



iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

MARCH 31, 2017

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

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NOTICE TO READER

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

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

As at	March 31, 2017	September 30, 2016
ASSETS		
Current assets		
Cash	1,202,172	1,260,213
Accounts receivable (note 4)	2,934,687	2,830,179
Inventories (note 5)	3,404,004	3,531,402
Prepaid expenses and deposits (note 6)	518,201	336,700
Foreign exchange forward contracts (note 7)	44,584	87,192
Total current assets	8,103,648	8,045,686
Non-current assets		
Property, plant and equipment	2,919,374	2,938,651
Deferred development costs	355,975	436,706
Deferred income taxes	781,000	820,000
Goodwill	55,050	55,050
Total non-current assets	4,111,399	4,250,407
Total assets	12,215,047	12,296,093
LIABILITIES		
Current liabilities		
Bank indebtedness (note 8)	600,441	889,903
Accounts payable and accrued liabilities (note 9)	1,057,262	1,575,948
Income taxes payable	108,845	19,980
Current portion due to related parties	10,331	139,788
Current portion of bank loan payable	116,667	120,000
Current portion of deferred revenue	39,300	-
Total current liabilities	1,932,846	2,745,619
Non-current liabilities		
Due to related parties	455,544	563,809
Bank loan payable (note 10)	1,623,610	1,330,000
Deferred revenue	150,650	-
Total non-current liabilities	2,229,804	1,893,809
Total liabilities	4,162,650	4,639,428
Commitments (note 14)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 13)	2,811,983	2,807,538
Contributed surplus	125,568	-
Warrants (note 13)	579,293	704,861
Options (note 13)	1,362,332	1,331,717
Retained earnings	3,156,840	2,793,894
Total equity attributable to iFabric Corp. shareholders	8,036,016	7,638,010
Non-controlling interest	16,381	18,655
Total equity	8,052,397	7,656,665
Total liabilities and equity	12,215,047	12,296,093

Approved on behalf of the Board of Directors on May 12, 2017:

"Hylton Karon"
Director

"Hilton Price"
Director

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	
	2017	2016	2017	2016
REVENUE	4,255,192	3,072,027	7,357,311	6,401,037
COST OF SALES	2,172,277	1,569,581	4,127,310	3,114,376
GROSS PROFIT	2,082,915	1,502,446	3,230,001	3,286,661
EXPENSES				
Selling, general and administrative costs	1,336,191	1,663,147	2,546,237	3,314,739
Interest on operating line	8,172	7,347	18,050	11,222
Interest on long-term debt	27,673	9,233	41,851	18,890
Amortization of property, plant and equipment	15,558	8,766	28,061	17,415
Amortization of deferred development costs	40,366	40,366	80,732	80,732
	1,427,960	1,728,859	2,714,931	3,442,998
EARNINGS (LOSS) FROM OPERATIONS	654,955	(226,413)	515,070	(156,337)
OTHER EXPENSES (INCOME)				
Share-based compensation	16,101	41,258	32,560	85,663
Loss (gain) on foreign exchange	(8,545)	173,125	(12,950)	124,342
	7,556	214,383	19,610	210,005
EARNINGS (LOSS) BEFORE INCOME TAXES	647,399	(440,796)	495,460	(366,342)
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current	81,440	(71,423)	95,788	5,486
Deferred	82,000	(45,506)	39,000	(89,357)
	163,440	(116,929)	134,788	(83,871)
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)	483,959	(323,867)	360,672	(282,471)
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO:				
iFabric Corp. shareholders	472,221	(324,657)	346,846	(285,069)
Non-controlling interest	(4,362)	790	(2,274)	2,598
	467,859	(323,867)	344,572	(282,471)
EARNINGS (LOSS) PER SHARE (note 12)				
Basic	0.018	(0.013)	0.013	(0.011)
Diluted	0.017	(0.013)	0.013	(0.011)

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	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	7,656,665
Total comprehensive earnings (loss)	-	-	-	-	362,946	362,946	(2,274)	360,672
Expiry of warrants	-	125,568	(125,568)	-	-	-	-	-
Exercise of options	4,445	-	(1,945)	-	-	2,500	-	2,500
Share-based compensation	-	-	-	32,560	-	32,560	-	32,560
Balance at March 31, 2017	2,811,983	125,568	577,348	1,364,277	3,156,840	8,036,016	16,381	8,052,397

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	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	7,872,425
Total comprehensive earnings (loss)	-	-	-	-	(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

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 six months ended March 31,	2017	2016
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	360,672	(282,471)
Items not affecting cash		
Amortization of property, plant and equipment	28,061	17,415
Amortization of deferred development costs	80,732	80,732
Fair value adjustment on foreign exchange forward contracts	43,700	(60,504)
Share-based compensation	32,560	85,663
Deferred income tax provision (recovery)	39,000	(89,357)
	584,725	(248,522)
Change in non-cash operating working capital items		
Accounts receivable	(104,508)	1,706
Inventories	127,398	97,552
Prepaid expenses and deposits	(181,501)	191,111
Foreign exchange forward contracts	(1,092)	2,148
Accounts payable and accrued liabilities	(518,686)	(1,050,429)
Deferred revenue	189,950	-
Income taxes payable	88,865	29,237
	(399,574)	(728,675)
	185,151	(977,197)
FINANCING ACTIVITIES		
Bank operating line	(289,462)	734,879
Due to related parties	(237,722)	(54,323)
Proceeds from bank loan	350,000	-
Repayment of bank loan	(59,723)	(50,000)
Share issuances	2,500	12,000
	(234,407)	642,556
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,784)	(1,558)
	(8,784)	(1,558)
CHANGE IN CASH POSITION	(58,041)	(336,199)
CASH, beginning of period	1,260,213	852,016
CASH, end of period	1,202,172	515,817

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

	March 31, 2017	September 30, 2016
Trade receivables	2,953,883	2,902,312
Allowance for doubtful accounts	(1,384)	(8,213)
Allowance for discounts and rebates	(21,482)	(66,500)
Other	3,670	2,580
	2,934,687	2,830,179

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the six months ended March 31, 2017, the amount of inventories charged to net earnings was \$3,815,711 (2016 - \$2,461,920) and the amount of inventory write-downs were \$81,344 (2016 - \$90,026). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	March 31, 2017	September 30, 2016
Prepaid expenses and other assets	107,843	66,708
Deposits paid to suppliers	410,358	269,992
	518,201	336,700

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, 2017	September 30, 2016
Margin balance – cash deposit	79,794	78,702
Mark to market variance – gain (loss) on foreign exchange	(35,210)	8,490
	44,584	87,192

As at March 31, 2017, the Company had contracted to sell 100,000 British Pounds Sterling (“GBP”) and sell 773,000 U.S. Dollars (“USD”).

For the six months ended March 31, 2017, there is a loss on foreign exchange of \$43,700 (2016 - \$60,504 gain) recognized in net earnings (loss), with respect to changes in fair value of the Company’s foreign exchange forward contracts.

8. CREDIT FACILITIES

Two of the Company’s subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$3,500,000, against which \$600,441 was outstanding as at March 31, 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.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2017	September 30, 2016
Trade payables	959,731	1,208,152
Government remittances	(32,750)	131,632
Accrued liabilities	121,434	227,317
Tenants deposits	8,847	8,847
	1,057,262	1,575,948

10. LOAN PAYABLE

	March 31, 2017	September 30, 2016
Bank loan (i)	1,740,277	1,450,000
Less current portion	116,667	120,000
Due beyond one year	1,623,610	1,330,000

(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.

During the three months ended March 31, 2017, the Company increased its loan payable by \$350,000 for the purpose of financing working capital.

11. SEGMENTED INFORMATION

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

- Intimate Apparel: Includes the design and distribution of women's intimate apparel, 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.

11. SEGMENTED INFORMATION, *continued*

Six months ended March 31, 2017	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	4,808,434	2,497,677	51,200	-	7,357,311
Inter-segment	-	121,261	84,718	(205,979)	-
Total Revenue	4,808,434	2,618,938	135,918	(205,979)	7,357,311
Earnings (loss) before income taxes	486,470	47,365	(8,984)	(29,391)	495,460

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)

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

Six months ended March 31,	2017	2016
External sales revenue		
Canada	453,254	360,109
United States	4,055,577	5,274,851
United Kingdom	526,429	612,704
Southeast Asia and other	2,322,051	153,373
Total	7,357,311	6,401,037

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

12. 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 six months ended March 31, 2017 of \$472,221 and \$346,846, respectively (losses of \$324,657 and \$285,069 for the three and six months, ended March 31, 2016, respectively). The number of shares used in the earnings (loss) per share calculation is as follows:

Period ended March 31,	Three months		Six months	
	2017	2016	2017	2016
Weighted average number of shares outstanding - basic	25,982,417	25,923,486	25,990,128	25,911,553
Dilutive effect of options	1,087,167	-	1,098,319	-
Weighted average number of shares outstanding - diluted	27,069,584	25,923,486	27,088,447	25,911,553

For the three and six months ended March 31, 2017, 325,000 options and 203,625 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive. For the three and six months ended March 31, 2016, 1,690,000 options and 232,133 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive.

13. 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	6,250	2,500
Ascribed value credited to share capital on exercise of options	-	1,945
Balance at March 31, 2017	25,996,000	2,811,983

	Number of common shares	Common share capital
Balance at September 30, 2015	25,869,750	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	25,899,750	2,764,866

13. CAPITAL STOCK, *continued*

(b) Stock option plan

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

	Number of common shares	Common share capital
Balance at September 30, 2016	25,989,750	2,807,538
Shares issued pursuant to exercise of stock options	6,250	2,500
Ascribed value credited to share capital on exercise of options	-	1,945
Balance at March 31, 2017	25,996,000	2,811,983

	Number of common shares	Common share capital
Balance at September 30, 2015	25,869,750	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	25,899,750	2,764,866

As of March 31, 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	1.46	2.90	75,000	2.90
January 16, 2023	1,298,750	5.79	0.40	1,298,750	0.40
April 1, 2024	150,000	7.00	4.15	100,000	4.15
May 6, 2025	100,000	8.10	2.70	100,000	2.70
	1,623,750	5.85	1.00	1,573,750	0.90

13. 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, March 31, 2017	203,625	5.25

	Number of warrants	Weighted average exercise price
Balance, September 30, 2015 and March 31, 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 December 31, 2016:

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.

14. 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.

15. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the three and six months ended March 31, 2017 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2016.