

iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED

DECEMBER 31, 2020

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

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

As at	December 31, 2020	September 30, 2020
ASSETS		
Current assets		
Cash	946,563	1,160,428
Accounts receivable (note 4)	4,287,771	4,442,787
Inventories (note 5)	2,953,932	3,138,128
Income taxes recoverable	114,053	265,982
Prepaid expenses and deposits (note 6)	3,945,245	4,106,986
Foreign exchange forward contracts (note 7)	123,354	126,994
Total current assets	12,370,918	13,241,305
Non-current assets		
Due from related parties (note 8)	112,248	112,248
Property, plant and equipment	2,732,294	2,744,875
Right-of-use assets	53,326	61,735
Deferred development costs	251,773	258,478
Deferred income taxes	641,500	1,040,400
Goodwill	55,050	55,050
Total non-current assets	3,846,191	4,272,786
Total assets	16,217,109	17,514,091
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	2,853,328	1,771,983
Customer deposits	-	3,909,093
Income taxes payable	383,596	324,775
Deferred revenue	49,703	57,770
Current portion of contract liability	165,611	165,611
Current portion of lease liability	30,037	30,037
Current portion due to related parties	518	38
Current portion of bank loan payable (note 11)	1,241,364	1,259,783
Total current liabilities	4,724,157	7,519,090
Non-current liabilities		
Non-current portion of contract liability	44,883	122,560
Non-current portion of lease liability	17,889	25,398
Due to related parties	502,172	502,172
Total non-current liabilities	564,944	650,130
Total liabilities	5,289,101	8,169,220
Commitments (note 15)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 14)	3,641,276	3,282,276
Reserves	2,655,962	2,768,217
Retained earnings	4,845,509	3,243,227
Accumulated other comprehensive (loss) earnings	(225,725)	46,146
Total equity attributable to iFabric Corp. shareholders	10,917,022	9,339,866
Non-controlling interest	10,986	5,005
Total equity	10,928,008	9,344,871
Total liabilities and equity	16,217,109	17,514,091

Approved on behalf of the Board of Directors on February 11, 2021

"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 AND COMPREHENSIVE EARNINGS (LOSS)
(Unaudited, Expressed in Canadian Dollars)

For the three months ended December 31,	2020	2019
REVENUE	7,520,901	2,596,841
COST OF SALES	4,616,666	1,504,622
GROSS PROFIT	2,904,235	1,092,219
EXPENSES		
Selling, general and administrative costs	1,096,694	1,200,687
Interest expense	14,245	12,218
Amortization of property, plant and equipment and right-of-use assets	20,990	21,966
Amortization of deferred development costs	6,705	6,705
Share-based compensation	6,745	11,739
	1,145,379	1,253,315
EARNINGS (LOSS) FROM OPERATIONS	1,758,856	(161,096)
OTHER EXPENSES (INCOME)		
Gain on foreign exchange	(136,510)	(232,888)
Government grants	(71,335)	-
	(207,845)	(232,888)
EARNINGS BEFORE INCOME TAXES	1,966,701	71,792
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	(40,462)	(32,551)
Deferred	398,900	48,119
	358,438	15,568
NET EARNINGS	1,608,263	56,224
NET EARNINGS ATTRIBUTABLE TO:		
iFabric Corp. shareholders	1,602,282	53,810
Non-controlling interest	5,981	2,414
	1,608,263	56,224
OTHER COMPREHENSIVE LOSS		
Unrealized loss on translation of foreign operations	(271,871)	(226,781)
TOTAL COMPREHENSIVE EARNINGS (LOSS)	1,336,392	(170,557)
EARNINGS PER SHARE (note 13)		
Basic	0.060	0.002
Diluted	0.058	0.002

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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					Total		
	Capital stock	Contributed surplus	Options	Retained earnings	Accumulated Other Comprehensive Earnings (Loss)			
Balance at September 30, 2020	3,282,276	852,679	1,915,538	3,243,227	46,146	9,339,866	5,005	9,344,871
Total comprehensive earnings (loss)	-	-	-	1,602,282	(271,871)	1,330,411	5,981	1,336,392
Exercise of options	359,000	-	(119,000)	-	-	240,000	-	240,000
Share-based compensation	-	-	6,745	-	-	6,745	-	6,745
Balance at December 31, 2020	3,641,276	852,679	1,803,283	4,845,509	(225,725)	10,917,022	10,986	10,928,008

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves					Total		
	Capital stock	Contributed surplus	Options	Retained earnings	Accumulated Other Comprehensive Earnings (Loss)			
Balance at September 30, 2019	2,963,824	852,679	1,440,940	3,860,997	138,199	9,256,639	11,946	9,268,585
Total comprehensive earnings (loss)	-	-	-	53,810	(226,781)	(172,971)	2,414	(170,557)
Share-based compensation	-	-	11,739	-	-	11,739	-	11,739
Balance at December 31, 2019	2,963,824	852,679	1,452,679	3,914,807	(88,582)	9,095,407	14,360	9,109,767

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

For the three months ended December 31,	2020	2019
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings	1,608,263	56,224
Items not affecting cash		
Interest on lease liability	1,670	735
Amortization of property, plant and equipment and right-of-use assets	20,990	21,966
Amortization of deferred development costs	6,705	6,705
Fair value adjustment on foreign exchange forward contracts	-	56,951
Share-based compensation	6,745	11,739
Deferred income tax provision	398,900	48,119
IFRS 16 transition adjustment	-	(9,900)
	2,043,273	192,539
Changes in operations assets and liabilities		
Accounts receivable	155,016	441,902
Inventories	184,196	(49,884)
Income taxes recoverable	151,929	236,666
Prepaid expenses and deposits	161,741	(14,262)
Foreign exchange forward contracts	3,640	(112,373)
Accounts payable and accrued liabilities	1,081,345	344,302
Customer deposits	(3,909,093)	-
Deferred revenue	(8,067)	-
Contract liability	(77,677)	(34,891)
Income taxes payable	58,821	30,449
	(2,198,149)	841,909
	(154,876)	1,034,448
FINANCING ACTIVITIES		
Due to related parties	480	12,679
Repayment of bank loan	(18,419)	(20,083)
Interest paid	(1,670)	(735)
Repayment of lease liability	(7,509)	(7,509)
Share issuances	240,000	-
	212,882	(15,648)
INVESTING ACTIVITIES		
Investment in intangible assets	-	(136,219)
	-	(136,219)
CHANGE IN CASH POSITION	58,006	882,581
CASH, beginning of period	1,160,428	2,287,548
Effect of foreign currency translation	(271,871)	(226,781)
CASH, end of period	946,563	2,943,348

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

1. NATURE OF OPERATIONS

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

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

2. BASIS OF PREPARATION**(a) Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("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, 2020.

(b) 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.

(c) 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, 2020. All intercompany transactions and balances have been eliminated.

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, 2020 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

4. ACCOUNTS RECEIVABLE

	December 31, 2020	September 30, 2020
Trade receivables	4,422,631	4,572,763
Expected credit loss	(208,000)	(208,000)
Allowance for discounts and rebates	(20,872)	(11,680)
Deferred rent asset	58,762	63,406
Grant receivable	33,027	23,894
Other	2,223	2,404
	4,287,771	4,442,787

There is an expected credit loss of \$208,000, which accounts for probability of customer default as a major retailer filed for bankruptcy protection.

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the three months ended December 31, 2020, the amount of inventories charged to net earnings was \$4,483,267 (2019 - \$1,271,241) and the amount of inventory write-downs were \$0 (2019 - \$14,597). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2020	September 30, 2020
Prepaid expenses and other assets	190,779	74,610
Deposits paid to suppliers (i)	3,754,466	4,032,376
	3,945,245	4,106,986

(i) The Company entered into an agreement to purchase 1,000,000 N95 masks. The contract required full delivery by June 2020 but was partially fulfilled, with the supplier defaulting on the timing of the remaining delivery. The Company sourced these products from a different supplier to fulfill the order to its customer in the current quarter. The Company is in process of seeking to recover its remaining deposit of approximately USD \$3,000,000 plus as-yet unspecified damages instead of receiving the remaining product. No amount has been accrued for any additional damages as at December 31, 2020.

7. FOREIGN EXCHANGE FORWARD CONTRACTS

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

	December 31, 2020	September 30, 2020
Margin balance – cash deposit	123,354	126,994

As at December 31, 2020 and September 30, 2020, the Company had no forward contracts.

For the three months ended December 31, 2020, there is no unrealized gain or loss on foreign exchange (2019 – \$56,951 gain) recognized in net earnings, 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 that is the greater of 1% per annum and the minimum interest rate per the Canada Revenue Agency, and is repayable in full by May 5, 2024. The fair market value of the loan using the applicable market interest rate would not result in a material adjustment to the carrying value of the loan, and as such, no adjustment has been made by the Company in this regard.

9. CREDIT FACILITIES

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$3,750,000, against which \$0 was outstanding as at December 31, 2020 (September 30, 2020 - \$0). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of \$3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	September 30, 2020
Trade payables	2,301,929	1,244,692
Government remittances	228,998	149,341
Accrued liabilities	302,487	358,036
Tenants deposits	19,914	19,914
	2,853,328	1,771,983

11. BANK LOAN

One of the Company's subsidiaries has variable rate term loan, payable in monthly payments of \$10,331 comprising principal and interest at a prime interest rate plus 0.75% per annum, amortized over a fifteen-year period ending February 28, 2032, maturing March 5, 2021 and secured by a first-ranking all-indebtedness collateral mortgage in the amount of \$3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and three of its subsidiary companies.

Management expects to pay the minimum monthly payments within the next twelve months and renew its existing facility.

Two of the Company's subsidiaries received \$40,000 each for a total of \$80,000, which was funded by the Canada Emergency Business Account ("CEBA"). CEBA is interest free until December 31, 2022 with 25% of the balance forgiven if 75% of the balance is repaid by December 31, 2022. Management expects to pay the 75% balance of \$60,000 of CEBA within the next 12 months.

12. SEGMENTED INFORMATION

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

- Intimate Apparel: Includes the design and distribution of women's intimate apparel and accessories.
- Intelligent Fabrics: Includes the development and distribution of innovative products and treatments that are suitable for application to textiles, plastics, liquids, and hard surfaces as well as finished performance apparel which integrate one or more such treatments. These products are designed to provide added benefits to the user.
- Other: Includes leasing of property to group companies, related parties and third parties.

Inter-segment transactions are made at prices that approximate market rates.

Three months ended December 31, 2020	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	612,911	6,880,019	27,971	-	7,520,901
Inter-segment	-	299,134	41,240	(340,374)	-
Total Revenue	612,911	7,179,153	69,211	(340,374)	7,520,901
Earnings (loss) before income taxes	(18,547)	1,983,235	31,329	(29,316)	1,966,701
Total assets	3,824,544	9,398,857	2,808,083	185,625	16,217,109
Total liabilities	374,002	3,124,492	1,758,989	31,618	5,289,101

Three months ended December 31, 2019	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	1,129,707	1,435,051	32,083	-	2,596,841
Inter-segment	7,500	593,205	40,585	(641,290)	-
Total Revenue	1,137,207	2,028,256	72,668	(641,290)	2,596,841
Earnings (loss) before income taxes	113,621	15,165	13,805	(70,799)	71,792
Total assets	5,627,150	3,648,091	2,804,165	155,997	12,235,403
Total liabilities	520,053	787,126	1,766,402	52,055	3,125,636

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

12. SEGMENTED INFORMATION, *continued*

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

Three months ended December 31,	2020	2019
External sales revenue		
Canada	1,443,875	538,199
United States	4,365,769	1,011,891
United Kingdom	19,843	27,010
Southeast Asia and other	1,691,414	1,019,741
Total	7,520,901	2,596,841

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

Approximately 83% of the Company's total sales were to three customers (2019 – 49%). These customers relate to the Intelligent Fabrics segment. Approximately 91% of the Company's total purchases were to four vendors (2019 – 85%), one of which is related to a distributor of the Company.

13. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings per share is based on net earnings attributable to iFabric Corp.'s shareholders for the three months ended December 31, 2020 of \$1,602,282 (\$53,810 for the three months ended December 31, 2019). The number of shares used in the loss per share calculation is as follows:

Three months ended December 31,	2020	2019
Weighted average number of shares outstanding - basic	26,493,141	26,209,500
Dilutive effect of options	1,101,069	490,592
Weighted average number of shares outstanding - diluted	27,594,210	26,700,092

For the three months ended December 31, 2020, 85,000 options were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive. For the three months ended December 31, 2019, 800,000 options 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, 2020	26,475,750	3,282,276
Shares issued pursuant to exercise of stock options	100,000	240,000
Ascribed value credited to share capital on exercise of options	-	119,000
Balance at December 31, 2020	26,575,750	3,641,276

	Number of common shares	Common share capital
Balance at September 30, 2019 and December 31, 2019	26,209,500	2,963,824

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

14. CAPITAL STOCK, *continued*

(b) Stock option plan

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

	Number of stock options	Weighted average exercise price
Balance at September 30, 2020	1,829,000	1.56
Exercised, during the period	(100,000)	2.40
Balance at December 31, 2020	1,729,000	1.51

	Number of stock options	Weighted average exercise price
Balance at September 30, 2019 and December 31, 2019	1,885,250	1.31

As of December 31, 2020, 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
January 16, 2023	894,000	2.04	0.40	894,000	0.40
April 1, 2024	75,000	3.25	4.15	75,000	4.15
May 6, 2025	100,000	4.35	2.70	100,000	2.70
June 5, 2027	450,000	6.43	2.40	350,000	2.40
April 7, 2030	200,000	9.27	2.70	200,000	2.70
June 30, 2025	10,000	4.50	6.05	10,000	6.05
	1,729,000	4.22	1.51	1,629,000	1.46

15. COMMITMENTS

The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 for more information.

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 months ended December 31, 2020 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2020.

17. SUBSEQUENT EVENTS

On January 21, 2021, the Company entered into an agreement with an investment bank to raise up to \$10 million by way of a private placement of subscription receipts. The Company will issue Subscription Receipts at a price of \$3.90 per Subscription Receipt. Each Subscription Receipt shall be deemed to be automatically converted into one unit of the Company (each, a "Unit") upon approval being issued by the securities regulatory authorities. Each Unit will consist of one (1) common share of the Company, (each, a "Common Share") and one-half of one (0.5) common share purchase warrant (each whole common share purchase warrant, a "Warrant"), with each Warrant being exercisable to acquire one common share of the Company at an exercise price of \$4.60 per Warrant Share for a period of two (2) years following the Escrow Release Date.

On January 28, 2021, the Company renewed its license agreement 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 0-10%. Minimum annual royalties have been established for the contract period ending December 31, 2021 in a U.S. dollar amount of \$122,500. 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 will expire on December 31, 2021. The extension of this agreement for a period of one year was agreed to by the licensor at the Company's request in order to allow it to fully assess the ongoing effects of the COVID-19 pandemic on future revenues. Management expects to renew the license for a longer term after the expiry of the extension.