



iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

DECEMBER 31, 2018

(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	December 31, 2018	September 30, 2018
ASSETS		
Current assets		
Cash	3,413,219	3,542,899
Accounts receivable (note 4)	2,089,349	2,200,669
Inventories (note 5)	3,960,722	4,293,436
Prepaid expenses and deposits (note 6)	181,371	165,296
Foreign exchange forward contracts (note 7)	(78,673)	37,055
Total current assets	9,565,988	10,239,355
Non-current assets		
Due from related parties (note 8)	123,000	123,000
Property, plant and equipment	2,886,880	2,844,091
Deferred development costs	140,192	151,163
Deferred income taxes	783,600	766,700
Goodwill	55,050	55,050
Total non-current assets	3,988,722	3,940,004
Total assets	13,554,710	14,179,359
LIABILITIES		
Current liabilities		
Bank indebtedness (note 9)	-	-
Accounts payable and accrued liabilities (note 10)	984,251	770,790
Income taxes payable	359,848	413,239
Current portion of deferred revenue	39,300	39,300
Current portion due to related parties	15,023	15,023
Current portion of bank loan payable	79,616	78,962
Total current liabilities	1,478,038	1,317,314
Non-current liabilities		
Deferred revenue	81,875	91,700
Due to related parties	471,380	468,668
Bank loan payable (note 11)	1,238,429	1,258,289
Total non-current liabilities	1,791,684	1,818,657
Total liabilities	3,269,722	3,135,971
Commitments (note 16)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 14)	2,963,824	2,963,824
Reserves	2,246,069	2,567,433
Retained earnings	4,758,585	5,315,707
Accumulated other comprehensive earnings	307,488	182,403
Total equity attributable to iFabric Corp. shareholders	10,275,966	11,029,367
Non-controlling interest	9,022	14,021
Total equity	10,284,988	11,043,388
Total liabilities and equity	13,554,710	14,179,359

Approved on behalf of the Board of Directors on February 13, 2019:

"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 three months ended December 31,	2018	2017
REVENUE	2,471,881	5,136,771
COST OF SALES	1,590,273	2,549,577
GROSS PROFIT	881,608	2,587,194
EXPENSES		
Selling, general and administrative costs	1,330,233	1,276,910
Interest on operating line	-	9,395
Interest on bank loan	12,359	16,644
Amortization of property, plant and equipment	17,211	16,548
Amortization of deferred development costs	10,971	40,366
	1,370,774	1,359,863
EARNINGS (LOSS) FROM OPERATIONS	(489,166)	1,227,331
OTHER EXPENSES (INCOME)		
Share-based compensation	73,378	45,483
Loss (gain) on foreign exchange	64,610	(117,044)
	137,988	(71,561)
EARNINGS (LOSS) BEFORE INCOME TAXES	(627,154)	1,298,892
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	(53,391)	223,237
Deferred	(16,900)	124,700
	(70,291)	347,937
NET EARNINGS (LOSS)	(556,863)	950,955
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	(557,122)	950,480
Non-controlling interest	259	475
	(556,863)	950,955
OTHER COMPREHENSIVE EARNINGS		
Unrealized gain on translation of foreign operations	125,085	13,307
	125,085	13,307
TOTAL COMPREHENSIVE EARNINGS (LOSS)	(431,778)	964,262
EARNINGS (LOSS) PER SHARE (note 13)		
Basic	(0.021)	0.036
Diluted	(0.021)	0.035

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	Total		
	Capital stock	Contributed surplus	Warrants	Options					
Balance at September 30, 2018	2,963,824	608,628	579,293	1,379,512	5,315,707	182,403	11,029,367	14,021	11,043,388
Total comprehensive earnings (loss)	-	-	-	-	(557,122)	125,085	(432,037)	259	(431,778)
Expiry of options	-	59,500	-	(59,500)	-	-	-	-	-
Expiry of warrants	-	579,293	(579,293)	-	-	-	-	-	-
Transactions with non-controlling interest (note 15)	-	(394,742)	-	-	-	-	(394,742)	(5,258)	(400,000)
Share-based compensation	-	-	-	73,378	-	-	73,378	-	73,378
Balance at December 31, 2018	2,963,824	852,679	-	1,393,390	4,758,585	307,488	10,275,966	9,022	10,284,988

	Attributable to iFabric Corp. shareholders							Non-controlling interest	Total equity
	Reserves				Retained earnings	Accumulated Other Comprehensive Earnings	Total		
	Capital stock	Contributed surplus	Warrants	Options					
Balance at September 30, 2017	2,929,331	125,568	579,293	1,725,826	4,390,964	-	9,750,982	11,507	9,762,489
Total comprehensive earnings	-	-	-	-	950,480	13,307	963,787	475	964,262
Share-based compensation	-	-	-	-	45,483	-	45,483	-	45,483
Balance at December 31, 2017	2,929,331	125,568	579,293	1,725,826	5,386,927	-	10,760,252	11,982	10,772,234

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

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

For the three months ended December 31,	2018	2017
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings (loss)	(556,863)	964,262
Items not affecting cash		
Amortization of property, plant and equipment	17,211	16,548
Amortization of deferred development costs	10,971	40,366
Fair value adjustment on foreign exchange forward contracts	(245,689)	8,270
Share-based compensation	73,378	45,483
Deferred income tax provision (recovery)	(16,900)	124,700
	(717,892)	1,199,629
Changes in operating assets and liabilities		
Accounts receivable	111,320	1,599,998
Inventories	332,714	(397,850)
Prepaid expenses and deposits	(16,075)	22,503
Foreign exchange forward contracts	361,417	(29)
Accounts payable and accrued liabilities	213,461	314,438
Deferred revenue	(9,825)	(9,825)
Income taxes payable	(53,391)	223,299
	939,621	1,752,534
	221,729	2,952,163
FINANCING ACTIVITIES		
Bank operating line	-	(774,908)
Due to related parties	2,712	(52,263)
Increase in investment in subsidiary (note 15)	(400,000)	-
Repayment of bank loan	(19,206)	(29,167)
	(416,494)	(856,338)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(60,000)	-
	(60,000)	-
CHANGE IN CASH POSITION	(254,765)	2,095,825
CASH, beginning of period	3,542,899	668,425
Effect of foreign currency translation	125,085	-
CASH, end of period	3,413,219	2,764,250

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

1. NATURE OF OPERATIONS

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

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

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, 2018. Certain comparative figures have been reclassified to conform to the current year's presentation.

(b) Basis of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of iFabric Corp., and its wholly-owned subsidiaries:

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

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

(c) 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.

(d) 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, 2018.

(e) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars.

The functional currency of the Company's subsidiaries Coconut Grove Pads Inc. and, Intelligent Fabric Technologies (North America) Inc., is the United States Dollar given the prevalence of United States Dollar denominated transactions in their operations.

The results and financial position of the abovementioned Companies are translated into Canadian dollars as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2018 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements, except as detailed below.

(a) New standards recently adopted

IFRS 9 – Financial Instruments

Effective October 1, 2018, the Company adopted IFRS 9, "Financial Instruments", issued in July 2014, which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new standard accounts for all aspects of financial instruments and includes a logical model for classification and measurement, a single forward looking 'expected-loss' impairment model and a substantially reformed approach to hedge accounting. Adoption of this new standard did not have a material impact on the Company's financial statements. The Company has adopted IFRS 9 using a retrospective approach with no impact to the net earnings or opening retained earnings of comparative periods.

The Company has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instruments described below:

Amortized cost: Financial instruments under this classification include cash, accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, due to related parties and loan payable.

Fair value through profit or loss: Financial instruments under this classification include foreign exchange forward contracts.

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

IFRS 9 replaces the incurred loss model in IAS39 with a forward-looking expected credit loss model ("ECL"). This new model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company's accounts receivable balance is primarily comprised of amounts due from customers. The Company has determined the adoption of IFRS 9 has resulted in no additional recorded impairment allowance for the three months ended December 31, 2018.

IFRS 15 – Revenue from Contracts with Customers

Effective October 1, 2018, the Company adopted IFRS 15 issued in May 2014, and amended in September 2015 and April 2016. IFRS 15 replaces the existing revenue recognition guidance with a single comprehensive accounting model. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser of such goods and services.

As a result of the adoption of IFRS 15, no changes to the Company's comparative financial statements were required. IFRS 15 did not have a material impact on the condensed interim financial statements of loss and comprehensive loss or its condensed interim statements of financial position as at December 31, 2018.

IFRS 15 – Revenue from Contracts with Customers, continued

The Company has revised the description of its accounting policy for revenue recognition to reflect the new standard as follows:

The Company recognizes revenue when control of the goods and services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

Net revenue reflects the Company's sale of merchandise, less returns, and after making allowance for anticipated discounts and rebates.

(b) Future changes to accounting standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on January 1, 2019 or later periods. The standards implemented or impacted that are applicable to the company are as follows:

- i) IFRS 16, 'Leases', was published in January 2016, replacing IAS 17, 'Leases', and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

4. ACCOUNTS RECEIVABLE

	December 31, 2018	September 30, 2018
Trade receivables	2,095,076	2,217,913
Allowance for doubtful accounts	-	(4,285)
Allowance for discounts and rebates	(11,592)	(17,592)
Other	5,865	4,633
	2,089,349	2,200,669

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the three months ended December 31, 2018, the amount of inventories charged to net earnings was \$1,354,119 (2017 - \$2,258,264) and the amount of inventory write-downs were \$2,779 (2017 - \$0). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2018	September 30, 2018
Prepaid expenses and other assets	106,734	102,877
Deposits paid to suppliers	74,637	62,419
	181,371	165,296

7. FOREIGN EXCHANGE FORWARD CONTRACTS

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

	December 31, 2018	September 30, 2018
Margin balance – cash deposit	81,811	76,935
Mark to market variance – gain (loss) on foreign exchange	(160,484)	(39,880)
	(78,673)	37,055

As at December 31, 2018, the Company had contracted to sell 50,000 British Pounds Sterling and sell 1,957,692 U.S Dollars.

For the three months ended December 31, 2018, there is an unrealized loss on foreign exchange of \$245,689 (2017 - \$8,270 gain) recognized in net earnings (loss), with respect to changes in fair value of the Company's foreign exchange forward contracts.

8. DUE FROM RELATED PARTIES

The amounts due from related parties represent a housing loan to an executive officer. The loan bears interest at a rate of 1% per annum and is repayable in full by May 5, 2024.

9. CREDIT FACILITIES

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$3,750,000, against which \$0 was outstanding as at December 31, 2018 (September 30, 2018 - \$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.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	September 30, 2018
Trade payables	831,307	515,481
Government remittances	(2,025)	3,143
Accrued liabilities	146,122	243,319
Tenants deposits	8,847	8,847
	984,251	770,790

11. BANK LOAN

One of the Company's subsidiaries has fixed rate term loan, payable in monthly payments of \$10,522 comprising principal and interest at a fixed rate of 3.64% per annum, amortized over a fifteen-year period ending February 28, 2032, maturing March 5, 2020 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.

Management expects to repay solely the minimum monthly payments, totaling \$126,262 over the next twelve months.

Estimated principal repayments are as follows:

2019	59,440
2020	1,258,605
	1,318,045

12. 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.

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Three months ended December 31, 2018					
Revenue					
Third party	1,304,322	1,141,959	25,600	-	2,471,881
Inter-segment	3,600	61,200	40,205	(105,005)	-
Total Revenue	1,307,922	1,203,159	65,805	(105,005)	2,471,881
Earnings (loss) before income taxes	(405,655)	(169,334)	2,753	(54,918)	(627,154)

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Three months ended December 31, 2017					
Revenue					
Third party	3,479,795	1,631,376	25,600	-	5,136,771
Inter-segment	3,600	78,616	40,694	(122,910)	-
Total Revenue	3,483,395	1,709,992	66,294	(122,910)	5,136,771
Earnings (loss) before income taxes	678,102	576,653	2,532	41,605	1,298,892

iFABRIC CORP.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited, Expressed in Canadian Dollars)

12. SEGMENTED INFORMATION, *continued*

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

Three months ended December 31,	2018	2017
External sales revenue		
Canada	693,141	131,685
United States	1,031,787	3,195,790
United Kingdom	170,150	183,821
Southeast Asia and other	576,803	1,625,474
Total	2,471,881	5,136,771

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

13. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings (loss) per share is based on net loss attributable to iFabric Corp.'s shareholders for the three months ended December 31, 2018 of \$573,922 (earnings of \$950,480 for the three months ended December 31, 2017). The number of shares used in the earnings (loss) per share calculation is as follows:

Three months ended December 31,	2018	2017
Weighted average number of shares outstanding - basic	26,209,500	26,161,000
Dilutive effect of options	838,602	1,182,621
Weighted average number of shares outstanding - diluted	27,048,102	27,343,621

For the three months ended December 31, 2018, 800,000 options were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the three months ended December 31, 2017, 150,000 options and 203,625 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive.

14. CAPITAL STOCK

(a) Authorized, issued and outstanding

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2018 and December 31, 2018	26,209,500	2,963,824
	Number of common shares	Common share capital
Balance at September 30, 2017 and December 31, 2017	26,161,000	2,929,331

iFABRIC CORP.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited, Expressed in Canadian Dollars)

14. 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, 2018	1,860,250	1.32
Granted, during the period	75,000	1.80
Expired, during the period	(50,000)	2.40
Balance at December 31, 2018	1,885,250	1.31

	Number of stock options	Weighted average exercise price
Balance at September 30, 2017 and December 31, 2017	2,058,750	1.46

As of December 31, 2018, 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
October 1, 2021	75,000	2.75	1.80	75,000	1.80
January 16, 2023	1,085,250	4.04	0.40	1,085,250	0.40
April 1, 2024	75,000	5.25	4.15	75,000	4.15
May 6, 2025	100,000	6.35	2.70	100,000	2.70
June 5, 2027	550,000	8.43	2.40	350,000	2.40
	1,885,250	5.44	1.31	1,685,250	1.18

(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, 2018	(203,625)	5.25
Expired	203,625	5.25
Balance, December 31, 2018	-	5.25

	Number of warrants	Weighted average exercise price
Balance, September 30, 2017 and December 31, 2017	203,625	5.25

15. INVESTMENT IN SUBSIDIARY

On November 13, 2018, the Company purchased an additional 15% of the common shares in 2074160 Ontario Inc. from the non-controlling shareholders for cash consideration of \$400,000, resulting in the Company's shareholding in 2074160 Ontario Inc. increasing to 75% and the non-controlling interest decreasing to 25%. 2074160 Ontario Inc. owns the land and buildings occupied by the Company as offices and a warehouse.

16. COMMITMENTS

- (a) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 for more information.
- (b) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 4-10%. Minimum annual royalties have been established for the balance of the contract period ending December 31, 2019 and 2020 in U.S. dollar amounts of \$175,000 and \$187,000 respectively. 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, 2020.

17. 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 exposures during the three months ended December 31, 2018 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2018.