

iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED

DECEMBER 31, 2021

(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, 2021	September 30, 2021
ASSETS		
Current assets		
Cash	7,994,659	8,901,718
Accounts receivable (note 4)	5,318,420	6,452,896
Inventories (note 5)	4,410,312	3,015,010
Income taxes recoverable	90,497	90,521
Prepaid expenses and deposits (note 6)	5,977,817	4,734,352
Total current assets	23,791,705	23,194,497
Non-current assets		
Due from related parties (note 7)	104,748	131,404
Property, plant and equipment	2,978,705	2,942,104
Right-of-use assets	45,899	54,168
Deferred development costs	224,953	231,658
Deferred income taxes	1,078,100	1,020,984
Goodwill	55,050	55,050
Total non-current assets	4,487,455	4,435,368
Total assets	28,279,160	27,629,865
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,349,192	2,941,445
Customer deposits	220,293	151,315
Income taxes payable	356,210	256,426
Deferred revenue	17,543	25,609
Current portion of contract liability	112,018	180,509
Current portion of lease liability	30,613	30,613
Current portion due to related parties	34	0
Current portion of bank loan payable (note 10)	1,193,148	1,215,464
Total current liabilities	5,279,051	4,801,381
Non-current liabilities		
Non-current portion of lease liability	13,201	20,855
Due to related parties	530,422	530,422
Total non-current liabilities	543,623	551,277
Total liabilities	5,822,674	5,352,658
Commitments (note 14)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 13)	13,585,774	13,585,774
Reserves	3,267,744	3,264,746
Retained earnings	5,780,885	5,612,925
Accumulated other comprehensive loss	(193,687)	(196,551)
Total equity attributable to iFabric Corp. shareholders	22,440,716	22,266,894
Non-controlling interest	15,770	10,313
Total equity	22,456,486	22,277,207
Total liabilities and equity	28,279,160	27,629,865

Approved on behalf of the Board of Directors on February 11, 2022

"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
(Unaudited, Expressed in Canadian Dollars)

For the three months ended December 31,	2021	2020
REVENUE	4,993,871	7,520,901
COST OF SALES	3,144,371	4,616,666
GROSS PROFIT	1,849,500	2,904,235
EXPENSES		
General and administrative costs	1,120,626	882,341
Selling costs	313,118	214,353
Interest expense	10,645	14,245
Depreciation of property, plant and equipment and right-of-use assets	22,327	20,990
Amortization of deferred development costs	6,705	6,705
Share-based compensation	2,998	6,745
	1,476,419	1,145,379
EARNINGS FROM OPERATIONS	373,081	1,758,856
OTHER EXPENSES (INCOME)		
Loss (gain) on foreign exchange	34,565	(136,510)
Government grants	(13,335)	(71,335)
	21,230	(207,845)
EARNINGS BEFORE INCOME TAXES	351,851	1,966,701
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	235,550	(40,462)
Deferred	(57,116)	398,900
	178,434	358,438
NET EARNINGS	173,417	1,608,263
NET EARNINGS ATTRIBUTABLE TO:		
iFabric Corp. shareholders	167,960	1,602,282
Non-controlling interest	5,457	5,981
	173,417	1,608,263
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain (loss) on translation of foreign operations	2,864	(271,871)
TOTAL COMPREHENSIVE EARNINGS	176,281	1,336,392
EARNINGS PER SHARE (note 12)		
Basic	0.006	0.060
Diluted	0.006	0.058

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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, 2021	13,585,774	852,679	2,412,067	5,612,925	(196,551)	22,266,894	10,313	22,277,207
Total comprehensive earnings (loss)	-	-	-	167,960	2,864	170,824	5,457	176,281
Exercise of options	-	-	-	-	-	-	-	-
Share-based compensation	-	-	2,998	-	-	2,998	-	2,998
Balance at December 31, 2021	13,585,774	852,679	2,415,065	5,780,885	(193,687)	22,440,716	15,770	22,456,486

	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

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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,	2021	2020
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings	173,417	1,608,263
Items not affecting cash		
Interest on lease liability	1,775	1,670
Depreciation of property, plant and equipment and right-of-use assets	22,327	20,990
Amortization of deferred development costs	6,705	6,705
Share-based compensation	2,998	6,745
Deferred income tax provision	(57,116)	398,900
	150,106	2,043,273
Changes in operating assets and liabilities		
Accounts receivable	1,134,476	155,016
Inventories	(1,395,302)	184,196
Income taxes recoverable	24	151,929
Prepaid expenses and deposits	(1,243,465)	161,741
Foreign exchange forward contracts	-	3,640
Due from related parties	26,656	-
Accounts payable and accrued liabilities	407,747	1,081,345
Customer deposits	68,978	(3,909,093)
Deferred revenue	(8,066)	(8,067)
Contract liability	(68,491)	(77,677)
Income taxes payable	99,784	58,821
	(977,659)	(2,198,149)
	(827,553)	(154,876)
FINANCING ACTIVITIES		
Due to related parties	34	480
Repayment of bank loan	(22,316)	(18,419)
Interest paid	(1,775)	(1,670)
Repayment of lease liability	(7,654)	(7,509)
Share issuances	-	240,000
	(31,711)	212,882
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(50,659)	-
	(50,659)	-
CHANGE IN CASH POSITION	(909,923)	58,006
CASH, beginning of period	8,901,718	1,160,428
Effect of foreign currency translation	2,864	(271,871)
CASH, end of period	7,994,659	946,563

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" and on the OTC Markets under the trading symbol "IFABF". 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, 2021.

(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, 2021. 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, 2021 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

4. ACCOUNTS RECEIVABLE

	December 31, 2021	September 30, 2021
Trade receivables	5,326,163	6,434,597
Allowance for discounts and rebates	(47,911)	(38,132)
Deferred rent asset	38,163	43,447
Grant receivable	-	10,984
Other	2,005	2,000
	5,318,420	6,452,896

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the three months ended December 31, 2021, the amount of inventories charged to net earnings was \$2,755,642 (2020 - \$4,483,267) and the amount of inventory write-downs were \$89,576 (2020 - \$0). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2021	September 30, 2021
Prepaid expenses and other assets	203,541	103,530
Deposits paid to suppliers (i)	5,774,276	4,630,822
	5,977,817	4,734,352

(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 Q1 2021. The Company is in process of seeking to recover its remaining deposit of USD \$2,905,000, plus liquidated damages of USD \$146,942, interest at the rate of 12% per annum calculated from the date of payment of the deposit, and reimbursement of the arbitration cost of RMB 445,902. No amounts have been accrued for damages or interest as at December 31, 2021.

7. 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.

8. CREDIT FACILITIES

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$3,750,000, against which \$0 was outstanding as at December 31, 2021 (September 30, 2021 - \$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.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	September 30, 2021
Trade payables	2,901,603	2,231,223
Government remittances	21,786	57,391
Accrued liabilities	405,889	632,917
Tenants deposits	19,914	19,914
	3,349,192	2,941,445

10. BANK LOAN

One of the Company's subsidiaries has a variable rate demand 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, 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 twelve months.

Two of the Company's subsidiaries has a \$60,000 loan each 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 two thirds of the balance is 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.

11. SEGMENTED INFORMATION

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

- Intimate Apparel: Includes the design and distribution of women's intimate apparel 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, 2021	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	1,649,401	3,316,499	27,971	-	4,993,871
Inter-segment	-	911,601	40,381	(951,982)	-
Total Revenue	1,649,401	4,228,100	68,352	(951,982)	4,993,871
Earnings (loss) before income taxes	(4,635)	415,906	28,777	(88,197)	351,851
Total assets	5,272,413	13,186,815	3,028,407	6,791,525	28,279,160
Total liabilities	1,140,410	2,856,945	1,668,943	156,376	5,822,674

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

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

Three months ended December 31,	2021	2020
External sales revenue		
Canada	1,242,940	1,443,875
United States	1,337,214	4,365,769
United Kingdom	70,651	19,843
Southeast Asia and other	2,343,066	1,691,414
Total	4,993,871	7,520,901

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

Approximately 60% of the Company's total sales were to three customers (2020 – 84%). Approximately 69% of the Company's total purchases were to four vendors (2020 – 91%), one of which is related to a distributor of the Company.

12. 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, 2021 of \$167,960 (\$1,602,282 for the three months ended December 31, 2020). The number of shares used in the earnings per share calculation is as follows:

Three months ended December 31,	2021	2020
Weighted average number of shares outstanding - basic	29,624,467	26,493,141
Dilutive effect of options	772,112	1,101,069
Weighted average number of shares outstanding - diluted	30,396,579	27,594,210

For the three months ended December 31, 2021 and 2020, 85,000 options were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the three months ended December 31, 2021, 2,948,717 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive (2020 – 0).

13. CAPITAL STOCK**(a) Authorized, issued and outstanding**

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2021 and December 31, 2021	29,624,467	13,585,774

	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

(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, 2021 and December 31, 2021	1,629,000	1.58
	options	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

13. CAPITAL STOCK, *continued*

As of December 31, 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	1.04	0.40	794,000	0.40
April 1, 2024	75,000	2.25	4.15	75,000	4.15
May 6, 2025	100,000	3.35	2.70	100,000	2.70
June 5, 2027	450,000	5.43	2.40	400,000	2.40
April 7, 2030	200,000	8.27	2.70	200,000	2.70
June 30, 2025	10,000	3.50	6.05	10,000	6.05
	1,629,000	3.35	1.58	1,579,000	1.56

(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, 2021 and December 31, 2021	2,948,717	4.60

	Number of warrants	Weighted average exercise price
Balance, September 30, 2020 and December 31, 2020	-	-

(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, 2021 and December 31, 2021	176,923	3.90

	Number of compensation options	Weighted average exercise price
Balance, September 30, 2020 and December 31, 2020	-	-

14. COMMITMENTS

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, 2022 and 2023 in U.S. dollar amount of \$160,000 and \$200,000 respectively. In addition, the Company is required to pay an advertising fee of 1%-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2023.

15. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the three months ended December 31, 2021 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2021.