



IFABRIC CORP.

CONSOLIDATED
FINANCIAL STATEMENTS

SEPTEMBER 30, 2021 AND 2020

(EXPRESSED IN CANADIAN DOLLARS)

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Independent Auditor's Report

To the Shareholders of iFabric Corp.

Opinion

We have audited the consolidated financial statements of iFabric Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2021 and 2020, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Description of the key audit matter

The Company's revenues consists of intimate apparel for women and innovative products and treatments for application to textiles and other surfaces. The Company entered into an arrangement with a supplier whose related party also acted as a distributor, requiring a determination of whether revenue should be recognized on a principal or agent basis. Due to the significance of the revenue to the overall operating results of the Company and judgement in the assessment of principal and agent, revenue recognition was determined to be a key audit matter requiring special audit consideration.

Please refer to Note 3 (c) to the consolidated financial statements for the Company's revenue recognition policy and Note 17 that includes revenue information by operating segments.

How the key audit matter was addressed in the audit

Our audit procedures included but is not limited to a review of new revenue contracts and exclusive license agreements in effect during the fiscal year, including any modifications or amendments,



for recognition and measurement in accordance with IFRS 15, including the assessment as principal or agent.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael Crolla.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
December 28, 2021

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

| As at | September 30, 2021 | September 30, 2020 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash | 8,901,718 | 1,160,428 |
| Accounts receivable (note 4) | 6,452,896 | 4,442,787 |
| Inventories (note 5) | 3,015,010 | 3,138,128 |
| Income taxes recoverable | 90,521 | 265,982 |
| Prepaid expenses and deposits (note 6) | 4,734,352 | 4,106,986 |
| Foreign exchange forward contracts (note 7) | - | 126,994 |
| Total current assets | 23,194,497 | 13,241,305 |
| Non-current assets | | |
| Due from related parties (note 8) | 131,404 | 112,248 |
| Property, plant and equipment (note 9) | 2,942,104 | 2,744,875 |
| Right-of-use assets (note 10) | 54,168 | 61,735 |
| Deferred development costs (note 11) | 231,658 | 258,478 |
| Deferred income taxes (note 12) | 1,020,984 | 1,040,400 |
| Goodwill | 55,050 | 55,050 |
| Total non-current assets | 4,435,368 | 4,272,786 |
| Total assets | 27,629,865 | 17,514,091 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 14) | 2,941,445 | 1,771,983 |
| Customer deposits | 151,315 | 3,909,093 |
| Income taxes payable | 256,426 | 324,775 |
| Deferred revenue | 25,609 | 57,770 |
| Current portion of contract liability | 180,509 | 165,611 |
| Current portion of lease liability | 30,613 | 30,037 |
| Current portion due to related parties (note 15) | - | 38 |
| Current portion of bank loan payable (note 16) | 1,215,464 | 1,259,783 |
| Total current liabilities | 4,801,381 | 7,519,090 |
| Non-current liabilities | | |
| Non-current portion of contract liability | - | 122,560 |
| Non-current portion of lease liability | 20,855 | 25,398 |
| Due to related parties (note 15) | 530,422 | 502,172 |
| Total non-current liabilities | 551,277 | 650,130 |
| Total liabilities | 5,352,658 | 8,169,220 |
| Commitments (note 23) | | |
| EQUITY | | |
| Equity attributable to iFabric Corp. shareholders | | |
| Capital stock (note 22) | 13,585,774 | 3,282,276 |
| Reserves | 3,264,746 | 2,768,217 |
| Retained earnings | 5,612,925 | 3,243,227 |
| Accumulated other comprehensive earnings | (196,551) | 46,146 |
| Total equity attributable to iFabric Corp. shareholders | 22,266,894 | 9,339,866 |
| Non-controlling interest | 10,313 | 5,005 |
| Total equity | 22,277,207 | 9,344,871 |
| Total liabilities and equity | 27,629,865 | 17,514,091 |

Approved on behalf of the Board of Directors on December 28, 2021:

"Hylton Karon"
Director

"Hilton Price"
Director

IFABRIC CORP.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

(Expressed in Canadian Dollars)

| For the year ended September 30, | 2021 | 2020 |
|---|------------|-------------|
| REVENUE | 19,763,672 | 11,521,676 |
| COST OF SALES | 12,002,784 | 7,220,724 |
| GROSS PROFIT | 7,760,888 | 4,300,952 |
| EXPENSES | | |
| General and administrative costs (note 18) | 4,082,203 | 4,010,168 |
| Selling costs (note 18) | 982,641 | 787,667 |
| Interest on bank loan | 53,402 | 42,746 |
| Depreciation of property, plant and equipment and right-of-use assets | 90,095 | 87,865 |
| Amortization of deferred development costs | 26,820 | 26,820 |
| Share-based compensation | 21,994 | 581,550 |
| | 5,257,155 | 5,536,816 |
| EARNINGS (LOSS) FROM OPERATIONS | 2,503,733 | (1,235,864) |
| OTHER INCOME | | |
| Gain on foreign exchange | (223,000) | (229,495) |
| Government grants (note 3q) | (315,360) | (296,970) |
| | (538,360) | (526,465) |
| EARNINGS (LOSS) BEFORE INCOME TAXES | 3,042,093 | (709,399) |
| PROVISION (RECOVERY) OF INCOME TAXES (note 20) | | |
| Current | 378,071 | 58,793 |
| Deferred | 289,016 | (143,481) |
| | 667,087 | (84,688) |
| NET EARNINGS (LOSS) | 2,375,006 | (624,711) |
| NET EARNINGS (LOSS) ATTRIBUTABLE TO: | | |
| iFabric Corp. shareholders | 2,369,698 | (617,770) |
| Non-controlling interest | 5,308 | (6,941) |
| | 2,375,006 | (624,711) |
| OTHER COMPREHENSIVE EARNINGS (LOSS) | | |
| Unrealized loss on translation of foreign operations | (242,697) | (92,053) |
| TOTAL COMPREHENSIVE EARNINGS (LOSS) | 2,132,309 | (716,764) |
| EARNINGS (LOSS) PER SHARE (note 21) | | |
| Basic | 0.084 | (0.023) |
| Diluted | 0.081 | (0.023) |

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

| | Attributable to iFabric Corp. shareholders | | | | | | Non-controlling interest | Total equity |
|---|--|---------------------|-----------|-------------------|--|-------------------------------------|--------------------------|--------------|
| | Reserves | | | Retained earnings | Accumulated Other Comprehensive Earnings | Total Comprehensive Earnings (Loss) | | |
| | Capital stock | Contributed surplus | Options | | | | | |
| 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) | - | - | - | 2,369,698 | (242,697) | 2,127,001 | 5,308 | 2,132,309 |
| Private placement (note 22) | 11,499,996 | - | - | - | - | 11,499,996 | - | 11,499,996 |
| Share issue costs - cash (note 22) | (1,271,563) | - | - | - | - | (1,271,563) | - | (1,271,563) |
| Deferred tax on share issue costs (note 10) | 269,600 | - | - | - | - | 269,600 | - | 269,600 |
| Share issue costs - fair value of compensation options issued to agents (note 14) | (619,987) | - | 619,987 | - | - | - | - | - |
| Exercise of options | 425,452 | - | (145,452) | - | - | 280,000 | - | 280,000 |
| Share-based compensation | - | - | 21,994 | - | - | 21,994 | - | 21,994 |
| Balance at September 30, 2021 | 13,585,774 | 852,679 | 2,412,067 | 5,612,925 | (196,551) | 22,266,894 | 10,313 | 22,277,207 |

| | Attributable to iFabric Corp. shareholders | | | | | | Non-controlling interest | Total equity |
|-------------------------------------|--|---------------------|-----------|-------------------|--|-------------------------------------|--------------------------|--------------|
| | Reserves | | | Retained earnings | Accumulated Other Comprehensive Earnings | Total Comprehensive Earnings (Loss) | | |
| | Capital stock | Contributed surplus | Options | | | | | |
| 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) | - | - | - | (617,770) | (92,053) | (709,823) | (6,941) | (716,764) |
| Exercise of options | 318,452 | - | (106,952) | - | - | 211,500 | - | 211,500 |
| Share-based compensation | - | - | 581,550 | - | - | 581,550 | - | 581,550 |
| 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 |

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

| For the year ended September 30, | 2021 | 2020 |
|---|-------------|-------------|
| CASH WAS PROVIDED BY (USED IN) | | |
| OPERATING ACTIVITIES | | |
| Net earnings (loss) | 2,375,006 | (624,711) |
| Items not affecting cash | | |
| Interest on lease liability | 2,944 | 2,941 |
| Amortization of property, plant and equipment and right-of-use assets | 90,095 | 87,865 |
| Amortization of deferred development costs | 26,820 | 26,820 |
| Share-based compensation | 21,994 | 581,550 |
| Deferred income tax provision | 289,016 | (143,481) |
| IFRS transition adjustment | - | (9,900) |
| | 2,805,875 | (78,916) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (2,010,109) | (2,084,667) |
| Inventories | 123,118 | (386,039) |
| Income taxes recoverable | 175,461 | 33,658 |
| Prepaid expenses and deposits | (627,366) | (3,850,010) |
| Foreign exchange forward contracts | 126,994 | (68,164) |
| Due from related parties | (19,156) | - |
| Accounts payable and accrued liabilities | 1,169,462 | 974,036 |
| Customer deposits | (3,757,778) | 3,909,093 |
| Deferred revenue | (32,161) | 57,770 |
| Contract liability | (107,662) | 119,376 |
| Income taxes payable | (68,349) | 311,661 |
| | (5,027,546) | (983,286) |
| | (2,221,671) | (1,062,202) |
| FINANCING ACTIVITIES | | |
| Due to related parties | 28,212 | 25,200 |
| Share and warrant issuances (note 22) | 11,779,996 | 211,500 |
| Share and warrant issuances costs (note 22) | (1,271,563) | - |
| Increase in bank loan (note 16) | 40,000 | 80,000 |
| Repayment of bank loan (note 16) | (84,319) | (78,568) |
| Interest paid | (2,944) | (2,941) |
| Repayment of lease liability | (30,325) | (30,037) |
| | 10,459,057 | 205,154 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (253,399) | - |
| Investment in intangible assets | - | (178,019) |
| | (253,399) | (178,019) |
| CHANGE IN CASH POSITION | 7,983,987 | (1,035,067) |
| CASH, beginning of year | 1,160,428 | 2,287,548 |
| Effect of foreign currency translation | (242,697) | (92,053) |
| CASH, end of year | 8,901,718 | 1,160,428 |

(j) Actual taxes paid: \$536,940

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

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 in terms of protection and performance enhancements.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

These consolidated 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 subsequent notes, using the significant accounting policies and measurement basis summarized below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of consolidation

The consolidated 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 75%-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.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars.

The functional currency of the Coconut Grove Pads Inc., Protx (Shanghai) Trading Co., Ltd., and Intelligent Fabric Technologies (North America) Inc., is the United States Dollar ("USD") given the prevalence of USD transactions in operations. The functional currency of the parent company and remaining subsidiaries is Canadian dollars.

The results and financial position of the subsidiaries with USD functional currency 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.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(c) Revenue recognition

The Company recognizes revenue when a contract specifying the number of units ordered, price and timing of delivery exists with a customer and control of the goods has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur. Variable consideration received in excess of the performance obligation is recorded as a contract liability.

Net revenue reflects the Company's sale of merchandise, less returns, and after making allowance for anticipated discounts and rebates in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

(d) Cash

Cash consists of cash on hand and bank balances held at various major financial institutions.

(e) Inventories

Inventories are comprised of merchandise for resale and are valued at the lower of cost (determined on a first-in, first-out basis) and net realizable value.

Cost includes the cost of purchase, duty, brokerage and transportation costs that are directly incurred to bring inventories to their present location and condition.

The Company estimates net realizable value as the amount at which inventories are expected to be sold less any costs to complete the sale. Inventories are written down to net realizable value when it is determined that the cost of inventories is not recoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

| | |
|-------------------------------|-----------------------|
| Buildings | 4% Declining balance |
| Computer and office equipment | 30% Declining balance |
| Factory machinery | 20% Declining balance |

Amortization methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

(g) Goodwill

Goodwill is measured at cost less accumulated impairment loss.

(h) Finite-life intangible assets

Research and development costs

Costs related to research are expensed as incurred.

Development costs of new products for sale, net of government assistance, are capitalized as deferred development costs if they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the product. Otherwise, development costs are expensed as incurred.

Deferred development costs are amortized, commencing when the product in question is commercially available for sale, over the estimated product life of five years using the straight-line method.

Subsequent to initial measurement, deferred development costs are stated at cost less accumulated amortization and accumulated impairment losses.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(i) Impairment of non-financial assets

The Company reviews the carrying value of its non-financial assets, which include property, plant and equipment, and deferred development costs at each reporting date to determine whether events or changed circumstances indicate that the carrying value may not be recoverable. For goodwill, the recoverability is estimated annually, on September 30 or more often when there are indicators of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying value of a non-financial asset exceeds the recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(j) Foreign currency translation

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are recognized in net earnings (loss).

(k) Leases

The Company as the lessee

At the commencement date of the lease, the Company recognizes a lease liability comprising of fixed payments less incentive receivables, variable payments, residual value guarantees, exercise price of purchase options and termination penalties, which is discounted at the implicit lease rate or, if the rate cannot be determined, the Company's incremental borrowing rate. At the same time, the right-of-use asset is measured initially at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The initial cost recognized includes the amount of lease liability, initial direct costs, costs of removal and restoring, payments made prior to commencement less any incentives received, is recognized. Subsequently, the lease liability is reduced by lease payments less finance charges, which are expensed as part of financing cost while the right-of-use asset is depreciated over the shorter of the useful life of the asset and the lease term.

The Company has elected to account for all short-term leases with terms less than 12 months and all leases for which the underlying asset is of low value as expenses on either a straight-line basis over the lease term or another systematic basis.

The Company as the lessor

Where lease contracts contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due, the Company records the total income on a straight-line basis over the term of the relevant lease contract. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense on a straight-line basis over the lease term.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Rent expected to be collected over the term of the agreement is as follows:

| | |
|----------------------|---------|
| Lessor Rental Income | |
| 2022 | 85,012 |
| 2023-2024 | 123,976 |
| | <hr/> |
| | 208,988 |

(l) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of earnings (loss) and comprehensive earnings (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Tax for current and prior periods is, to the extent unpaid, recognized as a tax payable in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as a tax recoverable in the statement of financial position.

Deferred tax

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable earnings will be available against which the difference can be utilized.

(m) Share-based payments

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, key employees and consultants. Terms and conditions of options granted under the Plan are determined by the Board of Directors.

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded over the vesting period as share-based compensation expense in the consolidated financial statements. The fair value determined by using the Black-Scholes option pricing model at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche separately based on the Company's estimate of shares that will eventually vest factoring in any forfeitures. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital.

Compensation expense on stock options, shares or warrants granted to non-employees is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, the value is measured by reference to the fair value of the equity instruments granted by use of a Black-Scholes option pricing model.

In order to determine the fair value using the Black-Scholes option pricing model, the expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

(n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a reduction to equity, net of any tax effects. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value of the shares on the date of issue.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(o) Financial instruments

Classification and measurement

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

On initial recognition, all financial instruments are measured at fair value, adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value through profit or loss, the amount of transaction costs directly attributable to the instrument.

After initial recognition, the measurement of financial instruments depends on their classification described below:

Amortized cost: Financial assets under this classification primarily arise from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contract cash flows are solely the payments of principal and interest. Financial liabilities, other than those held for trading or elected to measure at fair value through profit or loss, are measured at amortized cost. Financial instruments of the Company that are classified as amortized cost include cash, accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, due to related parties, and loan payable.

Fair value through profit or loss: Financial instruments under this classification include foreign exchange forward contracts. Transaction costs associated with these financial instruments are expensed as incurred.

Fair value through other comprehensive income: The Company has no financial instruments under this classification.

| Financial Instrument | Category | Measurement |
|--|---|----------------|
| Cash | Loans and receivables | Amortized cost |
| Accounts receivable | Loans and receivables | Amortized cost |
| Due from related parties | Loans and receivables | Amortized cost |
| Bank indebtedness | Other financial liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Due to related parties | Other financial liabilities | Amortized cost |
| Bank loan payable | Other financial liabilities | Amortized cost |
| Foreign exchange forward contracts | Financial assets (liabilities) at FVTPL | FVTPL |

Financial instruments measured at amortized cost are done so using the effective interest method.

Impairment of financial assets

The Company applies the simplified approach of the expected credit loss model when assessing impairment of accounts receivable and long term receivables. Under this approach, lifetime expected credit losses are recognized and are calculated using a provision matrix based on historical impairment rates, which is adjusted based on current conditions and future expectations.

Fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy is as follows:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data.

Forward foreign exchange contracts are measured at the fair value based on the mark-to-market variance calculated between the forward and spot rate. These derivative instruments are categorized as Level 2 in the fair value hierarchy. The Company has no financial instruments classified as Level 3 on the fair value hierarchy.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(p) Earnings (loss) per share

Basic and diluted earnings (loss) per share is calculated by dividing the net earnings (loss) attributable to the Company's shareholders by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method of calculating diluted per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company also reports on the external revenues received from different geographical regions.

(q) Government grants

The Company applied for assistance from multiple government programs, including the Canadian Emergency Wage Subsidy ("CEWS"), as a result of the impact of the COVID-19 pandemic on the Company's operations. The subsidy has been recognized as a separate line item as a recovery in expenses under "Government grants". During the year, the Company received \$296,004 (2020 - \$256,942) relating to CEWS, with \$10,984 (2020 - \$23,894) receivable as at September 30, 2021.

As the lessor, the Company applied for the Canada Emergency Commercial Rent Assistance ("CECRA"). The program is designed to assist businesses in meeting rent obligations through forgivable loans to property owners. Under the program, property owners will reduce rent by at least 75% for the months of April through September 2020, for qualified small business tenants. CECRA will provide for 50% of the rent, with the tenant paying up to 25% and the property owner forgiving 25%. During fiscal 2020, the Company received \$69,893 relating to CECRA. The amount received is being amortized over the remaining lease term. Any unamortized amount is included in deferred rent asset in Accounts receivable.

(r) Management judgments and use of estimates

On March 11, 2020, the World Health Organization declared the outbreak of Coronavirus ("COVID-19") a pandemic. There is significant uncertainty regarding the extent and duration of the impact that the COVID-19 pandemic will have on Company's operations. The Company did experience a reduction in sales in 2020 for its Intimate Apparel division due to government lockdowns and restrictions. As the restrictions were slowly lifted in 2021, the Company did experience an improvement in its Intimate Apparel operations. Management continues to monitor and assess the impact of the pandemic on its judgments, estimates, accounting policies and amounts recognized in the consolidated financial statements.

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant judgments include the following:

Recoverability of deferred development costs

Recoverability of deferred development costs are tested when indicators of impairment exist. When an indicator of impairment exists, the deferred development costs are tested to determine if the carrying amount exceeds its recoverable amount, which is the highest of its fair value less costs to sell and its value in use. The fair value less costs to sell is based on data from binding sales transactions with an arm's length party of similar assets or other observable market prices less costs to sell. Value in use is based on a discounted cash flow model which reviews discounted cash flows. There are judgments and estimates associated with determining whether indicators of impairment exist as well as the subsequent testing. Recoverable amounts can be sensitive to the discount rate as well as the estimated future cash flows.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Benefits of deferred income tax assets

The recognition of deferred income tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which the deferred income tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve based on its internal projections. The estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credit. Deferred income tax assets are recognized to the extent it is probable that estimated taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized.

Revenue recognition

Revenue recognized from contracts with variable consideration is based on estimates and judgments on achieving future milestones and project unit sales.

Expected credit loss

Provisions for expected credit losses are prepared by management based on historical rates of impairment, which is adjusted based on current conditions and future expectations.

Valuation of inventories

Provisions for non-saleable inventories are prepared by management based on estimates and judgments that include current market prices, current economic trends and past experience in the measurement of net realizable value.

Estimated useful life of property, plant and equipment

Management makes this estimate based on past experience with similar assets and future business plans.

Share-based payment transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Actual results could differ from these estimates and may require a material adjustment to the carrying amount of affected assets and liabilities.

4. ACCOUNTS RECEIVABLE

| | September 30, 2021 | September 30, 2020 |
|-------------------------------------|-----------------------|-----------------------|
| Trade receivables | 6,434,597 | 4,572,763 |
| Expected credit loss | - | (208,000) |
| Allowance for discounts and rebates | (38,132) | (11,680) |
| Deferred rent asset | 43,447 | 63,406 |
| Grant receivable | 10,984 | 23,894 |
| Other | 2,000 | 2,404 |
| | 6,452,896 | 4,442,787 |

The Company's expected credit loss in fiscal 2020 of \$208,000 is related to the bankruptcy of a major retailer due to the COVID-19 pandemic. The receivables related to the retailer have been written off during fiscal 2021.

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the year, the amount of inventories charged to net earnings (loss) was \$11,278,956 (2020 - \$6,491,357) and the amount of inventory write-downs were \$0 (2020 - \$82,320). There were no reversals of prior years write-downs of inventory.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. PREPAID EXPENSES AND DEPOSITS

| | September 30, 2021 | September 30, 2020 |
|-----------------------------------|-----------------------|-----------------------|
| Prepaid expenses and other assets | 103,530 | 74,610 |
| Deposits paid to suppliers (i) | 4,630,822 | 4,032,376 |
| | 4,734,352 | 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 delivery. The Company sourced product from a different supplier to fulfill the order to its customer, with the majority of the order complete in fiscal 2021. 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 September 30, 2021 or 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:

| | September 30, 2021 | September 30, 2020 |
|-------------------------------|-----------------------|-----------------------|
| Margin balance – cash deposit | - | 126,994 |
| | - | 126,994 |

As at September 30, 2021 and 2020, the Company had no forward contracts.

For the year ended September 30, 2021 and 2020, there is no unrealized loss or gain on foreign exchange 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 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.

Also included in the amounts is a loan to another executive officer for \$26,656, which is interest free and expected to be paid back within the next 12 months.

9. PROPERTY, PLANT AND EQUIPMENT

| | September 30, 2021 | | |
|-------------------------------|-----------------------|-----------------------------|------------------------|
| | Cost | Accumulated depreciation | Net carrying amount |
| Land and buildings (i) | 3,359,424 | 471,798 | 2,887,626 |
| Computer and office equipment | 249,170 | 196,473 | 52,697 |
| Factory machinery | 8,753 | 6,972 | 1,781 |
| | 3,617,347 | 675,243 | 2,942,104 |

| | September 30, 2020 | | |
|-------------------------------|-----------------------|-----------------------------|------------------------|
| | Cost | Accumulated depreciation | Net carrying amount |
| Land and buildings (i) | 3,112,006 | 431,635 | 2,680,371 |
| Computer and office equipment | 243,189 | 180,911 | 62,278 |
| Factory machinery | 8,753 | 6,527 | 2,226 |
| | 3,363,948 | 619,073 | 2,744,875 |

(i) Land and buildings are owned by a subsidiary of the Company with a 25% non-controlling interest.

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9. PROPERTY, PLANT AND EQUIPMENT, *continued*

The tables below summarize the changes in the net carrying amounts of property, plant and equipment during the years presented:

| | September 30, 2020 | | | | September 30, 2021 |
|-------------------------------|------------------------|-----------|--------------|-----------|------------------------|
| | Net carrying amount | Additions | Depreciation | Disposals | Net carrying amount |
| Land and buildings | 2,680,371 | 247,418 | (40,163) | - | 2,887,626 |
| Computer and office equipment | 62,278 | 5,981 | (15,562) | - | 52,697 |
| Factory machinery | 2,226 | - | (445) | - | 1,781 |
| | 2,744,875 | 253,399 | (56,170) | - | 2,942,104 |

| | September 30, 2019 | | | | September 30, 2020 |
|-------------------------------|------------------------|-----------|--------------|-----------|------------------------|
| | Net carrying amount | Additions | Depreciation | Disposals | Net carrying amount |
| Land and buildings | 2,717,053 | - | (36,682) | - | 2,680,371 |
| Computer and office equipment | 79,267 | - | (16,989) | - | 62,278 |
| Factory machinery | 2,783 | - | (557) | - | 2,226 |
| | 2,799,103 | - | (54,228) | - | 2,744,875 |

10. RIGHT-OF-USE ASSETS

| | September 30, 2020 | | | | September 30, 2021 |
|---------------------|------------------------|-----------|--------------|-----------|------------------------|
| | Net carrying amount | Additions | Depreciation | Disposals | Net carrying amount |
| Right-of-use assets | 61,735 | 44,041 | (33,925) | (17,683) | 54,168 |
| | 61,735 | 44,041 | (33,925) | (17,683) | 54,168 |

| | September 30, 2019 | | | | September 30, 2020 |
|---------------------|------------------------|-----------|--------------|-----------|------------------------|
| | Net carrying amount | Additions | Depreciation | Disposals | Net carrying amount |
| Right-of-use assets | - | 95,372 | (33,637) | - | 61,735 |
| | - | 95,372 | (33,637) | - | 61,735 |

11. DEFERRED DEVELOPMENT COSTS

| | September 30, 2021 | | |
|---------------------------|-----------------------|-----------------------------|------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| Product development costs | 1,119,446 | 887,788 | 231,658 |

| | September 30, 2020 | | |
|---------------------------|-----------------------|-----------------------------|------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| Product development costs | 1,119,446 | 860,968 | 258,478 |

The tables below summarize the changes in the net carrying amounts of deferred development costs during the years presented:

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. DEFERRED DEVELOPMENT COSTS, *continued*

| | September 30, 2020 | | | | September 30, 2021 |
|---------------------------|------------------------|-----------|--------------|-----------|--------------------------|
| | Net carrying amount | Additions | Amortization | Disposals | Net carrying amount |
| Product development costs | 258,478 | - | (26,820) | - | 231,658 |
| | 258,478 | - | (26,820) | - | 231,658 |

| | September 30, 2019 | | | | September 30, 2020 |
|---------------------------|------------------------|-----------|--------------|-----------|------------------------|
| | Net carrying amount | Additions | Amortization | Disposals | Net carrying amount |
| Product development costs | 107,279 | 178,019 | (26,820) | - | 258,478 |
| | 107,279 | 178,019 | (26,820) | - | 258,478 |

12. DEFERRED INCOME TAXES

Temporary differences between accounting and taxable income which result in deferred income tax assets (liabilities) are as follows:

| | September 30, 2021 | September 30, 2020 |
|--|-----------------------|-----------------------|
| Unutilized loss carry forward | 821,384 | 1,117,600 |
| Capital cost allowance claimed in excess of amortization | (8,600) | (8,700) |
| Deferred development costs | (61,400) | (68,500) |
| Share issuance costs | 269,600 | - |
| | 1,020,984 | 1,040,400 |

13. 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 September 30, 2021 (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.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | September 30, 2021 | September 30, 2020 |
|------------------------|-----------------------|-----------------------|
| Trade payables | 2,231,223 | 1,244,692 |
| Government remittances | 57,391 | 149,341 |
| Accrued liabilities | 632,917 | 358,036 |
| Tenants deposits | 19,914 | 19,914 |
| | 2,941,445 | 1,771,983 |

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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15. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, non-interest bearing and due on demand.

| | September 30, 2021 | September 30, 2020 |
|---------------------------------------|-----------------------|-----------------------|
| Due to director | 0 | 38 |
| Due to director of subsidiary co. (i) | 530,422 | 502,172 |
| | 530,422 | 502,210 |
| Less current portion | 0 | 38 |
| Due beyond one year | 530,422 | 502,172 |

(i) This creditor has waived their right to call for payment over the next year, this loan has been classified as non-current.

16. BANK LOAN PAYABLE

| | September 30, 2021 | September 30, 2020 |
|----------------------|-----------------------|-----------------------|
| Bank loan | 1,095,464 | 1,179,783 |
| CEBA | 120,000 | 80,000 |
| | 1,215,464 | 1,259,783 |
| Less current portion | (1,215,464) | (1,259,783) |
| Due beyond one year | - | - |

One of the Company's subsidiaries has a variable rate demand loan, payable in monthly payments of \$10,331 comprising principal and interest at the bank's prime interest rate plus 0.75% per annum, amortized over a fifteen-year period ending 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. The bank loan payable is owed by a subsidiary of the Company with a 25% non-controlling interest. Management expects to pay the minimum monthly payments within the next 12 months.

The Company received an additional \$40,000 during the year for a total of \$120,000, which was funded by the Canada Emergency Business Account ("CEBA"). CEBA is interest free until December 31, 2022 with one third of the balance forgiven if repaid by December 31, 2022. Management expects to pay the two thirds of the balance of \$120,000 of CEBA within the next 12 months.

Refer to note 27 regarding the Company's capital management strategy as well as compliance with covenants associated with the bank loan.

17. 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.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

17. SEGMENTED INFORMATION, *continued*

| Operating Segments 2021 | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | Consolidated |
|--|------------------|---------------------|----------------|----------------------------------|--------------|
| Revenues | | | | | |
| Third party | 3,979,319 | 15,672,469 | 111,884 | - | 19,763,672 |
| Inter-segment | 75,000 | 1,447,334 | 161,876 | (1,684,210) | - |
| Total Revenues | 4,054,319 | 17,119,803 | 273,760 | (1,684,210) | 19,763,672 |
| Earnings (loss) before income taxes | (50,075) | 3,435,241 | 24,531 | (367,604) | 3,042,093 |
| Provision for (recovery of) income taxes | (90,521) | 933,493 | 3,299 | (179,184) | 667,087 |
| Amortization of deferred development costs | - | 26,820 | - | - | 26,820 |
| Depreciation of property, plant and equipment and right-of-use asset | 36,774 | 1,594 | 51,727 | - | 90,095 |
| Interest on bank loan | 13,747 | - | 39,655 | - | 53,402 |
| Segment assets | 5,711,471 | 11,534,673 | 2,993,498 | 7,390,223 | 27,629,865 |
| Expenditures on property, plant and equipment | - | 5,981 | 247,418 | - | 253,399 |

| Operating Segments 2020 | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | Consolidated |
|--|------------------|---------------------|----------------|----------------------------------|--------------|
| Revenues | | | | | |
| Third party | 3,324,125 | 8,077,444 | 120,107 | - | 11,521,676 |
| Inter-segment | 67,500 | 1,465,493 | 104,632 | (1,637,625) | - |
| Total Revenues | 3,391,625 | 9,542,937 | 224,739 | (1,637,625) | 11,521,676 |
| Earnings (loss) before income taxes | (848,573) | 796,599 | (30,630) | (626,795) | (709,399) |
| Provision for (recovery of) income taxes | (251,213) | 181,294 | (2,865) | (11,904) | (84,688) |
| Amortization of deferred development costs | - | 26,820 | - | - | 26,820 |
| Depreciation of property, plant and equipment and right-of-use asset | 36,046 | 683 | 51,136 | - | 87,865 |
| Interest on lease liability and bank loan | 2,941 | - | 39,805 | - | 42,746 |
| Segment assets | 4,372,124 | 10,160,695 | 2,847,962 | 133,310 | 17,514,091 |
| Expenditures on property, plant, and equipment | - | 178,019 | - | - | 178,019 |

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

| | 2021 | 2020 |
|--------------------------|------------|------------|
| External sales revenue | | |
| Canada | 5,703,211 | 2,619,729 |
| United States | 7,279,293 | 4,047,553 |
| United Kingdom | 41,214 | 94,633 |
| Southeast Asia and other | 6,739,954 | 4,759,761 |
| Total | 19,763,672 | 11,521,676 |

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

18. SELLING, GENERAL AND ADMINISTRATIVE COSTS

| | 2021 | 2020 |
|--|-----------|-----------|
| Office salaries and benefits | 1,110,838 | 1,139,743 |
| Management, professional and directors' fees | 2,229,491 | 1,986,483 |
| Other general and administrative costs | 741,874 | 883,942 |
| | 4,082,203 | 4,010,168 |

Selling costs are primarily comprised of commissions, royalties, advertising and promotional costs, distribution costs, and travel costs.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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19. PERSONNEL EXPENSES

| | 2021 | 2020 |
|---|-----------|-----------|
| Wages, salaries and short-term benefits | 1,258,412 | 1,302,880 |
| Management, professional, and directors' fees | 668,550 | 595,350 |
| Share-based compensation | 21,994 | 581,550 |
| | 1,948,956 | 2,479,780 |
| Included in cost of sales | 147,574 | 163,136 |
| Included in selling, general and administrative costs | 1,779,388 | 1,735,094 |
| Included in share-based compensation | 21,994 | 581,550 |
| | 1,948,956 | 2,479,780 |

20. INCOME TAXES

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2020 - 26.5%) to the earnings for the year as follows:

| | 2021 | 2020 |
|--|-----------|-----------|
| Earnings (loss) for the year before income taxes | 3,042,093 | (709,399) |
| Tax (recovery) on accounting earnings | 806,200 | (188,000) |
| Tax effect of the following: | | |
| Non-deductible share-based compensation | 5,800 | 154,100 |
| Items not deductible for tax purposes | 5,800 | 7,000 |
| Professional fees re: issuance of shares | (87,700) | - |
| Difference in tax rates | (63,013) | (57,788) |
| Provision (recovery) for income taxes | 667,087 | (84,688) |

21. EARNINGS (LOSS) PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic earnings (loss) per share is based on net earnings (loss) attributable to iFabric Corp.'s shareholders for the year ended September 30, 2021 of \$2,369,698 (loss of \$617,770 for the year ended September 30, 2020). The number of shares used in the earnings (loss) per share calculation is as follows:

| | 2021 | 2020 |
|---|------------|------------|
| Weighted average number of shares outstanding - basic | 28,136,650 | 26,297,233 |
| Dilutive effect of options | 1,074,870 | - |
| Weighted average number of shares outstanding - diluted | 29,213,542 | 26,299,253 |

For the year ended September 30, 2021 and 2020, 85,000 options were deemed to be anti-dilutive. For the year ended September 30, 2021, 2,948,717 warrants were deemed to be anti-dilutive (2020 – 0 warrants).

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22. 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 |
| Private placement (i) | 2,948,717 | 11,499,996 |
| Share issuance costs - cash (ii) | - | (1,271,563) |
| Deferred tax on share issuance costs (ii) | - | 269,600 |
| Share issuance costs - fair value of compensation options issued to agent (ii) | - | (619,987) |
| Shares issued pursuant to exercise of stock options | 200,000 | 280,000 |
| Ascribed value credited to share capital on exercise of options | - | 145,452 |
| Balance at September 30, 2021 | 29,624,467 | 13,585,774 |

| | Number of common shares | Common share capital |
|---|----------------------------|-------------------------|
| Balance at September 30, 2019 | 26,209,500 | 2,963,824 |
| Shares issued pursuant to exercise of stock options | 266,250 | 211,500 |
| Ascribed value credited to share capital on exercise of options | - | 106,952 |
| Balance at September 30, 2020 | 26,475,750 | 3,282,276 |

(i) On February 22, 2021, the Company closed an offering of equity comprising 2,948,717 subscription receipts at a price per unit of \$3.90 for gross proceeds of \$11,499,996. The Escrow release conditions were satisfied on March 22, 2021 at which time, funds were released and each unit is automatically converted to one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$4.60 per share for a period of 2 years from March 22, 2021. The share price at the date of grant was \$5.40. The total proceeds of the subscription units have been allocated to common stock.

(ii) As compensation for the issue, the agent received a cash fee of 6% of the gross proceeds, totaling \$690,000 as well as 176,923 compensation options receipts which was automatically converted into compensation options on March 23, 2021. Each compensation option entitles the holder to acquire one common share of the Company at a price of \$3.90 for a period of 2 years from March 23, 2021. The share price at the date of grant was \$5.36.

The Company incurred \$582,025 in legal costs and disbursements in connection with the issue.

The fair value of the agent compensation options has been estimated by management at \$619,987 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

| | |
|-------------------------|---------|
| Dividend yield | 0.00% |
| Expected volatility | 116.36% |
| Risk-free interest rate | 0.27% |
| Expected maturity | 2 years |

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22. 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 year | (200,000) | 1.40 |
| Balance at September 30, 2021 | 1,629,000 | 1.58 |
| | options | exercise price |
| Balance at September 30, 2019 | 1,885,250 | 1.31 |
| Granted, during the year (i) | 210,000 | 2.86 |
| Exercised, during the year | (266,250) | 0.79 |
| Balance at September 30, 2020 | 1,829,000 | 1.56 |

(i) On April 7, 2020, the Company issued a total of 200,000 stock options to two members of the Board of Directors. Each option entitles the holder to acquire one common share of the Company at a price of \$2.70, and is exercisable for a period of 10 years from the grant date. All 200,000 options vested immediately. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$492,000 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

| | |
|-------------------------|----------|
| Dividend yield % | 0 |
| Expected volatility | 106.91% |
| Risk-free interest rate | 0.82% |
| Expected maturity | 10 years |

As of September 30, 2021, 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 | 794,000 | 1.29 | 0.40 | 794,000 | 0.40 |
| April 1, 2024 | 75,000 | 2.50 | 4.15 | 75,000 | 4.15 |
| May 6, 2025 | 100,000 | 3.60 | 2.70 | 100,000 | 2.70 |
| June 5, 2027 | 450,000 | 5.68 | 2.40 | 400,000 | 2.40 |
| April 7, 2030 | 200,000 | 8.52 | 2.70 | 200,000 | 2.70 |
| June 30, 2025 | 10,000 | 3.75 | 6.05 | 10,000 | 6.05 |
| | 1,629,000 | 3.60 | 1.58 | 1,579,000 | 1.56 |

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22. CAPITAL STOCK, *continued*

(c) Warrants

The following table summarizes warrants that have been issued, exercised, or expired during the years presented:

| | Number of warrants | Weighted average exercise price |
|---|-----------------------|---------------------------------------|
| Balance, September 30, 2020 | - | 0.00 |
| Issued, during the period (note 22(a)(i)) | 2,948,717 | 4.60 |
| Balance, September 30, 2021 | 2,948,717 | - |

| | Number of warrants | Weighted average exercise price |
|--|-----------------------|---------------------------------------|
| Balance, September 30, 2019 and September 30, 2020 | - | 0.00 |

(d) Compensation options

The following tables summarize changes in the status of the Company's outstanding compensation options:

| | Number of compensation options | Weighted average exercise price |
|--|--------------------------------------|---------------------------------------|
| Balance, September 30, 2020 | - | - |
| Issued, during the period (note 22(a)(ii)) | 176,923 | 3.90 |
| Balance, September 30, 2021 | 176,923 | 3.90 |

| | Number of compensation options | Weighted average exercise price |
|--|--------------------------------------|---------------------------------------|
| Balance, September 30, 2019 and September 30, 2020 | - | - |

23. COMMITMENTS

- (a) The Company's total commitments, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

| | |
|------|---------------|
| 2022 | 34,569 |
| 2023 | 14,011 |
| 2024 | 14,011 |
| 2025 | 3,503 |
| | <u>66,094</u> |

- (b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 for more information.
- (c) 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 0%-10%. Minimum annual royalties have been established for the balance of the contract period ending December 31, 2021 in U.S. dollar amount of \$122,500. If minimum amount is not met, an accrual for the difference is included in accrued liabilities. 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, 2021. Management expects to renew this agreement for a further term.

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24. RELATED PARTY TRANSACTIONS

- (a) Key management personnel of the Company are those individuals having authority and responsibility for planning, directing, and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Company's Board of Directors, which includes three executive officers of the Company.

Remuneration of key management personnel of the Company was as follows:

| | 2021 | 2020 |
|--|---------|---------|
| Salaries, management and professional fees, directors' fees, and short-term benefits | 933,213 | 829,193 |
| Share-based compensation | 21,994 | 40,349 |
| | 955,207 | 869,542 |

- (b) Included in selling, general and administrative costs are management fees in the amount of \$25,000 (2020 - \$22,500) paid to a company controlled by a director of one of the Company's subsidiaries.
- (c) Included in revenue is rental income earned in the amount of \$34,200 (2020 - \$21,375) from a company controlled by a director of one of the Company's subsidiaries.
- (d) Included in accounts payable and accrued liabilities is an amount of \$222,000 (2020 - \$13,000) due to directors and key management personnel of the Company in respect of unpaid fees.
- (e) Included in selling, general and administrative costs is an amount of \$32,333 (2020 - \$58,957) paid to the spouse of an executive officer of the Company for marketing and administrative services rendered.
- (f) There is an amount of \$131,404 due from executive officers (2020 - \$112,248) in respect to company loans and an amount of \$530,422 due to a director of one of the Company's subsidiaries (2020 - \$502,172) in respect to unpaid fees. Refer to notes 8 and 15 respectively.

25. FINANCIAL RISK MANAGEMENT

Fair Value

The fair values of financial assets and liabilities, together with the carrying amounts presented in the balance sheets, are as follows:

| | Fair Value Hierarchy | Carrying Amount | Fair Value |
|-------------------|----------------------|-----------------|------------|
| Bank loan payable | Level 2 | 1,215,464 | 1,215,464 |

The carrying values of cash, accounts receivables, balances with related party and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. These financial instruments have been classified as level 2 within the fair value hierarchy.

The fair value of bank loan payable bearing interest at variable rates approximates its carrying value as interest rate charges fluctuate with changes in the bank's prime rate.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company routinely assesses the financial strength of its customers to mitigate its exposure to credit risk. Management of the Company monitors the credit worthiness of its customers by performing background checks on all new customers focusing on publicity, reputation in the market and relationships with customers and other vendors. Further, the Company reviews forward looking information such as indications of customers going through financial difficulties that may create doubt over the receipt of funds.

The Company's maximum exposure to credit risk is \$6,452,896 (2020 - \$4,442,787). Included in selling, general and administrative costs are bad debts of \$0 (2020 - \$208,000) expensed during the year.

The following table provides further details on trade receivables not impaired:

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25. FINANCIAL RISK MANAGEMENT, *continued*

| | September 30, 2021 | September 30, 2020 |
|--|-----------------------|-----------------------|
| Trade receivables not past due | 4,178,421 | 3,340,562 |
| Trade receivables past due and not impaired | | |
| Under 31 days | 940,264 | 630,421 |
| 31 - 60 days | 513,530 | 31,831 |
| 61 - 90 days | 448,772 | 8,400 |
| Over 90 days | 353,610 | 353,549 |
| Trade receivables, net of expected credit loss allowance | 6,434,597 | 4,364,763 |

Economic Dependence

Approximately 63% of the Company's total sales were to three customers (2020 - 58% of sales were to three customers). These customers relate to the Intelligent Fabrics segment. At September 30, 2021, three customers accounted for 76% (September 30, 2020 - three customers accounted for 77%) of the Company's accounts receivable. Approximately 67% of the Company's total purchases were to four vendors (2020 - 63% of purchases were to four vendors), one of which is related to a distributor of the Company.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities. The Company is exposed to this risk mainly with respect to its accounts payable and accrued liabilities, income taxes payable, related party loans, bank loan payable, and commitments. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to pay trade creditors and repays long term debt interest and principal as it becomes due using cash generated from operations.

| | Carrying amount | Contractual cash flow | 2022 | 2023 | 2024 | 2025 |
|------------------------------|-----------------|--------------------------|-----------|---------|--------|-------|
| Minimum guaranteed royalties | - | - | - | - | - | - |
| Lease obligations | 51,468 | 66,094 | 34,569 | 14,011 | 14,011 | 3,503 |
| Bank loan payable | 1,215,464 | 1,215,464 | 1,215,464 | - | - | - |
| Trade and other payables | 2,941,445 | 2,941,445 | 2,941,445 | - | - | - |
| Related party loans | 530,422 | 530,422 | - | 530,422 | - | - |
| | 4,738,799 | 4,753,425 | 4,191,478 | 544,433 | 14,011 | 3,503 |

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to currency risk and interest rate risk.

Currency risk

The Company conducts certain of its operations in U.S. Dollars ("USD"), British Pounds Sterling ("GBP"), New Taiwanese Dollars ("TWD") and Chinese Yuan ("RMB"). The Company manages its currency risk with foreign exchange forward contracts (see note 7). The following balances were included in the consolidated financial statements:

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25. FINANCIAL RISK MANAGEMENT, *continued*

| USD | September 30, 2021 | September 30, 2020 |
|--|-----------------------|-----------------------|
| Cash | 730,865 | 453,248 |
| Accounts receivable | 1,028,472 | 810,632 |
| Accounts payable and accrued liabilities | (1,150,481) | (344,331) |
| Prepays and deposits | 3,031,763 | 2,946,521 |
| Foreign exchange forward contract margin deposit | - | 59,970 |
| | 3,640,619 | 3,926,040 |

| GBP | September 30, 2021 | September 30, 2020 |
|---------------------|-----------------------|-----------------------|
| Cash | - | 4,875 |
| Accounts receivable | - | 18,555 |
| | - | 23,430 |

| TWD | September 30, 2021 | September 30, 2020 |
|--|-----------------------|-----------------------|
| Cash | 6,277,565 | 1,323,541 |
| Accounts receivable | 10,807,553 | 10,385,001 |
| Accounts payable and accrued liabilities | (121,924) | (188,832) |
| | 16,963,194 | 11,519,710 |

| RMB | September 30, 2021 | September 30, 2020 |
|--|-----------------------|-----------------------|
| Cash | 4,158,944 | 1,521,130 |
| Accounts receivable | 10,885,585 | 10,623,615 |
| Accounts payable and accrued liabilities | (4,410,153) | (4,112,811) |
| | 10,634,376 | 8,031,934 |

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. The effect of a 5% strengthening (weakening) of the USD against the Canadian Dollar as at September 30, 2021, in relation to the net amount of USD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$170,000 to net comprehensive earnings for 2021, all other variables held constant. The effect of a 5% strengthening (weakening) of the TWD against the Canadian Dollar as at September 30, 2021, in relation to the net amount of TWD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$28,000 to net comprehensive earnings for 2021, all other variables held constant. The effect of a 5% strengthening (weakening) of the RMB against the Canadian Dollar as at September 30, 2021, in relation to the net amount of RMB-denominated currency balances, would have resulted in an increase (decrease) of approximately \$77,000 to net comprehensive earnings for 2021, all other variables held constant.

The RMB located in China is not freely convertible into other currencies. However, under China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its secured bank loan and its bank operating line, which bear interest at variable rates, since changes in market rates can cause fluctuations in cash flows

The Company has performed a sensitivity analysis on its interest rate risk. The effect of a 1% decrease (increase) in the average interest rate paid during the year would have resulted in an increase (decrease) of approximately \$9,000 to net earnings for 2021, all other variables held constant.

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26. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while providing a return to its stakeholders.

The capital structure of the Company is composed of bank loan payable, and equity attributable to iFabric Corp.'s shareholders.

The Company's primary uses of capital are to finance working capital and capital expenditures.

The Company is subject to capital requirements on debt described in notes 13, 16 and 22. As at September 30, 2021, the Company met these financial covenant requirements.

27. COMPARATIVE FIGURES

The comparative figures presented in the consolidated financial statements have been reclassified to conform to the current year's presentation.

28. SUBSEQUENT EVENTS

On December 3, 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, 2022 and 2023 in U.S. dollar amounts of \$160,000 and \$200,000 respectively. In addition, the Company is required to pay an advertising fee of 1% on its net sales as defined in the agreement, for promotion of the licensed products. The license term will expire on December 31, 2023.