



**iFABRIC CORP.**

**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**(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	June 30, 2017	September 30, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	1,876,983	1,260,213
Accounts receivable (note 4)	3,374,709	2,830,179
Inventories (note 5)	3,256,570	3,531,402
Prepaid expenses and deposits (note 6)	880,211	336,700
Foreign exchange forward contracts (note 7)	81,334	87,192
<b>Total current assets</b>	<b>9,469,807</b>	<b>8,045,686</b>
<b>Non-current assets</b>		
Due from related parties (note 8)	123,000	-
Property, plant and equipment	2,908,684	2,938,651
Deferred development costs	315,609	436,706
Deferred income taxes	758,400	820,000
Goodwill	55,050	55,050
<b>Total non-current assets</b>	<b>4,160,743</b>	<b>4,250,407</b>
<b>Total assets</b>	<b>13,630,550</b>	<b>12,296,093</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	436,155	889,903
Accounts payable and accrued liabilities (note 10)	1,659,818	1,575,948
Income taxes payable	309,102	19,980
Current portion due to related parties	121,785	139,788
Current portion of bank loan payable	116,667	120,000
Current portion of deferred revenue	39,300	-
<b>Total current liabilities</b>	<b>2,682,827</b>	<b>2,745,619</b>
<b>Non-current liabilities</b>		
Due to related parties	455,544	563,809
Bank loan payable (note 11)	1,594,444	1,330,000
Deferred revenue	140,825	-
<b>Total non-current liabilities</b>	<b>2,190,813</b>	<b>1,893,809</b>
<b>Total liabilities</b>	<b>4,873,640</b>	<b>4,639,428</b>
<b>Commitments (note 15)</b>		
<b>EQUITY</b>		
<b>Equity attributable to iFabric Corp. shareholders</b>		
Capital stock (note 14)	2,929,331	2,807,538
Reserves (note 14)	2,385,204	2,036,578
Retained earnings	3,421,053	2,793,894
<b>Total equity attributable to iFabric Corp. shareholders</b>	<b>8,735,588</b>	<b>7,638,010</b>
<b>Non-controlling interest</b>	<b>21,322</b>	<b>18,655</b>
<b>Total equity</b>	<b>8,756,910</b>	<b>7,656,665</b>
<b>Total liabilities and equity</b>	<b>13,630,550</b>	<b>12,296,093</b>

Approved on behalf of the Board of Directors on August 9, 2017:

"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	
	2017	2016	2017	2016
<b>REVENUE</b>	<b>4,888,400</b>	2,999,317	<b>12,245,711</b>	9,400,354
<b>COST OF SALES</b>	<b>2,438,651</b>	1,580,985	<b>6,565,961</b>	4,695,361
<b>GROSS PROFIT</b>	<b>2,449,749</b>	1,418,332	<b>5,679,750</b>	4,704,993
<b>EXPENSES</b>				
Selling, general and administrative costs	1,375,547	1,429,914	3,921,784	4,744,653
Interest on operating line	7,998	7,532	26,049	18,754
Interest on long-term debt	14,881	6,586	56,732	25,476
Amortization of property, plant and equipment	10,690	21,182	38,751	38,597
Amortization of deferred development costs	40,366	40,365	121,097	121,097
	<b>1,449,482</b>	1,505,579	<b>4,164,413</b>	4,948,577
<b>EARNINGS (LOSS) FROM OPERATIONS</b>	<b>1,000,267</b>	(87,247)	<b>1,515,337</b>	(243,584)
<b>OTHER EXPENSES</b>				
Share-based compensation	369,359	16,280	401,919	101,943
Loss on foreign exchange	118,867	52,277	105,917	176,619
	<b>488,226</b>	68,557	<b>507,836</b>	278,562
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>512,041</b>	(155,804)	<b>1,007,501</b>	(522,146)
<b>PROVISION FOR (RECOVERY OF) INCOME TAXES</b>				
Current	220,287	2,818	316,075	8,304
Deferred	22,600	(36,660)	61,600	(126,017)
	<b>242,887</b>	(33,842)	<b>377,675</b>	(117,713)
<b>NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)</b>	<b>269,154</b>	(121,962)	<b>629,826</b>	(404,433)
<b>NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO:</b>				
iFabric Corp. shareholders	264,213	(121,653)	627,159	(406,723)
Non-controlling interest	4,941	(309)	2,667	2,290
	<b>269,154</b>	(121,962)	<b>629,826</b>	(404,433)
<b>EARNINGS (LOSS) PER SHARE (note 13)</b>				
Basic	0.010	(0.005)	0.024	(0.016)
Diluted	0.010	(0.005)	0.023	(0.016)

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							
	Capital stock	Contributed surplus	Warrants	Options	Retained earnings	Total		
Balance at September 30, 2016	2,807,538	-	704,861	1,331,717	2,793,894	7,638,010	18,655	<b>7,656,665</b>
Total comprehensive earnings (loss)	-	-	-	-	627,159	627,159	2,667	<b>629,826</b>
Expiry of warrants	-	125,568	(125,568)	-	-	-	-	-
Exercise of options	121,793	-	-	(53,293)	-	68,500	-	<b>68,500</b>
Share-based compensation	-	-	-	401,919	-	401,919	-	<b>401,919</b>
<b>Balance at June 30, 2017</b>	<b>2,929,331</b>	<b>125,568</b>	<b>579,293</b>	<b>1,680,343</b>	<b>3,421,053</b>	<b>8,735,588</b>	<b>21,322</b>	<b>8,756,910</b>

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves							
	Capital stock	Contributed surplus	Warrants	Options	Retained earnings	Total		
Balance at September 30, 2015	2,743,530	-	704,861	1,241,323	3,167,871	7,857,585	14,840	<b>7,872,425</b>
Total comprehensive earnings (loss)	-	-	-	-	(406,723)	(406,723)	2,289	<b>(404,434)</b>
Exercise of options	28,448	-	-	(12,448)	-	16,000	-	<b>16,000</b>
Share-based compensation	-	-	-	101,943	-	101,943	-	<b>101,943</b>
<b>Balance at June 30, 2016</b>	<b>2,771,978</b>	-	<b>704,861</b>	<b>1,330,818</b>	<b>2,761,148</b>	<b>7,568,805</b>	<b>17,129</b>	<b>7,585,934</b>

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,	2017	2016
<b>CASH WAS PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Total comprehensive earnings (loss)	629,826	(404,433)
Items not affecting cash		
Amortization of property, plant and equipment	38,751	38,597
Amortization of deferred development costs	121,097	121,097
Fair value adjustment on foreign exchange forward contracts	5,018	(65,359)
Share-based compensation	401,919	101,943
Deferred income tax provision (recovery)	61,600	(126,017)
	<b>1,258,211</b>	<b>(334,172)</b>
Change in non-cash operating working capital items		
Accounts receivable	(544,530)	346,135
Inventories	274,832	812,474
Prepaid expenses and deposits	(543,511)	(20,994)
Foreign exchange forward contracts	840	2,568
Due from related parties	(123,000)	-
Accounts payable and accrued liabilities	83,870	(1,014,634)
Deferred revenue	180,125	-
Income taxes payable	289,122	(239,925)
	<b>(382,252)</b>	<b>(114,376)</b>
	<b>875,959</b>	<b>(448,548)</b>
<b>FINANCING ACTIVITIES</b>		
Bank operating line	(453,748)	503,925
Due to related parties	(126,268)	(68,343)
Proceeds from bank loan	350,000	280,578
Repayment of bank loan	(88,889)	(60,000)
Share issuances	68,500	16,000
	<b>(250,405)</b>	<b>672,160</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(8,784)	(315,567)
Proceeds from disposal of property, plant and equipment	-	7,940
	<b>(8,784)</b>	<b>(307,627)</b>
<b>CHANGE IN CASH POSITION</b>	<b>616,770</b>	<b>(84,015)</b>
<b>CASH, beginning of period</b>	<b>1,260,213</b>	<b>852,016</b>
<b>CASH, end of period</b>	<b>1,876,983</b>	<b>768,001</b>

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. 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, 2016. 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, 2016.

**(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, 2016 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements, with the exception of the following:

#### (a) Initial application of new standards, interpretations and amendments

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for annual periods beginning on or after January 1, 2016. As of October 1, 2016, the Company has adopted the following standards:

- i) Amendments to IAS 1, 'Presentation of Financial Statements', was issued by the IASB in December 2014, as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company has assessed there to be no impact or adjustments necessary as a result of applying the revised rules.
- ii) '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 Company has assessed there to be no impact or adjustments necessary as a result of applying the revised rules.

#### (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, 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 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 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) 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, 2017	September 30, 2016
Trade receivables	3,459,438	2,902,312
Allowance for doubtful accounts	(44,685)	(8,213)
Allowance for discounts and rebates	(42,950)	(66,500)
Other	2,906	2,580
	<b>3,374,709</b>	<b>2,830,179</b>

**5. INVENTORIES**

Inventories represent the carrying amount of merchandise for resale. During the nine months ended June 30, 2017, the amount of inventories charged to net earnings was \$5,651,002 (2016 - \$3,794,798) and the amount of inventory write-downs were \$81,343 (2016 - \$130,958). There were no reversals of prior period write-downs of inventory.

**6. PREPAID EXPENSES AND DEPOSITS**

	June 30, 2017	September 30, 2016
Prepaid expenses and other assets	166,690	66,708
Deposits paid to suppliers	713,521	269,992
	<b>880,211</b>	<b>336,700</b>

**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, 2017	September 30, 2016
Margin balance – cash deposit	77,862	78,702
Mark to market variance – gain on foreign exchange	3,472	8,490
	<b>81,334</b>	<b>87,192</b>

As at June 30, 2017, the Company had contracted to sell 100,000 British Pounds Sterling (“GBP”) and sell 767,000 U.S Dollars (“USD”).

For the nine months ended June 30, 2017, there is a loss on foreign exchange of \$5,018 (2016 - \$65,359 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 \$3,500,000, against which \$436,155 was outstanding as at June 30, 2017 (September 30, 2016 – \$889,903). 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. In addition, two of the Company's subsidiaries share credit card facilities amounting to \$50,000 Canadian dollars and \$35,000 U.S. dollars, which are subject to the same security arrangements.

**10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	June 30, 2017	September 30, 2016
Trade payables	1,450,241	1,208,152
Government remittances	32,394	131,632
Accrued liabilities	168,337	227,317
Tenants deposits	8,847	8,847
	<b>1,659,818</b>	<b>1,575,948</b>

**11. LOAN PAYABLE**

	June 30, 2017	September 30, 2016
Bank loan (i)	1,711,111	1,450,000
Less current portion	116,667	120,000
Due beyond one year	<b>1,594,444</b>	<b>1,330,000</b>

(i) Non-revolving demand term loan, payable in monthly principal payments of \$9,722 plus interest, bearing interest at the bank's prime rate plus 0.75%, due by 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.

In February 2017, the Company increased its loan payable by \$350,000 for the purpose of financing working capital.

**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. 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.

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

<b>Nine months ended June 30, 2016</b>	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	<b>Consolidated</b>
Revenue					
Third party	8,385,119	924,361	90,874	-	<b>9,400,354</b>
Inter-segment	19,800	64,478	124,788	(209,066)	-
<b>Total Revenue</b>	<b>8,404,919</b>	<b>988,839</b>	<b>215,662</b>	<b>(209,066)</b>	<b>9,400,354</b>
Earnings (loss) before income taxes	28,893	(622,224)	10,737	60,448	<b>(522,146)</b>

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

Nine months ended June 30,	2017	2016
External sales revenue		
Canada	<b>814,047</b>	527,286
United States	<b>7,069,826</b>	7,467,187
United Kingdom	<b>712,107</b>	1,034,666
Southeast Asia and other	<b>3,649,731</b>	371,215
<b>Total</b>	<b>12,245,711</b>	9,400,354

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 attributable to iFabric Corp.'s shareholders for the three and nine months ended June 30, 2017 of \$264,213 and \$627,159, respectively (losses of \$121,653 and \$406,723 for the three and nine months ended June 30, 2016, respectively). The number of shares used in the earnings (loss) per share calculation is as follows:

Period ended June 30,	Three months		Nine months	
	2017	2016	2017	2016
Weighted average number of shares outstanding - basic	26,081,714	25,930,739	26,020,657	25,917,925
Dilutive effect of options	1,031,976	-	1,069,698	-
Weighted average number of shares outstanding - diluted	27,113,691	25,930,739	27,090,355	25,917,925

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. For the three and nine months ended June 30, 2016, 1,680,000 options and 232,133 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, 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

	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	40,000	16,000
Ascribed value credited to share capital on exercise of options	-	12,448
Balance at June 30, 2016	25,939,750	2,771,978

**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, 2016	1,630,000	1.00
Granted (i)	600,000	2.40
Exercised	(171,250)	0.40
Balance at June 30, 2017	2,058,750	1.46

  

	Number of stock options	Weighted average exercise price
Balance at September 30, 2015	1,720,000	0.97
Exercised	(40,000)	0.40
Balance at June 30, 2016	1,680,000	0.98

(i) On June 5, 2017, the Company issued 600,000 stock options to employees and directors. Each option entitles the holder to acquire one common share of the Company at a price of \$2.40, and is exercisable for a period of 10 years from the grant date. 300,000 of the options vest immediately, 50,000 vest in equal tranches over a two-year period from the date of the issue, and 250,000 vest in equal tranches over a five-year period from the date of the issue. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$714,000 as of the date of grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	39%
Risk-free interest rate	1.41%
Expected maturity	10 years

As of June 30, 2017, 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	1.21	2.90	75,000	2.90
January 16, 2023	1,133,750	5.55	0.40	1,133,750	0.40
April 1, 2024	150,000	6.75	4.15	150,000	4.15
May 6, 2025	100,000	7.85	2.70	100,000	2.70
June 5, 2027	600,000	9.93	2.40	300,000	2.40
	<b>2,058,750</b>	<b>6.87</b>	<b>1.46</b>	<b>1,758,750</b>	<b>1.30</b>

**14. CAPITAL STOCK, continued****(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, 2016	232,133	5.10
Expired (i)	(28,508)	4.00
Balance, June 30, 2017	203,625	5.25

	Number of warrants	Weighted average exercise price
Balance, September 30, 2015 and June 30, 2016	232,133	5.10

(i) On December 13, 2016, 28,508 previously outstanding warrants expired. As a result, the Company transferred \$125,568 from its Warrants equity reserve to contributed surplus.

The following table summarizes warrants outstanding as of June 30, 2017:

Expiry date	Number of warrants	Weighted average exercise price
December 13, 2017 (i)	203,625	5.25

(i) On November 21, 2016, 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, 2016, and had been extended to expire on December 13, 2017. The amendment to the expiry date of these warrants became effective 10 business days following the date of the news release, being December 2, 2016. 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, 2017 and 2018 in U.S. dollar amounts of \$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 Company is also required to pay an administration fee for the last remaining year of the contract, due January 1 2018, in the amount of \$20,500 USD. The license term is in effect until December 31, 2018.

**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, 2017 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2016.