(63,494)	229,668
Loss on termination	-	-	22,200	-
Government grants	-	(1,521)	(8,866)	(14,856)
	<b>(25,076)</b>	<b>193,582</b>	<b>(50,160)</b>	<b>214,812</b>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>598,975</b>	<b>(771,714)</b>	<b>733,877</b>	<b>(419,863)</b>
<b>PROVISION FOR (RECOVERY OF) INCOME TAXES</b>				
Current	46,148	7,091	76,189	242,641
Deferred	82,200	(110,500)	55,200	(167,616)
	<b>128,348</b>	<b>(103,409)</b>	<b>131,389</b>	<b>75,025</b>
<b>NET EARNINGS (LOSS)</b>	<b>470,627</b>	<b>(668,305)</b>	<b>602,488</b>	<b>(494,888)</b>
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO:</b>				
iFabric Corp. shareholders	469,419	(671,680)	603,985	(503,720)
Non-controlling interest	1,208	3,375	(1,497)	8,832
	<b>470,627</b>	<b>(668,305)</b>	<b>602,488</b>	<b>(494,888)</b>
<b>OTHER COMPREHENSIVE EARNINGS (LOSS)</b>				
Unrealized gain (loss) on translation of foreign operations	(11,343)	85,413	(81,974)	88,277
<b>TOTAL COMPREHENSIVE EARNINGS (LOSS)</b>	<b>459,284</b>	<b>(582,892)</b>	<b>520,514</b>	<b>(406,611)</b>
<b>EARNINGS (LOSS) PER SHARE (note 12)</b>				
Basic	0.015	(0.023)	0.020	(0.017)
Diluted	0.015	(0.023)	0.020	(0.017)

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

**iFABRIC CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

**(Unaudited, Expressed in Canadian Dollars)**

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves			Retained earnings	Accumulated Other Comprehensive Earnings (Loss)	Total		
	Capital stock	Contributed surplus	Options					
Balance at September 30, 2022	13,660,614	852,679	2,822,779	5,157,927	259,111	22,753,110	12,855	<b>22,765,965</b>
Total comprehensive earnings (loss)	-	-	-	603,985	(81,974)	522,011	(1,497)	<b>520,514</b>
Deferred tax on share issue costs	(33,800)	-	-	-	-	(33,800)	-	<b>(33,800)</b>
Exercise of options	337,820	-	(147,820)	-	-	190,000	-	<b>190,000</b>
Expiry of options/warrant extension	(4,924,885)	5,581,905	(657,020)	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	-
<b>Balance at March 31, 2023</b>	<b>9,039,749</b>	<b>6,434,584</b>	<b>2,017,939</b>	<b>5,761,912</b>	<b>177,137</b>	<b>23,431,321</b>	<b>11,358</b>	<b>23,442,679</b>

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves			Retained earnings	Accumulated Other Comprehensive Earnings (Loss)	Total		
	Capital stock	Contributed surplus	Options					
Balance at September 30, 2021	13,585,774	852,679	2,412,067	5,612,925	(196,551)	22,266,894	10,313	<b>22,277,207</b>
Total comprehensive earnings (loss)	-	-	-	(503,720)	88,277	(415,443)	8,832	<b>(406,611)</b>
Exercise of options	-	-	-	-	-	-	-	-
Share-based compensation	-	-	330,431	-	-	330,431	-	<b>330,431</b>
<b>Balance at March 31, 2022</b>	<b>13,585,774</b>	<b>852,679</b>	<b>2,742,498</b>	<b>5,109,205</b>	<b>(108,274)</b>	<b>22,181,882</b>	<b>19,145</b>	<b>22,201,027</b>

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**iFABRIC CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**(Unaudited, Expressed in Canadian Dollars)**

For the six months ended March 31,	2023	2022
<b>CASH WAS PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss)	602,488	(494,888)
Items not affecting cash		
Interest on lease liability	608	1,474
Depreciation of property, plant and equipment and right-of-use assets	57,641	45,937
Amortization of deferred development costs	13,410	13,410
Share-based compensation	-	330,431
Deferred income tax provision	55,200	(167,616)
	<b>729,347</b>	<b>(271,252)</b>
Changes in operating assets and liabilities		
Accounts receivable	726,878	2,139,185
Inventories	256,671	(4,113,875)
Income taxes recoverable	39,780	28,323
Prepaid expenses and deposits	342,405	(463,722)
Due from related parties	-	44,156
Accounts payable and accrued liabilities	(713,026)	(1,010,607)
Customer deposits	(1,083)	(73,527)
Deferred revenue	(13,090)	(9,480)
Contract liability	-	(94,193)
Income taxes payable	(139,004)	32,245
	<b>499,531</b>	<b>(3,521,495)</b>
	<b>1,228,878</b>	<b>(3,792,747)</b>
<b>FINANCING ACTIVITIES</b>		
Due to related parties	(64,440)	544
Share and warrant issuances (note 13)	190,000	-
Repayment of car loan	(7,872)	-
Repayment of bank loan	(46,449)	(44,698)
Interest paid	(608)	(1,474)
Repayment of lease liability	(9,604)	(15,307)
	<b>61,027</b>	<b>(60,935)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(132,812)	(136,442)
	<b>(132,812)</b>	<b>(136,442)</b>
<b>CHANGE IN CASH POSITION</b>	<b>1,157,093</b>	<b>(3,990,124)</b>
<b>CASH, beginning of period</b>	<b>944,725</b>	<b>8,901,718</b>
Effect of foreign currency translation	(81,974)	88,277
<b>CASH, end of period</b>	<b>2,019,844</b>	<b>4,999,871</b>

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**1. NATURE OF OPERATIONS**

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

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

**2. BASIS OF PREPARATION****(a) Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, Interim Financial Reporting. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended September 30, 2022.

**(b) Seasonal fluctuations**

The interim period results of operations do not necessarily reflect results for the full fiscal year because of seasonal fluctuations that characterize the apparel and textiles industries.

**(c) Basis of measurement**

These unaudited condensed consolidated interim financial statements were prepared on a historical cost basis except for certain items which may be accounted for at fair value, as further discussed in the significant accounting policies of the most recent audited annual financial statements for the year ended September 30, 2022.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2022 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements, except as detailed below.

**4. ACCOUNTS RECEIVABLE**

	March 31, 2023	September 30, 2022
Trade receivables	6,246,747	7,045,514
Expected credit loss	(121,320)	(121,320)
Allowance for discounts and rebates	(3,091)	(4,769)
Deferred rent asset	-	26,424
Contract asset	165,763	69,480
Other	2,352	2,000
	<b>6,290,451</b>	<b>7,017,329</b>

**5. INVENTORIES**

Inventories represent the carrying amount of merchandise for resale. During the six months ended March 31, 2023, the amount of inventories charged to net earnings was \$6,218,483 (2022 - \$4,664,158) and the amount of inventory write-downs

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

were \$3,950 (2022- \$127,631). There were no reversals of prior period write-downs of inventory.

**6. PREPAID EXPENSES AND DEPOSITS**

	March 31, 2023	September 30, 2022
Prepaid expenses and other assets	289,523	147,524
Deposits paid to suppliers (i)	4,706,820	5,191,224
	<b>4,996,343</b>	<b>5,338,748</b>

(i) On May 4, 2020, the Company entered into an agreement to purchase 1,000,000 N95 masks from a foreign supplier. The contract required full delivery by June 2020 but was partially fulfilled, with the supplier defaulting on the timing of the remaining delivery. The Company sourced these products from a different supplier to fulfill the order to its customer in Q1 2021. The Company has been seeking recovery of the deposit through an arbitration process in the foreign jurisdiction, which was delayed due to COVID-19 restrictions and lockdowns. On December 21, 2021, the arbitration court ruled in the Company's favor and is in the court enforcement process to recover its remaining deposit of USD \$2,905,000, plus liquidated damages of USD \$146,942, interest at the rate of 12% per annum calculated from the date of payment of the deposit, and reimbursement of the arbitration cost of RMB 445,902. No amounts have been accrued for damages, interest or arbitration reimbursement as at March 31, 2023.

**7. DUE FROM RELATED PARTIES**

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

**8. CREDIT FACILITIES**

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$6,750,000, against which \$0 was outstanding as at March 31, 2023 (September 30, 2022 - \$0). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of \$3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2023	September 30, 2022
Trade payables	1,599,750	1,962,660
Government remittances	25,636	151,412
Accrued liabilities	181,683	386,109
Tenants deposits	-	19,914
	<b>1,807,069</b>	<b>2,520,095</b>

**10. BANK LOAN**

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

Management expects to pay the minimum monthly principal and interest payments within the next twelve months.

Two of the Company's subsidiaries has a \$60,000 loan each for a total of \$120,000, which was funded by the Canada Emergency Business Account ("CEBA"). CEBA is interest free until December 31, 2023 with one third of the balance forgiven if

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

two thirds of the balance is repaid by December 31, 2023. Management expects to pay the two thirds of the balance of \$120,000 of CEBA within the next 12 months.

**11. SEGMENTED INFORMATION**

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

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

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

There has been no material change in the total assets for each reportable segment since the last annual audited financial statements.

Six months ended March 31, 2023	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	4,029,999	7,501,533	27,396	-	11,558,928
Inter-segment	-	1,239,571	110,930	(1,350,501)	-
Total Revenue	4,029,999	8,741,104	138,326	(1,350,501)	11,558,928
Earnings (loss) before income taxes	357,694	477,357	(3,154)	(98,020)	733,877
Total assets	6,310,483	16,954,794	3,098,183	706,582	27,070,042
Total liabilities	928,825	1,165,566	1,473,068	59,904	3,627,363

Six months ended March 31, 2022	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	2,909,554	5,507,130	54,474	-	8,471,158
Inter-segment	-	1,201,746	82,626	(1,284,372)	-
Total Revenue	2,909,554	6,708,876	137,100	(1,284,372)	8,471,158
Earnings (loss) before income taxes	(330,037)	386,188	47,929	(523,943)	(419,863)
Total assets	5,254,905	14,597,689	3,054,151	3,431,917	26,338,662
Total liabilities	829,679	1,446,747	1,670,632	190,577	4,137,635

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

Six months ended March 31,	2023	2022
External sales revenue		
Canada	6,302,135	1,969,385
United States	2,225,321	2,829,489
United Kingdom	381,332	148,343
Southeast Asia and other	2,650,140	3,523,941
Total	11,558,928	8,471,158

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

For the six months ended March 31, 2023, approximately 52% of the Company's total sales were to three customers (2022 –





**13. CAPITAL STOCK, continued****(b) Stock option plan**

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

	Number of stock options	Weighted average exercise price
Balance at September 30, 2022	1,629,000	1.95
Exercised, during the period	(475,000)	0.40
Expired, during the period	(119,000)	0.40
<b>Balance at March 31, 2023</b>	<b>1,035,000</b>	<b>2.84</b>
	Number of stock options	Weighted average exercise price
Balance at September 30, 2021	1,629,000	1.58
Granted, during the period (i)	200,000	3.40
<b>Balance at March 31, 2022</b>	<b>1,829,000</b>	<b>1.78</b>

(i) On February 9, 2022, the Company issued 150,000 stock options to a new member of the Board of Directors. Each option entitles the holder to acquire one common share of the Company at a price of \$3.50, and is exercisable for a period of 5 years from the grant date. All 150,000 options vested immediately. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$355,000 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

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

On March 1, 2022, the Company issued 50,000 additional stock options to an existing member of the Board of Directors. Each option entitles the holder to acquire one common share of the Company at a price of \$3.10, and is exercisable for a period of 5 years from the grant date. All 50,000 options vested immediately. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$106,500 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

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

**13. CAPITAL STOCK, continued**

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

Expiry date	Options Outstanding			Options Exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
April 1, 2024	75,000	1.00	4.15	75,000	4.15
May 6, 2025	100,000	2.10	2.70	100,000	2.70
June 5, 2027	450,000	4.18	2.40	450,000	2.40
February 9, 2027	150,000	3.86	3.50	150,000	3.50
March 1, 2027	50,000	3.92	3.10	50,000	3.10
April 7, 2030	200,000	7.02	2.70	200,000	2.70
June 30, 2025	10,000	2.25	6.05	10,000	6.05
	<b>1,035,000</b>	<b>4.22</b>	<b>2.84</b>	<b>1,035,000</b>	<b>2.84</b>

**(c) Warrants**

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

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

  

	Number of warrants	Weighted average exercise price
<b>Balance, September 30, 2021 and March 31, 2022</b>	<b>2,948,717</b>	<b>4.60</b>

The following table summarizes the warrants outstanding at March 31, 2023.

Expiry date	Number of warrants	Weighted average exercise price
March 31, 2024 (i)	2,943,717	4.60

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

**(d) Compensation options**

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

	Number of compensation options	Weighted average exercise price
Balance, September 30, 2022	176,923	3.90
Expired, during the period	(176,923)	3.90
<b>Balance at March 31, 2023</b>	<b>-</b>	<b>-</b>

  

	Number of compensation options	Weighted average exercise price
<b>Balance, September 30, 2021 and March 31, 2022</b>	<b>176,923</b>	<b>3.90</b>

**14. COMMITMENTS**

- (a) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 0%-10%. Minimum annual royalties have been established for the balance of the contract period ending December 31, 2023 in U.S. dollar amount of \$200,000. In addition, the Company is required to pay an advertising fee of 1%-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2023.
- (b) In terms of a Canadian license agreement pursuant to which the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 10-12%. Minimum annual royalties have been established for the contract periods ending December 31, 2023 and 2024, in amounts of \$125,000 and \$175,000 respectively. The license term is in effect until December 31, 2024.

**15. FINANCIAL RISK MANAGEMENT**

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposure during the three months and six ended March 31, 2023 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2022.