



iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

JUNE 30, 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	June 30, 2018	September 30, 2017
ASSETS		
Current assets		
Cash	4,698,813	668,425
Accounts receivable (note 4)	2,303,158	5,695,362
Inventories (note 5)	3,313,329	3,909,807
Prepaid expenses and deposits (note 6)	766,641	254,078
Foreign exchange forward contracts (note 7)	(10,543)	112,533
Total current assets	11,071,397	10,640,205
Non-current assets		
Due from related parties (note 8)	123,000	123,000
Property, plant and equipment	2,830,415	2,873,632
Deferred development costs	155,429	275,241
Deferred income taxes	646,400	757,400
Goodwill	55,050	55,050
Total non-current assets	3,810,294	4,084,323
Total assets	14,881,691	14,724,528
LIABILITIES		
Current liabilities		
Bank indebtedness (note 9)	-	774,908
Accounts payable and accrued liabilities (note 10)	1,064,037	1,112,078
Income taxes payable	486,634	675,645
Current portion of deferred revenue	39,300	39,300
Current portion due to related parties	-	91,620
Bank loan payable (note 11)	1,362,874	1,681,944
Total current liabilities	2,952,845	4,375,495
Non-current liabilities		
Deferred revenue	101,525	131,000
Due to related parties	465,956	455,544
Total non-current liabilities	567,481	586,544
Total liabilities	3,520,326	4,962,039
Commitments (note 15)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 14)	2,956,712	2,929,331
Reserves	2,547,558	2,430,687
Retained earnings	5,536,813	4,390,964
Accumulated other comprehensive earnings (loss)	305,309	-
Total equity attributable to iFabric Corp. shareholders	11,346,392	9,750,982
Non-controlling interest	14,973	11,507
Total equity	11,361,365	9,762,489
Total liabilities and equity	14,881,691	14,724,528

Approved on behalf of the Board of Directors on August 14, 2018:

"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 June 30,	Three months		Nine months	
	2018	2017	2018	2017
REVENUE	3,291,659	4,888,400	12,629,679	12,245,711
COST OF SALES	1,754,938	2,438,651	6,408,851	6,565,961
GROSS PROFIT	1,536,720	2,449,749	6,220,828	5,679,750
EXPENSES				
Selling, general and administrative costs	1,357,231	1,375,547	3,998,244	3,921,784
Interest on operating line	-	7,998	9,395	26,049
Interest on long-term debt	8,347	14,881	40,525	56,732
Amortization of property, plant and equipment	18,085	10,690	51,182	38,751
Amortization of deferred development costs	39,081	40,366	119,812	121,097
	1,422,744	1,449,482	4,219,159	4,164,413
EARNINGS (LOSS) FROM OPERATIONS	113,976	1,000,267	2,001,669	1,515,337
OTHER EXPENSES (INCOME)				
Share-based compensation	38,875	369,359	128,852	401,919
Loss (gain) on foreign exchange	63,867	118,867	(27,895)	105,917
	102,742	488,226	100,957	507,836
EARNINGS (LOSS) BEFORE INCOME TAXES	11,235	512,041	1,900,713	1,007,501
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current	219,735	220,287	640,397	316,075
Deferred	(36,800)	22,600	111,000	61,600
	182,935	242,887	751,397	377,675
NET EARNINGS (LOSS)	(171,701)	269,154	1,149,315	629,826
NET EARNINGS (LOSS) ATTRIBUTABLE TO:				
iFabric Corp. shareholders	(175,707)	264,213	1,145,849	627,159
Non-controlling interest	4,007	4,941	3,466	2,667
	(171,701)	269,154	1,149,315	629,826
OTHER COMPREHENSIVE EARNINGS (LOSS)				
Unrealized gain on translation of foreign operations	126,748	-	305,309	-
TOTAL COMPREHENSIVE EARNINGS (LOSS)	(44,953)	269,154	1,454,624	629,826
EARNINGS (LOSS) PER SHARE (note 13)				
Basic	(0.007)	0.010	0.044	0.024
Diluted	(0.006)	0.010	0.042	0.023

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	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 (loss)	-	-	-	-	1,145,849	305,309	1,451,158	3,466	1,454,624
Exercise of options	27,381	-	-	(11,981)	-	-	15,400	-	15,400
Share-based compensation	-	-	-	128,852	-	-	128,852	-	128,852
Balance at June 30, 2018	2,956,712	125,568	579,293	1,842,697	5,536,813	305,309	11,346,392	14,973	11,361,365

	Attributable to iFabric Corp. shareholders							Non-controlling interest	Total equity
	Reserves				Retained earnings	Accumulated Other Comprehensive Earnings (Loss)	Total		
	Capital stock	Contributed surplus	Warrants	Options					
Balance at September 30, 2016	2,807,538	-	704,861	1,331,717	2,793,894	-	7,638,010	18,655	7,656,665
Total comprehensive earnings	-	-	-	-	627,159	-	627,159	2,667	629,826
Expiry of warrants	-	125,568	(125,568)	-	-	-	-	-	-
Exercise of options	121,793	-	-	(53,293)	-	-	68,500	-	68,500
Share-based compensation	-	-	-	401,919	-	-	401,919	-	401,919
Balance at June 30, 2017	2,929,331	125,568	579,293	1,680,343	3,421,053	-	8,735,588	21,322	8,756,910

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 nine months ended June 30,	2018	2017
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	1,454,624	629,826
Items not affecting cash		
Amortization of property, plant and equipment	51,182	38,751
Amortization of deferred development costs	119,812	121,097
Fair value adjustment on foreign exchange forward contracts	(109,055)	5,018
Share-based compensation	128,852	401,919
Deferred income tax provision (recovery)	111,000	61,600
	1,756,415	1,258,211
Changes in operating assets and liabilities		
Accounts receivable	3,392,204	(544,530)
Inventories	596,478	274,832
Prepaid expenses and deposits	(512,563)	(543,511)
Foreign exchange forward contracts	232,131	840
Due from related parties	-	(123,000)
Accounts payable and accrued liabilities	(48,041)	83,870
Deferred revenue	(29,475)	180,125
Income taxes payable	(189,011)	289,122
	3,441,723	(382,252)
	5,198,139	875,959
FINANCING ACTIVITIES		
Bank operating line	(774,908)	(453,748)
Due to related parties	(81,208)	(126,268)
Proceeds from bank loan	-	350,000
Repayment of bank loan	(319,070)	(88,889)
Share issuances	15,400	68,500
	(1,159,786)	(250,405)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,365)	(8,784)
Proceeds on disposal of property, plant and equipment	2,400	-
	(7,965)	(8,784)
CHANGE IN CASH POSITION	4,030,388	616,770
CASH, beginning of period	668,425	1,260,213
CASH, end of period	4,698,813	1,876,983

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 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, 2017. 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 60%-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, 2017.

(e) Functional and presentation currency

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

Effective October 1, 2017, the Company's subsidiaries Coconut Grove Pads Inc. and, Intelligent Fabric Technologies (North America) Inc., changed their functional currency to United States Dollars given the increasing prevalence of United States Dollar denominated transactions in their operations. The change in functional currency from Canadian dollars to US dollars is accounted for prospectively from October 1, 2017.

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, 2017 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, 2018 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 for annual reporting periods beginning on or after 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 a significant impact on the Company's accounting for financial instruments.
- 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 a significant impact on the Company's accounting for revenue and the Company is currently assessing when to adopt IFRS 15.
- iii) 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. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

4. ACCOUNTS RECEIVABLE

	June 30, 2018	September 30, 2017
Trade receivables	2,319,788	5,707,294
Allowance for doubtful accounts	(4,285)	(4,285)
Allowance for discounts and rebates	(17,592)	(25,092)
Other	5,247	17,445
	2,303,158	5,695,362

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the nine months ended June 30, 2018, the amount of inventories charged to net earnings was \$5,455,073.63 (2017 - \$5,651,002) and the amount of inventory write-downs were \$0 (2017 - \$81,344). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	June 30, 2018	September 30, 2017
Prepaid expenses and other assets	160,046	112,818
Deposits paid to suppliers	606,594	141,260
	766,641	254,078

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:

	June 30, 2018	September 30, 2017
Margin balance – cash deposit	77,723	74,917
Mark to market variance – gain (loss) on foreign exchange	(88,265)	37,616
	(10,543)	112,533

As at June 30, 2018, the Company had contracted to sell 75,000 British Pounds Sterling and sell 1,850,000 U.S Dollars.

For the nine months ended June 30, 2018, there is an unrealized loss on foreign exchange of \$109,055 (2017 - \$5,018 loss) 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 June 30, 2018 (September 30, 2017 - \$774,908). 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

	June 30, 2018	September 30, 2017
Trade payables	838,518	894,261
Government remittances	25,823	49,040
Accrued liabilities	190,850	159,930
Tenants deposits	8,847	8,847
	1,064,037	1,112,078

11. BANK LOAN

One of the Company's subsidiaries has a non-revolving demand 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.

Notwithstanding the fact that this is a demand loan, and classified as a current liability, management expects to pay solely the minimum monthly payments, totaling \$126,264 over the next twelve months.

Estimated principal repayments are as follows:

2018	25,689
2019	78,896
2020	1,258,289
	1,362,874

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, 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 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.

Nine months ended June 30, 2018	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	9,462,215	3,090,664	76,800	-	12,629,679
Inter-segment	3,600	78,616	123,298	(205,514)	-
Total Revenue	9,465,815	3,169,280	200,098	(205,514)	12,629,679
Earnings (loss) before income taxes	1,474,349	499,250	14,900	(87,786)	1,900,713

Nine months ended June 30, 2017	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	8,304,410	3,875,751	65,550	-	12,245,711
Inter-segment	-	122,168	136,597	(258,765)	-
Total Revenue	8,304,410	3,997,919	202,147	(258,765)	12,245,711
Earnings (loss) before income taxes	1,129,163	270,178	6,670	(398,510)	1,007,501

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

Nine months ended June 30,	2018	2017
External sales revenue		
Canada	868,773	814,047
United States	8,250,647	7,069,826
United Kingdom	665,550	712,107
Southeast Asia and other	2,844,710	3,649,731
Total	12,629,679	12,245,711

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 earnings (loss) attributable to iFabric Corp.'s shareholders for the three and nine months ended June 30, 2018 of \$(175,707) and \$1,145,849, respectively (earnings of \$264,213 and \$627,159 for the three and nine months ended June 30, 2017, respectively). The number of shares used in the earnings (loss) per share calculation is as follows:

Period ended June 30,	Three months		Nine months	
	2018	2017	2018	2017
Weighted average number of shares outstanding - basic	26,180,121	25,982,417	26,172,075	25,990,128
Dilutive effect of options	1,128,764	1,087,167	1,143,208	1,098,319
Weighted average number of shares outstanding - diluted	27,308,884	27,069,584	27,315,283	27,088,447

For the three and nine months ended June 30, 2018, 150,000 options and 203,625 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the three and nine months ended June 30, 2017, 325,000 options and 203,625 warrants were excluded from the calculation of diluted earnings 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, 2017	26,161,000	2,929,331
Shares issued pursuant to exercise of stock options	38,500	15,400
Ascribed value credited to share capital on exercise of options	-	11,981
Balance at June 30, 2018	26,199,500	2,956,712

	Number of common shares	Common share capital
Balance at September 30, 2016	25,989,750	2,807,538
Shares issued pursuant to exercise of stock options	171,250	68,500
Ascribed value credited to share capital on exercise of options	-	53,293
Balance at June 30, 2017	26,161,000	2,929,331

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, 2017	2,058,750	1.46
Exercised	(38,500)	0.40
Balance at June 30, 2018	2,020,250	1.48

	Number of stock options	Weighted average exercise price
Balance at September 30, 2016	1,630,000	1.00
Granted	600,000	2.40
Exercised	(171,250)	0.40
Balance at June 30, 2017	2,058,750	1.46

As of June 30, 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
September 17, 2018	75,000	0.21	2.90	75,000	2.90
January 16, 2023	1,095,250	4.55	0.40	1,095,250	0.40
April 1, 2024	150,000	5.75	4.15	150,000	4.15
May 6, 2025	100,000	6.85	2.70	100,000	2.70
June 5, 2027	600,000	8.93	2.40	375,000	2.40
	2,020,250	5.89	1.48	1,795,250	1.36

(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, 2017 and June 30, 2018	203,625	5.25

	Number of warrants	Weighted average exercise price
Balance, September 30, 2016	232,133	5.10
Expired	(28,508)	4.00
Balance, June 30, 2017	203,625	5.25

14. CAPITAL STOCK, continued**(c) Warrants, continued**

The following table summarizes warrants outstanding as of June 30, 2018:

Expiry date	Number of warrants	Weighted average exercise price
December 13, 2018 (i)	203,625	5.25

(i) On November 10, 2017, the Company announced that the TSX had consented to the extension of the time to exercise shareholder warrants previously issued on December 13, 2013. A total of 203,625 shareholder warrants issued as part of a brokered private placement on December 13, 2013, were due to expire on December 13, 2017, and had been extended to expire on December 13, 2018. The amendment to the expiry date of these warrants became effective 10 business days following the date of the news release, being November 24, 2017. Each shareholder warrant entitles the holder to acquire one common share of the Company at an exercise price of \$5.25 per share. All warrant holders are arm's length to the Company.

15. 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 periods ending December 31, 2018, 2019, 2020 in U.S. dollar amounts of \$168,000, \$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.

16. 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 nine months ended June 30, 2018 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2017.