

iFABRIC CORP.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED

DECEMBER 31, 2022

(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, 2022	September 30, 2022
ASSETS		
Current assets		
Cash	2,239,491	944,725
Accounts receivable (note 4)	5,427,783	7,017,329
Inventories (note 5)	10,396,391	9,353,200
Income taxes recoverable	20,233	39,780
Foreign exchange forward contracts (note 7)	42,550	-
Prepaid expenses and deposits (note 6)	4,843,236	5,338,748
Total current assets	22,969,684	22,693,782
Non-current assets		
Due from related parties (note 8)	87,248	87,248
Property, plant and equipment	3,180,415	3,110,330
Right-of-use assets	47,746	52,548
Deferred development costs	198,133	204,838
Deferred income taxes	1,175,800	1,165,700
Goodwill	55,050	55,050
Total non-current assets	4,744,392	4,675,714
Total assets	27,714,076	27,369,496
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	3,081,564	2,520,095
Customer deposits	84,312	85,326
Income taxes payable	35,586	195,097
Deferred revenue	-	13,090
Current portion of lease liability	19,208	19,208
Current portion due to related parties	1,209	4,559
Current portion of car loan payable	12,792	12,792
Current portion of bank loan payable (note 11)	1,123,680	1,138,704
Total current liabilities	4,358,351	3,988,871
Non-current liabilities		
Non-current portion of lease liability	28,538	33,340
Non-current portion of car loan payable	29,520	33,948
Due to related parties	487,372	547,372
Total non-current liabilities	545,430	614,660
Total liabilities	4,903,781	4,603,531
Commitments (note 15)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 14)	13,643,714	13,660,614
Reserves	3,675,458	3,675,458
Retained earnings	5,292,493	5,157,927
Accumulated other comprehensive earnings	188,480	259,111
Total equity attributable to iFabric Corp. shareholders	22,800,145	22,753,110
Non-controlling interest	10,150	12,855
Total equity	22,810,295	22,765,965
Total liabilities and equity	27,714,076	27,369,496

Approved on behalf of the Board of Directors on February 13, 2023

"Hylton Karon"
Director

"Hilton Price"
Director

iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

(Unaudited, Expressed in Canadian Dollars)

For the three months ended December 31,	2022	2021
REVENUE	4,916,365	4,993,871
COST OF SALES	2,960,477	3,144,371
GROSS PROFIT	1,955,888	1,849,500
EXPENSES		
General and administrative costs	1,326,393	1,120,626
Selling costs	464,802	313,118
Interest expense	19,637	10,645
Depreciation of property, plant and equipment and right-of-use assets	28,533	22,327
Amortization of deferred development costs	6,705	6,705
Share-based compensation	-	2,998
	1,846,070	1,476,419
EARNINGS FROM OPERATIONS	109,818	373,081
OTHER EXPENSES (INCOME)		
Loss (gain) on foreign exchange	(38,418)	34,565
Loss on termination	22,200	-
Government grants	(8,866)	(13,335)
	(25,084)	21,230
EARNINGS BEFORE INCOME TAXES	134,902	351,851
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	30,041	235,550
Deferred	(27,000)	(57,116)
	3,041	178,434
NET EARNINGS	131,861	173,417
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	134,566	167,960
Non-controlling interest	(2,705)	5,457
	131,861	173,417
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain (loss) on translation of foreign operations	(70,631)	2,864
TOTAL COMPREHENSIVE EARNINGS	61,230	176,281
EARNINGS PER SHARE (note 13)		
Basic	0.005	0.006
Diluted	0.004	0.006

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

iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited, Expressed in Canadian Dollars)

	Attributable to iFabric Corp. shareholders						Non-controlling interest	Total equity
	Reserves					Total		
	Capital stock	Contributed surplus	Options	Retained earnings	Accumulated Other Comprehensive Earnings (Loss)			
Balance at September 30, 2022	13,660,614	852,679	2,822,779	5,157,927	259,111	22,753,110	12,855	22,765,965
Total comprehensive earnings (loss)	-	-	-	134,566	(70,631)	63,935	(2,705)	61,230
Deferred tax on share issue costs	(16,900)	-	-	-	-	(16,900)	-	(16,900)
Share-based compensation	-	-	-	-	-	-	-	-
Balance at December 31, 2022	13,643,714	852,679	2,822,779	5,292,493	188,480	22,800,145	10,150	22,810,295

	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

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

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

For the three months ended December 31,	2022	2021
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings	131,861	173,417
Items not affecting cash		
Interest on lease liability	304	1,775
Depreciation of property, plant and equipment and right-of-use assets	28,533	22,327
Amortization of deferred development costs	6,705	6,705
Fair value adjustment on foreign exchange forward contracts	(8,762)	-
Share-based compensation	-	2,998
Deferred income tax provision	(27,000)	(57,116)
	131,641	150,106
Changes in operating assets and liabilities		
Accounts receivable	1,589,546	1,134,476
Inventories	(1,043,191)	(1,395,302)
Income taxes recoverable	19,547	24
Prepaid expenses and deposits	495,512	(1,243,465)
Foreign exchange forward contracts	(33,788)	-
Due from related parties	-	26,656
Accounts payable and accrued liabilities	561,469	407,747
Customer deposits	(1,014)	68,978
Deferred revenue	(13,090)	(8,066)
Contract liability	-	(68,491)
Income taxes payable	(159,511)	99,784
	1,415,480	(977,659)
	1,547,121	(827,553)
FINANCING ACTIVITIES		
Due to related parties	(63,350)	34
Repayment of bank loan	(15,024)	(22,316)
Repayment of car loan	(4,428)	-
Interest paid	(304)	(1,775)
Repayment of lease liability	(4,802)	(7,654)
	(87,908)	(31,711)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(93,816)	(50,659)
	(93,816)	(50,659)
CHANGE IN CASH POSITION	1,365,397	(909,923)
CASH, beginning of period	944,725	8,901,718
Effect of foreign currency translation	(70,631)	2,864
CASH, end of period	2,239,491	7,994,659

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 in the United States on the OTCQX Market 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 complementing 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, 2022.

(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, 2022. 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, 2022 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

4. ACCOUNTS RECEIVABLE

	December 31, 2022	September 30, 2022
Trade receivables	5,388,936	7,045,514
Expected credit loss	(121,320)	(121,320)
Allowance for discounts and rebates	(3,783)	(4,769)
Deferred rent asset	-	26,424
Contract asset	161,930	69,480
Other	2,020	2,000
	5,427,783	7,017,329

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the three months ended December 31, 2022, the amount of inventories charged to net earnings was \$2,545,461 (2021 - \$2,755,642) and the amount of inventory write-downs were \$0 (2021 - \$89,576). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2022	September 30, 2022
Prepaid expenses and other assets	358,914	147,524
Deposits paid to suppliers (i)	4,484,322	5,191,224
	4,843,236	5,338,748

(i) On May 4, 2020, the Company entered into an agreement to purchase 1,000,000 N95 masks from a foreign supplier. 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 has been seeking recovery of the deposit through an arbitration process in the foreign jurisdiction, which was delayed due to COVID-19 restrictions and lockdowns. On December 21, 2021, the arbitration court ruled in the Company's favor and is in the court enforcement process 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, interest or arbitration reimbursement as at December 31, 2022.

7. FOREIGN EXCHANGE FORWARD CONTRACTS

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

	December 31, 2022	September 30, 2022
Margin balance – cash deposit	51,312	-
Mark to market variance – loss on foreign exchange	(8,762)	-
	42,550	-

As at December 31, 2022, the Company had contracted to buy 854,122 U.S. Dollars.

For the quarter ended December 31, 2022, there is an unrealized loss on foreign exchange of \$8,762 (December 31, 2021 - \$0) recognized in net earnings (loss), in respect to changes in fair value of the Company's foreign exchange forward contracts.

8. DUE FROM RELATED PARTIES

The amounts due from related parties represent a housing loan to an executive officer. The loan bears interest at a rate that is the greater of 1% per annum and the minimum interest rate per the Canada Revenue Agency, and is repayable in full by May 5, 2024. The fair market value of the loan using the applicable market interest rate would not result in a material adjustment to the carrying value of the loan, and as such, no adjustment has been made by the Company in this regard.

9. CREDIT FACILITIES

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of \$6,750,000, against which \$0 was outstanding as at December 31, 2022 (September 30, 2022 - \$0). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of \$3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	September 30, 2022
Trade payables	2,831,943	1,962,660
Government remittances	29,172	151,412
Accrued liabilities	220,449	386,109
Tenants deposits	-	19,914
	3,081,564	2,520,095

11. 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, 2023 with one third of the balance forgiven if two thirds of the balance is repaid by December 31, 2023. Management expects to pay the two thirds of the balance of \$120,000 of CEBA within the next 12 months.

12. SEGMENTED INFORMATION

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

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

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

Three months ended December 31, 2022	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	1,806,663	3,087,556	22,146	-	4,916,365
Inter-segment	-	690,999	41,924	(732,923)	-
Total Revenue	1,806,663	3,778,555	64,070	(732,923)	4,916,365
Earnings (loss) before income taxes	43,027	134,140	(9,835)	(32,430)	134,902
Total assets	5,713,252	17,123,964	3,102,081	1,774,779	27,714,076
Total liabilities	799,017	2,317,761	1,561,295	225,708	4,903,781

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

12. SEGMENTED INFORMATION, continued

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

Three months ended December 31,	2022	2021
External sales revenue		
Canada	2,066,701	1,242,940
United States	1,320,894	1,337,214
United Kingdom	-	70,651
Southeast Asia and other	1,528,770	2,343,066
Total	4,916,365	4,993,871

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

Approximately 52% of the Company's total sales were to three customers (2021 – 60%). Approximately 85% of the Company's total purchases were to four vendors (2021 – 69%), one of which is related to a distributor of the Company.

13. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings per share is based on net earnings attributable to iFabric Corp.'s shareholders for the three months ended December 31, 2022 of \$134,566 (\$167,960 for the three months ended December 31, 2021). The number of shares used in the earnings per share calculation is as follows:

Three months ended December 31,	2022	2021
Weighted average number of shares outstanding - basic	29,824,467	29,624,467
Dilutive effect of options	272,919	772,112
Weighted average number of shares outstanding - diluted	30,097,386	30,396,579

For the three months ended December 31, 2022, 1,211,923 options were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. (2021 – 85,000). For the three months ended December 31, 2022 and 2021, 2,948,717 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive.

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

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2022	29,824,467	13,660,614
Deferred tax on share issue costs	-	(16,900)
Balance at December 31, 2022	29,824,467	13,643,714

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

14. CAPITAL STOCK, *continued*

(b) Stock option plan

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

	Number of stock options	Weighted average exercise price
Balance at September 30, 2022 and December 31, 2022	1,629,000	1.95
Balance at September 30, 2021 and December 31, 2021	1,629,000	1.58

As of December 31, 2022, 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	594,000	0.04	0.40	594,000	0.40
April 1, 2024	75,000	1.25	4.15	75,000	4.15
May 6, 2025	100,000	2.35	2.70	100,000	2.70
June 5, 2027	450,000	4.43	2.40	450,000	2.40
February 9, 2027	150,000	4.11	3.50	150,000	3.50
March 1, 2027	50,000	4.16	3.10	50,000	3.10
April 7, 2030	200,000	7.27	2.70	200,000	2.70
June 30, 2025	10,000	2.50	6.05	10,000	6.05
	1,629,000	2.85	1.95	1,629,000	1.95

(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, 2022 and December 31, 2022	2,948,717	4.60
Balance, September 30, 2021 and December 31, 2021	2,948,717	4.60

(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, 2022 and December 31, 2022	176,923	3.90
Balance, September 30, 2021 and December 31, 2021	176,923	3.90

15. COMMITMENTS

- (a) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 for more information.
- (b) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 0%-10%. Minimum annual royalties have been established for the balance of the contract period ending December 31, 2023 in U.S. dollar amount of \$200,000. 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.
- (c) In terms of a Canadian license agreement pursuant to which 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 10-12%. Minimum annual royalties have been established for the contract periods ending December 31, 2023 and 2024, in amounts of \$125,000 and \$175,000 respectively. The license term is in effect until December 31, 2024.

16. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the three months ended December 31, 2022 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2022.

17. SUBSEQUENT EVENTS

During January 2023, Directors of the Company exercised 475,000 stock options at a price of \$0.40 per share, for gross proceeds of \$190,000.