



iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

MARCH 31, 2016

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)



CONTENTS

| | |
|--|---|
| Condensed Consolidated Interim Statements of Financial Position | 1 |
| Condensed Consolidated Interim Statements of Earnings (Loss) and Comprehensive Earnings (Loss) | 2 |
| Condensed Consolidated Interim Statements of Changes in Equity | 3 |
| Condensed Consolidated Interim Statements of Cash Flows | 4 |
| Notes to Condensed Consolidated Interim Financial Statements | 5 |

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, 2016 | September 30, 2015 |
|--|-------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash | 515,817 | 852,016 |
| Accounts receivable (note 4) | 2,141,360 | 2,143,066 |
| Inventories (note 5) | 4,608,874 | 4,706,426 |
| Prepaid expenses and deposits (note 6) | 136,670 | 327,781 |
| Foreign exchange forward contracts (note 7) | 96,042 | 37,686 |
| Total current assets | 7,498,763 | 8,066,975 |
| Non-current assets | | |
| Property, plant and equipment | 2,472,022 | 2,487,880 |
| Deferred development costs | 517,440 | 598,171 |
| Deferred income taxes | 809,640 | 720,283 |
| Goodwill | 55,050 | 55,050 |
| Total non-current assets | 3,854,152 | 3,861,384 |
| Total assets | 11,352,915 | 11,928,359 |
| LIABILITIES | | |
| Current liabilities | | |
| Bank indebtedness (note 8) | 734,879 | - |
| Accounts payable and accrued liabilities (note 9) | 796,406 | 1,846,835 |
| Income taxes payable | 458,604 | 429,367 |
| Current portion due to related parties | 181,600 | 250,839 |
| Current portion of loan payable | 120,000 | 120,000 |
| Total current liabilities | 2,291,489 | 2,647,041 |
| Non-current liabilities | | |
| Due to related parties | 563,809 | 548,893 |
| Loan payable | 810,000 | 860,000 |
| Total non-current liabilities | 1,373,809 | 1,408,893 |
| Total liabilities | 3,665,298 | 4,055,934 |
| Commitments (note 13) | | |
| EQUITY | | |
| Equity attributable to iFabric Corp. shareholders | | |
| Capital stock (note 12) | 2,764,866 | 2,743,530 |
| Warrants (note 12) | 704,861 | 704,861 |
| Options (note 12) | 1,317,650 | 1,241,323 |
| Retained earnings | 2,882,802 | 3,167,871 |
| Total equity attributable to iFabric Corp. shareholders | 7,670,179 | 7,857,585 |
| Non-controlling interest | 17,438 | 14,840 |
| Total equity | 7,687,617 | 7,872,425 |
| Total liabilities and equity | 11,352,915 | 11,928,359 |

Approved on behalf of the Board of Directors on May 12, 2016:

"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 | |
|---|------------------|-----------|------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| REVENUE | 3,072,027 | 3,251,478 | 6,401,037 | 6,293,882 |
| COST OF SALES | 1,569,581 | 1,575,889 | 3,114,376 | 3,218,721 |
| GROSS PROFIT | 1,502,446 | 1,675,589 | 3,286,661 | 3,075,161 |
| EXPENSES | | | | |
| Selling, general and administrative costs | 1,663,147 | 1,448,851 | 3,314,739 | 2,912,803 |
| Interest on operating line | 7,347 | 6,658 | 11,222 | 12,178 |
| Interest on long-term debt | 9,233 | 10,844 | 18,890 | 22,520 |
| Amortization of property, plant and equipment | 8,766 | 9,783 | 17,415 | 19,566 |
| Amortization of deferred development costs | 40,366 | 40,366 | 80,732 | 80,732 |
| | 1,728,859 | 1,516,502 | 3,442,998 | 3,047,799 |
| EARNINGS (LOSS) FROM OPERATIONS | (226,413) | 159,087 | (156,337) | 27,362 |
| OTHER EXPENSES (INCOME) | | | | |
| Share-based compensation | 41,258 | 100,747 | 85,663 | 209,376 |
| Loss (gain) on foreign exchange | 173,125 | (186,158) | 124,342 | (251,552) |
| | 214,383 | (85,411) | 210,005 | (42,176) |
| EARNINGS (LOSS) BEFORE INCOME TAXES | (440,796) | 244,498 | (366,342) | 69,538 |
| PROVISION FOR (RECOVERY OF) INCOME TAXES | | | | |
| Current | (71,423) | 163,485 | 5,486 | 210,245 |
| Deferred | (45,506) | (46,700) | (89,357) | (108,200) |
| | (116,929) | 116,785 | (83,871) | 102,045 |
| NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) | (323,867) | 127,713 | (282,471) | (32,507) |
| NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO: | | | | |
| iFabric Corp. shareholders | (324,657) | 126,333 | (285,069) | (34,572) |
| Non-controlling interest | 790 | 1,380 | 2,598 | 2,065 |
| | (323,867) | 127,713 | (282,471) | (32,507) |
| EARNINGS (LOSS) PER SHARE (note 11) | | | | |
| Basic | (0.013) | 0.005 | (0.011) | (0.001) |
| Diluted | (0.013) | 0.005 | (0.011) | (0.001) |

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 |
|----------------------------------|--|----------------|------------------|-------------------|--|------------------|--------------------------|------------------|
| | Capital stock | Warrants | Options | Retained earnings | Accumulated other comprehensive income | Total | | |
| Balance at September 30, 2015 | 2,743,530 | 704,861 | 1,241,323 | 3,167,871 | - | 7,857,585 | 14,840 | 7,872,425 |
| Total comprehensive earnings | - | - | - | (285,069) | - | (285,069) | 2,598 | (282,471) |
| Exercise of options | 21,336 | - | (9,336) | - | - | 12,000 | - | 12,000 |
| Share-based compensation | - | - | 85,663 | - | - | 85,663 | - | 85,663 |
| Balance at March 31, 2016 | 2,764,866 | 704,861 | 1,317,650 | 2,882,802 | - | 7,670,179 | 17,438 | 7,687,617 |

| | Attributable to iFabric Corp. shareholders | | | | | | Non-controlling interest | Total equity |
|-------------------------------------|--|----------------|----------------|-------------------|--|------------------|--------------------------|------------------|
| | Capital stock | Warrants | Options | Retained earnings | Accumulated other comprehensive income | Total | | |
| Balance at September 30, 2014 | 2,722,194 | 704,861 | 757,308 | 3,277,708 | - | 7,462,071 | 12,210 | 7,474,281 |
| Total comprehensive earnings (loss) | - | - | - | (34,572) | - | (34,572) | 2,065 | (32,507) |
| Exercise of options | 21,336 | - | (9,336) | - | - | 12,000 | - | 12,000 |
| Share-based compensation | - | - | 209,376 | - | - | 209,376 | - | 209,376 |
| Balance at March 31, 2015 | 2,743,530 | 704,861 | 957,348 | 3,243,136 | - | 7,648,875 | 14,275 | 7,663,150 |

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 period ended March 31, | Six months | |
|---|------------------|------------------|
| | 2016 | 2015 |
| CASH WAS PROVIDED BY (USED IN) | | |
| OPERATING ACTIVITIES | | |
| Total comprehensive earnings (loss) | (282,471) | (32,507) |
| Items not affecting cash | | |
| Amortization of property, plant and equipment | 17,415 | 19,566 |
| Amortization of deferred development costs | 80,732 | 80,732 |
| Fair value adjustment on foreign exchange forward contracts | (60,504) | 14,488 |
| Share-based compensation | 85,663 | 209,376 |
| Deferred income tax recovery | (89,357) | (108,200) |
| | (248,522) | 183,455 |
| Change in non-cash operating working capital items | | |
| Accounts receivable | 1,706 | (879,049) |
| Inventories | 97,552 | 572,020 |
| Prepaid expenses and deposits | 191,111 | 17,818 |
| Foreign exchange forward contracts | 2,148 | 40,000 |
| Accounts payable and accrued liabilities | (1,050,429) | (500,510) |
| Income taxes payable | 29,237 | 220,728 |
| | (728,675) | (528,993) |
| | (977,197) | (345,538) |
| FINANCING ACTIVITIES | | |
| Bank operating line | 734,879 | 340,772 |
| Due to related parties | (54,323) | (135,388) |
| Repayment of loan | (50,000) | (60,000) |
| Share issuances (note 12) | 12,000 | 12,000 |
| | 642,556 | 157,384 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (1,558) | - |
| | (1,558) | - |
| CHANGE IN CASH POSITION | (336,199) | (188,154) |
| CASH, beginning of period | 852,016 | 1,006,385 |
| CASH, end of period | 515,817 | 818,231 |

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 and sleepwear, 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. 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, 2015. 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 its wholly-owned subsidiaries Coconut Grove Pads Inc., Intelligent Fabric Technologies (North America) Inc., which includes the consolidated accounts of its wholly-owned subsidiary Intelligent Fabric Technologies Inc., a U.S. company, and CG Intimates Inc., a U.S. company. It also includes the accounts of 2074160 Ontario Inc., which is a 60% owned subsidiary.

(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, 2015.

(e) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

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, 2015 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

(a) 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, 2016 or later periods. The standards implemented or impacted that are applicable to the company are as follows:

- i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.
- ii) IFRS 15, 'Revenue From Contracts With Customers' was issued in May 2014. The standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers except for those that fall within the scope of IAS 17, 'Leases' or other applicable IFRS. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The adoption of IFRS 15 is not expected to have an impact on the Company's accounting for revenue and the Company is currently assessing when to adopt IFRS 15.
- iii) 'Annual Improvements to IFRSs 2012-2014 Cycle' was approved by the IASB in September 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The revised rules are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company expects there to be no impact or adjustments necessary as a result of applying the revised rules.

4. ACCOUNTS RECEIVABLE

| | March 31, 2016 | September 30, 2015 |
|-------------------------------------|-------------------|-----------------------|
| Trade receivables | 2,235,965 | 2,220,276 |
| Allowance for doubtful accounts | (14,057) | (9,791) |
| Allowance for discounts and rebates | (86,190) | (92,000) |
| Other | 5,642 | 24,581 |
| | 2,141,360 | 2,143,066 |

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the six months ended March 31, 2016, the amount of inventories charged to net earnings was \$2,461,920 (2015 - \$2,520,922) and the amount of inventory write-downs were \$90,026 (2015 - \$40,095). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

| | March 31, 2016 | September 30, 2015 |
|-----------------------------------|-------------------|-----------------------|
| Prepaid expenses and other assets | 41,594 | 52,245 |
| Deposits paid to suppliers | 95,076 | 275,536 |
| | 136,670 | 327,781 |

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:

| | March 31, 2016 | September 30, 2015 |
|--|-------------------|-----------------------|
| Margin balance – cash deposit | 77,922 | 80,070 |
| Mark to market variance – loss on foreign exchange | 18,120 | (42,384) |
| | 96,042 | 37,686 |

As at March 31, 2016, the Company had contracted to sell \$400,000 U.S Dollars (“USD”).

For the six months ended March 31, 2016, there is a gain on foreign exchange of \$60,504 (2015 - \$14,488 loss) recognized in net earnings (loss), with respect to changes in fair value of the Company’s foreign exchange forward contracts.

8. CREDIT FACILITIES

One of the Company’s subsidiaries has a demand operating loan with a tier one Canadian bank available to a maximum of \$2,000,000, against which \$734,879 was outstanding as at March 31, 2016 (September 30, 2015 - nil). The loan facility bears interest at the bank’s prime lending rate plus 1.75%. 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 General Security Agreements covering all the assets of two subsidiary companies, their accounts receivable insurance, an assignment of their fire insurance, and a guarantee in the amount of \$1,000,000 from a third subsidiary of the Company. In addition, the Company has credit card facilities amounting to \$50,000 Canadian dollars and \$25,000 U.S. dollars, which are subject to the same security arrangements.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | March 31, 2016 | September 30, 2015 |
|------------------------|-------------------|-----------------------|
| Trade payables | 586,103 | 1,604,001 |
| Government remittances | 75,021 | 76,643 |
| Accrued liabilities | 126,435 | 157,344 |
| Tenants deposits | 8,847 | 8,847 |
| | 796,406 | 1,846,835 |

10. 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, sleepwear 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. 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, 2016 | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | Consolidated |
|--|---------------------|------------------------|----------------|-------------------------------------|---------------------|
| Revenue | | | | | |
| Third party | 5,722,215 | 613,548 | 65,274 | - | 6,401,037 |
| Inter-segment | 19,800 | - | 86,204 | (106,004) | - |
| Total Revenue | 5,742,015 | 613,548 | 151,478 | (106,004) | 6,401,037 |
| Earnings (loss) before income taxes | (25,465) | (377,822) | 11,192 | 25,753 | (366,342) |

| Six months ended March 31, 2015 | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | Consolidated |
|--|---------------------|------------------------|----------------|-------------------------------------|---------------------|
| Revenue | | | | | |
| Third party | 5,862,582 | 383,369 | 47,931 | - | 6,293,882 |
| Inter-segment | 18,000 | - | 83,585 | (101,585) | - |
| Total Revenue | 5,880,582 | 383,369 | 131,516 | (101,585) | 6,293,882 |
| Earnings (loss) before income taxes | 748,238 | (596,868) | 9,092 | (90,924) | 69,538 |

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

| Six months Ended March 31, | 2016 | 2015 |
|----------------------------|------------------|-----------|
| External sales revenue | | |
| Canada | 360,109 | 463,301 |
| United States | 5,274,851 | 5,180,649 |
| United Kingdom | 612,704 | 463,655 |
| Other | 153,373 | 186,277 |
| Total | 6,401,037 | 6,293,882 |

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

11. 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 and six months ended March 31, 2016 of \$324,657 and \$285,069, respectively (2015 - earnings of \$126,333 and loss of \$34,572, respectively). The number of shares used in the earnings (loss) per share calculation is as follows:

| Period ended March 31, | Three months | | Six months | |
|---|--------------|------------|------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted average number of shares outstanding - basic | 25,923,486 | 25,899,750 | 25,911,553 | 25,892,662 |
| Dilutive effect of options | - | 1,216,368 | 1,203,271 | - |
| Weighted average number of shares outstanding - diluted | 25,923,486 | 27,116,118 | 27,114,825 | 25,892,662 |

For the three months ended March 31, 2016, 1,690,000 options and 232,133 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive (2015 – 150,000 options and 232,133 warrants were excluded). For the six months ended March 31, 2016 1,690,000 options and 232,133 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive (2015 – 1,620,000 options and 232,133 warrants were excluded).

12. CAPITAL STOCK**(a) Authorized, issued and outstanding**

Authorized: Unlimited number of common shares

| | Number of common shares | Common share capital |
|---|----------------------------|-------------------------|
| Balance at September 30, 2015 | 25,899,750 | 2,743,530 |
| Shares issued pursuant to exercise of stock options | 30,000 | 12,000 |
| Ascribed value credited to share capital on exercise of options | - | 9,336 |
| Balance at March 31, 2016 | 25,929,750 | 2,764,866 |

| | Number of common shares | Common share capital |
|---|----------------------------|-------------------------|
| Balance at September 30, 2014 | 25,869,750 | 2,722,194 |
| Shares issued pursuant to exercise of stock options | 30,000 | 12,000 |
| Ascribed value credited to share capital on exercise of options | - | 9,336 |
| Balance at March 31, 2015 | 25,899,750 | 2,743,530 |

12. 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, 2015 | 1,720,000 | 0.97 |
| Exercised | (30,000) | 0.40 |
| Balance at March 31, 2016 | 1,690,000 | 0.98 |
| | Number of stock options | Weighted average exercise price |
| Balance at September 30, 2014 | 1,650,000 | 0.85 |
| Exercised | (30,000) | 0.40 |
| Balance at March 31, 2015 | 1,620,000 | 0.86 |

As of March 31, 2016, 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 |
| September 17, 2018 | 75,000 | 2.46 | 2.90 | 75,000 | 2.90 |
| January 16, 2023 | 1,365,000 | 6.79 | 0.40 | 1,365,000 | 0.40 |
| April 1, 2024 | 150,000 | 8.00 | 4.15 | 50,000 | 4.15 |
| May 6, 2025 | 100,000 | 9.10 | 2.70 | 100,000 | 2.70 |
| | 1,690,000 | 6.84 | 0.98 | 1,590,000 | 0.78 |

(c) Warrants

The following table summarizes warrants outstanding as of March 31, 2016:

| Expiry date | Number of warrants | Weighted average exercise price |
|-------------------|-----------------------|---------------------------------------|
| December 13, 2016 | 203,625 | 5.25 |
| December 13, 2016 | 28,508 | 4.00 |
| | 232,133 | 5.10 |

13. 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) As of the date of approval of these unaudited condensed consolidated interim financial statements, the Company is in the process of negotiating terms for renewing an exclusive license agreement, which expired in December 2015, for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. Until such time as a new agreement is signed, the Company will continue to operate under the conditions established during the initial license term, and is required to pay a monthly royalty of 9% on its net sales as defined in the agreement, on all products sold under the licensed marks. In addition, the Company is required to pay an advertising fee of 2%, payable semi-annually, on its net sales as defined in the agreement, for the promotion of the licensed products.
- (c) Effective January 1, 2015, the Company entered into a worldwide license agreement for 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 contract periods ending December 31, 2015, 2016, 2017, and 2018 in U.S. dollar amounts of \$131,000, \$190,000, \$288,000, and \$368,000, 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, 2018.

14. 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 and six months ended March 31, 2016 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2015.

15. SUBSEQUENT EVENTS

- (a) On May 6, 2016, the Company's subsidiary companies, Coconut Grove Pads Inc., Coconut Grove Textiles Inc., and 2074160 Ontario Inc., collectively entered into an agreement with an existing lender (the "lender"), in terms of which an existing secured loan with the lender, amounting to \$930,000 as of the date of approval of these unaudited condensed consolidated interim financial statements, will increase to an amount of \$1,490,000. The increase of \$560,000 is to be utilized to renovate and refit the Company's premises located in Markham, Ontario.

The loan is secured by a first mortgage over the land and building located at 525 Denison Street, Markham, Ontario, a general security agreement from Coconut Grove Pads Inc., an assignment of rents, as well as a guarantee from Intelligent Fabric Technologies (North America) Inc., a subsidiary company. The loan is repayable at the rate of \$10,000 per month together with interest at the lender's floating base rate (currently 4.70%) minus a variance of 0.75%.