

iFABRIC CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

(In Canadian dollars, except as otherwise noted)

The following Management's Discussion and Analysis ("MD&A") of iFabric Corp. and its subsidiaries ("iFabric" or the "Company") is based upon and should be read in conjunction with the Company's unaudited condensed consolidated interim statements as at and for the period ended March 31, 2018 and the audited consolidated financial statements and notes thereto for the year ended September 30, 2017 and the comparative year ended September 30, 2016. All financial information in this MD&A and the unaudited condensed consolidated interim financial statements and accompanying notes thereto were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A is dated May 14, 2018.

All references to dollars or "\$" are to Canadian dollars, the Company's presentation currency, unless otherwise noted. In the discussion that follows, "2018" refers to the annual fiscal period ended September 30, 2018, "2017" refers to the annual fiscal period ended September 30, 2017, "2016" refers to the annual fiscal period ended September 30, 2016, "Q1" refers to the period of October 1 to December 31, "Q2" refers to the period of January 1 to March 31, "Q3" refers to the period of April 1 to June 30, and "Q4" refers to the period of July 1 to September 30.

Certain comparative figures in this MD&A have been reclassified to conform to the presentation used in the Company's most recent audited consolidated financial statements.

FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results that "may", "could", "would", "might" or "will" be taken, to occur or to be achieved. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking information involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is reflected as at the date of the MD&A. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on the forward-looking information. The Company does not undertake to update any forward-looking information except as required by applicable securities laws.

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BUSINESS OVERVIEW

General

iFabric is a Canadian public company, incorporated under the Alberta Business Corporations Act and is domiciled in Canada. The Company 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 business activities are divided into three reportable operating segments, which offer different products and services, and are managed separately because they require different marketing strategies and resource allocations. The following summarizes the operations of each segment:

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

NATURE OF OPERATIONS

Intimate Apparel

The Intimate Apparel division commenced operations in 1992 and currently operates under the trade name Coconut Grove Intimates. Its business comprises the design, purchasing, and distribution of intimate apparel and, in particular, a range of specialty bras including the division's patented backless, strapless underwire bra. The division also distributes a range of apparel accessories as well as sleepwear.

The division utilizes contract warehouse facilities located in Los Angeles, California and Manchester, England in order to service its key U.S. and European markets and, Company-owned premises located in Markham, Ontario house the bulk of the division's workforce which comprises, management, designers, administrative, product sourcing and logistical staff. The Markham premises also includes warehouse space which serves as the distribution center for the Canadian market.

All product design is handled by the Markham design team and, currently over 95% of the division's inventory production is outsourced to factories in China.

In the past several years, the Company has positioned the division's product strategy by way of leveraging a key license agreement in order to sell products under various Maidenform® brands. The Maidenform® brand was founded in 1922 and during its 94-year history has grown to become one of the most recognizable and respected brands in the intimate apparel industry. In addition, the division develops and supplies products for sale under the private label brands of certain major retailers as well as the Company's own brand.

Products are sold internationally to the division's customer base, which includes a number of major retailers as well as specialty boutiques.

Intelligent Fabrics

A second strategic division commenced operations in 2010 when the Company obtained exclusive North American distribution rights for new generations of intelligent textile technologies which can kill bacteria, repel insects, absorb odours, repel and wick moisture, block ultraviolet light and help encourage a healthy skin environment, amongst others. North American distribution rights were subsequently expanded to worldwide distribution rights. Management anticipates that the Intelligent Fabrics division will be the main driving force of the Company's future growth and expansion. The Intelligent Fabrics division operates under the name Intelligent Fabric Technologies (North America) Inc. ("IFTNA").

The business of the Intelligent Fabrics Division includes the development, testing and distribution of specialty textiles as well as chemicals suitable for application to textiles. The current focus is on technologies that improve the safety and well-being of the wearer. The division's current product offerings include Protx2® (anti-microbial and anti-viral formulations) Enguard® (insect repellent technology), Dreamskin® (skin polymer), UVtx (ultraviolet light blocker), FreshTx (odour-absorbing technology), RepelTX (durable water repellent) and DryTx (moisture-wicking technology). The Company anticipates that several new products will be added to its pipeline in the future.

The division has two key supply centers in Asia (namely China and Taiwan) which service the Asian market. This market represents the main production region for manufactured textiles supplied to North America and internationally and is the Company's main market area for the distribution of intelligent textile technologies. Technical support specialists in Asia provide guidance and support to customers regarding the integration of the Company's chemical formulations in their products. The division also leverages the Company's textile expertise in order to supply finished products or fabrics treated with one or more of the division's market leading formulations.

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The following describes the functionality of the division's current chemical portfolio:

Protx2® Anti-Microbial Technologies

Protx2® formulations impart anti-microbial and/or anti-viral powers to fibers, plastic, paint and paper treated with these formulations. Numerous laboratory tests have shown that treated products inhibit the growth of a wide variety of infectious agents associated with Healthcare-Associated Infections ("HAI"), including MRSA, C-Difficile, VRE, and H1N1, and by their application may assist in preventing the spread of such infections.

The Company is currently targeting two key markets with regard to the distribution of Protx2®:

a) Sports apparel, outerwear and footwear

There is an increasing trend amongst major sports apparel, outerwear and footwear manufacturers to offer technologically-enhanced products. With the ability of Protx2® to combat odor causing bacteria, the Company is able to provide manufacturers with the ability to produce apparel and footwear that stays fresher longer without the need for repeated washing or cleaning. Innovative application methodology developed by the Company over a number of years allows for Protx2® to be integrated into almost any fabric as well as all the components of footwear including foam, rubber, and plastics. With its current Environmental Protection Agency ("EPA") and European regulatory registrations, the Company can distribute Protx2® for use in all sportswear and footwear for distribution in the U.S. market as well as most international markets.

b) Medical

Protx2® formulations impart anti-microbial and/or anti-viral powers to fibers, plastic, paint and paper treated with these formulations and is suitable for application to many areas of a hospital environment, including, scrubs, bedding, curtaining, carpeting, walls, air filters and numerous plastic components amongst others.

The Protx2® range of products is dedicated to combating hospital acquired bacterial infections, including MRSA, Clostridium Difficile, VRE, Klebsiella Pneumonia, and by their application may greatly assist in reducing such infections. In addition, Protx2® is also a strong antiviral agent effective against, Norovirus and H1N1.

Dreamskin®

Fabrics treated with the Dreamskin® polymer are designed to encourage a healthy skin environment because of its ability to control both moisture and friction. Dreamskin® is effective during both summer and winter months as both high and low moisture environments are known causes of discomfort and irritation.

By providing a surface that is free from skin irritants such as laundry detergent residue and dust, Dreamskin® treated fabrics provide for a luxurious wearing experience without irritation or dryness.

In particular, athletic apparel has two key areas that can cause skin irritation, namely friction and excessive moisture. Dreamskin® targets both of these to help prevent irritation during sporting activities.

A further targeted market for Dreamskin® is as a device to aid sufferers of eczema, psoriasis and other types of irritating skin disorders. The friction caused by clothing is currently a major source of irritation for sufferers of such disorders and the ability of Dreamskin® to substantially reduce the amount of friction serves as a useful tool to alleviate irritation.

Enguard® Insect Repellent Fabric

Applying Enguard® to fabrics results in a highly effective and durable insect repellent. A major strength of Enguard® is that it is safe for children. Testing carried out by the London School of Hygiene and Tropical Medicine show Enguard® to have repelling power comparable to high-concentration DEET and significantly greater than any other natural insect repellents.

UVtx™

Textiles infused with UVtx™ provides apparel with a built in ultraviolet ("UV") light blocker. The UVtx™ formulation contains both UV reflecting and UV absorption elements, giving apparel treated with UVtx™ the ultraviolet protection factor ("UPF") strength of up to UPF 60. This allows the wearer of UVtx™ treated apparel to enjoy permanent sun protection without the need to apply sprays or lotions to the area covered by the garment. Testing has shown that UVtx™ treated textiles never lose efficacy.

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FreshTx™

FreshTx™ is a state of the art odour-absorbing technology, which is easily infused into textile products. FreshTx™ offers permanent protection against odours without the need to use sprays or perfumes. FreshTx™ uses naturally-occurring elements for effective results that are non-toxic and safe. Extremely durable, once applied, the properties of FreshTx™ are renewed with each wash, and is effective even when wet.

DryTx™

DryTx™ moisture wicking technology provides treated apparel with the ability to quickly draw moisture away from the skin and disperse perspiration across the fabric surface for faster evaporation.

The main attributes of DryTx™ are its abilities to:

- Wick moisture away from the skin;
- Provide for garments that will not feel heavy or damp even during periods of high exertion by the wearer;
- Provide for garments that create less skin chafe compared to wet fabrics;
- Provide for garments that dry quicker, thereby assisting the wearer in maintaining a more even body temperature;
- Allow for fabrics to retain their natural softness.

An additional significant attribute of DryTx™ is its ability to be integrated into apparel in combination with the division's other product offerings, resulting in unique garments that provide superior performance characteristics for athletic apparel.

RepelTX™

RepelTX™ is an environmentally friendly coating that is resistant to moisture. The RepelTX™ coating can be used on various surfaces including electronics and fabrics, which are then protected against moisture absorption.

RepelTX™ offers the next generation in water repellency performance. RepelTX modifies fabric at the molecular level by permanently attaching hydrophobic 'hairs' to individual fibers that lift liquids, causing them to bead and roll right off the fabric surface. It features a hydrocarbon polymer which is both more ecologically friendly and economically smart compared to competing technologies. The result is a market leading performance, liquid repellency that is breathable, durable and fast drying.

A substantial body of testing carried out by the Company have shown that RepelTX™ and Protx2® work extremely well in conjunction with each other. Particularly in health care environments, the combination of water repellency and an antimicrobial allows for garments that repel liquids (for example, blood) and at the same time can kill bacteria. These combined attributes are optimal for the healthcare industry. The additional benefit to iFabric is the increased revenue from every sale involving a multiple of chemicals.

SELECTED ANNUAL INFORMATION

The following table sets forth selected annual consolidated statement of earnings (loss) information and balance sheet data for each of the last five fiscal years.

For the year ended and as at September 30,	2017	2016	2015	2014	2013
Income Statement Data					
Revenue	18,856,477	13,570,365	13,074,848	13,021,482	8,165,983
Net earnings (loss) attributable to common shareholders	1,597,070	(373,977)	(109,837)	542,214	(144,556)
Net earnings (loss) per common share					
Basic	0.061	(0.014)	(0.004)	0.021	(0.006)
Diluted	0.059	(0.014)	(0.004)	0.020	(0.006)
Balance Sheet Data					
Total assets	14,724,528	12,296,093	11,928,359	11,559,443	9,154,711
Total non-current financial liabilities	586,544	1,893,809	1,408,893	1,952,287	2,084,741
Cash dividends declared	-	-	-	-	-

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RESULTS OF OPERATIONS – THREE AND SIX MONTHS ENDED MARCH 31, 2018 AND 2017

The following table sets forth the Company's unaudited condensed consolidated statements of earnings (loss) and comprehensive earnings (loss) for the three and six months ended March 31, 2018 and 2017:

For the period ended March 31,	Three months		Six months	
	2018	2017	2018	2017
REVENUE	4,201,249	4,255,192	9,338,021	7,357,311
COST OF SALES	2,104,336	2,172,277	4,653,913	4,127,310
GROSS PROFIT	2,096,914	2,082,915	4,684,107	3,230,001
EXPENSES				
Selling, general and administrative costs	1,364,103	1,336,191	2,641,014	2,546,237
Interest on operating line	-	8,172	9,395	18,050
Interest on long-term debt	15,534	27,673	32,178	41,851
Amortization of property, plant and equipment	16,548	15,558	33,097	28,061
Amortization of deferred development costs	40,366	40,366	80,732	80,732
	1,436,552	1,427,960	2,796,415	2,714,931
EARNINGS (LOSS) FROM OPERATIONS	660,362	654,955	1,887,693	515,070
OTHER EXPENSES (INCOME)				
Share-based compensation	44,494	16,101	89,977	32,560
Loss (gain) on foreign exchange	25,282	(8,545)	(91,762)	(12,950)
	69,776	7,556	(1,785)	19,610
EARNINGS (LOSS) BEFORE INCOME TAXES	590,585	647,399	1,889,478	495,460
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current	194,828	81,440	420,662	95,788
Deferred	25,697	82,000	147,800	39,000
	220,525	163,440	568,462	134,788
NET EARNINGS (LOSS)	370,060	483,959	1,321,016	360,672
NET EARNINGS (LOSS) ATTRIBUTABLE TO:				
iFabric Corp. shareholders	371,076	488,321	1,321,556	362,946
Non-controlling interest	(1,016)	(4,362)	(541)	(2,274)
	370,060	483,959	1,321,016	360,672
OTHER COMPREHENSIVE EARNINGS (LOSS)				
Unrealized gain on translation of foreign operations	165,254	-	178,561	-
TOTAL COMPREHENSIVE EARNINGS (LOSS)	535,314	483,959	1,499,577	360,672
EARNINGS (LOSS) PER SHARE				
Basic	0.014	0.019	0.051	0.014
Diluted	0.014	0.018	0.048	0.013

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SELECTED OPERATING SEGMENT DATA

Six months ended March 31, 2018	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenue					
Third party	6,845,316	2,441,505	51,200	-	9,338,021
Inter-segment	3,600	78,616	83,152	(165,368)	-
Total Revenue	6,848,916	2,520,121	134,352	(165,368)	9,338,021
Earnings (loss) before income taxes	1,273,822	649,314	(8)	(33,650)	1,889,478

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

Revenue by geographic regions:

Six months ended March 31,	2018	2017
External sales revenue		
Canada	391,705	453,254
United States	6,028,484	4,055,577
United Kingdom	485,145	526,429
Southeast Asia and other	2,432,687	2,322,051
Total	9,338,021	7,357,311

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Q2 2018 FINANCIAL HIGHLIGHTS

	2018	2017
Revenue	4,201,249	4,255,192
Earnings (loss) from operations	660,362	654,955
Share based compensation	(44,494)	(16,101)
Adjusted EBITDA *(Note)	707,527	755,269
Net earnings (loss) after tax	370,060	483,959
Net earnings (loss) after tax attributable to shareholders	371,076	488,321
Other comprehensive earnings (loss)	165,254	-
Total comprehensive earnings (loss)	535,314	483,959
Net earnings (loss) per share		
Basic	0.014	0.019
Diluted	0.014	0.018

*Note: Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization and share based compensation

DISCUSSION OF THE RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2018 AND 2017**Revenue**

Revenue remained virtually unchanged at \$4,201,249 in Q2 2018 compared to \$4,255,192 in Q2 2017 representing a decrease of \$53,943. With respect to reportable operating segments of the Company, revenue increased by 11% or \$343,026 in its Intimate Apparel segment and revenue decreased by 33% or \$396,967 in its Intelligent Fabrics segment. Geographically, revenues increased in Canada, the US, and UK, while revenue decreased in Southeast Asia and other markets during Q2 2018 versus Q2 2017.

Overall, revenue decreased 1% during Q2 2018 in comparison to Q2 2017. The increase in Intimate Apparel operating segment revenue in 2018 versus 2017 was achieved through increased seasonal sleepwear sales as well as improved demand for its core bras and accessories. This increase was offset by lower revenues in the Intelligent Fabrics segment during the second quarter of 2018 compared to 2017, caused by timing differences in the production schedules of certain major customers of this segment which will now take place in Q3 2018, approximately one month later than the comparatively similar programs in 2017, which commenced production in Q2 2017.

Gross profit

Gross profit as a percentage of revenue was 50% in Q2 2018, compared to 49% in Q2 2017. The small increase in margins was mostly the result of a higher proportion of sales in the Intimate Apparel segment which carries higher margins than the Intelligent Fabrics segment, as well as improved margins in the Intelligent Fabrics segment from Q2 2017 to Q2 2018 resultant from improved pricing arrangements with its suppliers. Gross profit in dollars was virtually unchanged at \$2,096,914 in Q2 2018 compared to \$2,082,915 in Q2 2017.

Selling, general and administrative costs

Selling, general and administrative costs were virtually unchanged at \$1,364,103 in Q2 2018 compared to \$1,336,191 in Q2 2017.

Interest Expense

Interest expense during Q2 2018 was \$15,534 compared to \$35,845 during Q2 2017. The reduction in interest expense was the result of the repayment of the Company's bank operating line as well as an accelerated repayment on the Company's demand term-loan by an amount of \$250,000. In addition, the terms of the demand term-loan were renegotiated to provide for a substantially reduced interest rate on this loan.

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Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled \$56,914 during Q2 2018 compared to \$55,924 during Q2 2017.

Share-based compensation

Share-based compensation costs in Q2 2018 were \$28,393 higher than in Q2 2017 and amounted to \$44,494 in the quarter compared to \$16,101 in the comparable quarter of 2017. The increase in share-based compensation costs is the result of newly vested options.

Loss (gain) on foreign exchange

In Q2 2018, the Company's loss on foreign exchange was \$25,282 versus a gain of \$8,545 in Q2 2017. The Company attempts to hedge its balance sheet utilizing forward exchange contracts in order to minimize the effect of foreign exchange on operations.

Provision for (recovery of) income taxes

The Company's total provision for income taxes in Q2 2018 was \$220,525 compared to a provision of \$163,440 in Q2 2017. Included in the earnings (loss) before income taxes are certain non-deductible items for tax purposes. Specifically, an increase in Q2 2018 from Q2 2017 in share-based compensation costs, is the main reason for the change in the Company's effective income tax rate.

Net earnings (loss)

Net earnings attributable to iFabric's shareholders during Q2 2018 was \$371,076 (\$0.014 per share, basic and diluted) compared to net earnings of \$488,321 in Q2 2017 (\$0.019 per share, basic and \$0.018 per share, diluted). The decrease in attributable net earnings of \$117,245 in Q2 2018 versus Q2 2017 is largely attributable higher income taxes and share-based compensation costs.

Other comprehensive earnings (loss)

Effective October 1, 2017, the Company's subsidiaries Coconut Grove Pads Inc. and, Intelligent Fabric Technologies (North America) Inc., changed their functional currency to United States Dollars given the increasing prevalence of United States Dollar denominated transactions in their operations. This change in functional currency is accounted for prospectively from October 1, 2017. Accordingly, all unrealized exchange differences resultant from the translation of balances from the functional currency (US dollars) to the presentation currency (Canadian dollars) are now recognized in other comprehensive income. For the three months ended March 31, 2018 an amount of \$165,254 was included in other comprehensive income, in respect of the unrealized gain arising on currency translation of foreign operations during Q2 2018. There was no corresponding adjustment in respect of the same period in 2017. The main reason for this gain was the substantial weakening in the Canadian dollar towards the end of Q2 2018.

DISCUSSION OF THE RESULTS OF OPERATIONS – SIX MONTHS ENDED MARCH 31, 2018 AND 2017

Revenue

Revenue increased by \$1,980,710 to \$9,338,021 for the six months ended March 31, 2018 from \$7,357,311 for the comparable period in 2017. With respect to reportable operating segments of the Company, revenue increased by 42% or \$2,036,882 in its Intimate Apparel segment and revenue decreased by 2% or \$56,172 in its Intelligent Fabrics segment. Geographically, for the first two quarters to date in 2018, revenue in Canada and the UK decreased slightly whereas revenue in the US, Southeast Asia and other regions increased compared to 2017. In particular, revenue in the US accounted for the bulk of the revenue increase by recording a 49% increase from 2017 to 2018.

Overall, revenue increased 27% during the six months ended March 31, 2018 in comparison to 2017. As reflected above, the Intimate Apparel operating segment recorded a strong increase in revenues in 2018 versus 2017 through seasonal sleepwear sales and improved demand for its core bras and accessories. This increase was to a small extent offset by slightly lower revenues in the Intelligent Fabrics segment during the first six months of 2018 compared to 2017 caused by timing differences in the production schedules of certain major customers of this segment.

Gross profit

Gross profit as a percentage of revenue increased to 50% for the six months ended March 31, 2018 from 44% in the same period of 2017. The increase in gross profit percentage for the year to date was mostly the result of a higher proportion of sales in the Intimate Apparel segment which carries higher margins than the Intelligent Fabrics segment, as well as improved margins in the Intelligent Fabrics segment year over year resultant from improved pricing arrangements with its suppliers. Gross profit in dollars increased by 45% or \$1,454,106 to \$4,684,107 for the year to date 2018 from \$3,230,001 in the same period of 2017. The increase in gross profit dollars was primarily caused by both the increase in revenues and the increase in gross margins.

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Selling, general and administrative costs

For the six months ended March 31, 2018, selling, general and administrative costs increased by 4% or \$94,777 to \$2,641,014 from \$2,546,237 for the six months ended March 31, 2017. The increase in selling, general and administrative costs was mainly attributable to increased employee bonuses and salaries.

Interest Expense

Interest expense during the six months ended March 31, 2018 was \$41,573 compared to \$59,901 during the same period in 2017. The overall reduction in interest expense was the result of the repayment of the Company's bank operating line as well as an accelerated payment of \$250,000 made against the Company's demand term-loan during Q2 2018.

Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled \$113,829 during the six months ended March 31, 2018 compared to \$108,793 during the same period in 2017.

Share-based compensation

Share-based compensation costs for the six months ended March 31, 2018 were \$57,417 lower than for the same period in 2017. The increase in share-based compensation costs is the result stock options vesting during the six months ended March 31, 2018.

Loss (gain) on foreign exchange

For the six months ended March 31, 2018, the Company's gain on foreign exchange was \$91,762 versus a gain of \$12,950 in the same period of 2017. The increase in the amount of exchange gains was primarily caused by the weakening in the Canadian dollar through the six months ended March 31, 2018 compared to 2017.

Provision for (recovery of) income taxes

As a result of the increase in pretax earnings for the six months ended March 31, 2018 to \$1,889,478 from \$495,460 in 2017, the Company's total provision for income taxes for the year to date in 2018 was \$568,462 compared to a provision of \$134,788 for the same period in 2017. Included in the earnings before income taxes are certain non-deductible items for tax purposes. Specifically, an increase in share-based compensation amount to \$57,417 for the first two quarters of 2018 versus 2017 is the main reason for the change in the Company's effective income tax rate.

Net earnings (loss)

Net earnings attributable to iFabric's shareholders during the six months ended March 31, 2018 was \$1,321,556 (\$0.051 per share, basic and \$0.048 per share diluted) compared to net earnings attributable to shareholders of \$362,946 for the six months ended March 31, 2017 (\$0.014 per share, basic and \$0.013 diluted). The increased net earnings for the first two quarters of 2018 compared to 2017 is largely attributable to higher revenues, higher gross profit, and increased foreign exchange gains.

Other comprehensive earnings (loss)

Effective October 1, 2017, the Company's subsidiaries Coconut Grove Pads Inc. and, Intelligent Fabric Technologies (North America) Inc., changed their functional currency to United States Dollars given the increasing prevalence of United States Dollar denominated transactions in their operations. This change in functional currency is accounted for prospectively from October 1, 2017. Accordingly, all unrealized exchange differences resultant from the translation of balances from the functional currency (US dollars) to the presentation currency (Canadian dollars) are now recognized in other comprehensive income. For the six months ended March 31, 2018 an amount of \$178,561 was included in other comprehensive income, in respect of the accumulated unrealized gain arising on currency translation of foreign operations. There was no corresponding adjustment in respect of the same period in 2017.

SEASONALITY AND QUARTERLY FLUCTUATIONS

The Company's business is seasonal and results of operations for any interim period are not necessarily indicative of results of operations for the full fiscal year.

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SUMMARY OF QUARTERLY RESULTS

Fiscal 2018	Q1	Q2	Q3	Q4
Revenue	5,136,771	4,201,249		
Net earnings (loss) attributable to common shareholders	950,480	371,076		
Net earnings (loss) per common share				
Basic	0.036	0.014		
Diluted	0.035	0.014		
Fiscal 2017	Q1	Q2	Q3	Q4
Revenue	3,102,120	4,255,192	4,888,400	6,610,765
Net earnings (loss) attributable to common shareholders	(125,375)	488,321	264,213	969,911
Net earnings (loss) per common share				
Basic	(0.005)	0.019	0.010	0.037
Diluted	(0.005)	0.018	0.010	0.036
Fiscal 2016	Q1	Q2	Q3	Q4
Revenue	3,329,010	3,072,027	2,999,317	4,170,011
Net earnings (loss) attributable to common shareholders	39,588	(324,657)	(121,653)	32,745
Net earnings (loss) per common share				
Basic	0.002	(0.013)	(0.005)	0.001
Diluted	0.001	(0.013)	(0.005)	0.001

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The following table sets forth the Company's unaudited condensed consolidated statements of financial position as at March 31, 2018 and September 30, 2017:

As at	March 31, 2018	September 30, 2017
ASSETS		
Current assets		
Cash	4,352,233	668,425
Accounts receivable	2,976,432	5,695,362
Inventories	3,298,613	3,909,807
Prepaid expenses and deposits	355,478	254,078
Foreign exchange forward contracts	20,902	112,533
Total current assets	11,003,658	10,640,205
Non-current assets		
Due from related parties	123,000	123,000
Property, plant and equipment	2,844,364	2,873,632
Deferred development costs	194,510	275,241
Deferred income taxes	609,600	757,400
Goodwill	55,050	55,050
Total non-current assets	3,826,524	4,084,323
Total assets	14,830,182	14,724,528
LIABILITIES		
Current liabilities		
Bank indebtedness	-	774,908
Accounts payable and accrued liabilities	960,985	1,112,078
Income taxes payable	496,369	675,645
Current portion of deferred revenue	39,300	39,300
Current portion due to related parties	25,209	91,620
Bank loan payable	1,375,570	1,681,944
Total current liabilities	2,897,433	4,375,495
Non-current liabilities		
Deferred revenue	111,350	131,000
Due to related parties	465,956	455,544
Total non-current liabilities	577,306	586,544
Total liabilities	3,474,739	4,962,039
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock	2,935,376	2,929,331
Reserves	2,518,019	2,430,687
Retained earnings	5,712,521	4,390,964
Accumulated other comprehensive earnings (loss)	178,561	-
Total equity attributable to iFabric Corp. shareholders	11,344,477	9,750,982
Non-controlling interest	10,966	11,507
Total equity	11,355,443	9,762,489
Total liabilities and equity	14,830,182	14,724,528

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Company's cash balance increased by \$3,683,808 to \$4,352,233 as at March 31, 2018 from \$668,425 as at September 30, 2017, mainly as a result of the collection of accounts receivable and the reduction of inventory levels.

Total accounts receivable at the end of Q2 2018 was \$2,976,432 compared to \$5,695,362 as at September 30, 2017, representing a decrease of \$2,718,930.

Total inventory decreased by \$611,194 to \$3,298,613 at the end of Q2 2018 from \$3,909,807 at the end of fiscal 2017.

Property, plant and equipment at the end of Q2 2018 totaled \$2,844,364 compared to \$2,873,632 at the end of fiscal 2017.

Deferred development costs decreased to \$194,510 at the end of Q2 2018 from \$275,241 at the end of fiscal 2017. The decrease is attributable to the amortization of deferred development costs.

Deferred income taxes decreased to \$609,600 at the end of Q2 2018 from \$757,400 at the end of fiscal 2017. The decrease is mostly attributable to non-capital losses utilized in the Company's Intelligent Fabrics operating segment during the six months ended March 31, 2018.

Total liabilities at the end of Q2 2018 were \$1,487,300 lower than at the end of fiscal 2017. The main reasons for this decrease are in respect to the repayment of the Company's bank operating line, which carried a zero balance as at March 31, 2018, leaving the full credit line of \$3,750,000 available to fund future growth. In addition, the Company made a \$250,000 accelerated payment against its demand term loan. The amounts of accounts payable and income tax payable also decreased during the quarter.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, the potential inability to raise additional funds through debt and/or equity financing to support the Company's development and continued operations, and to meet the Company's liabilities and commitments as they come due.

The Company's capital resources include a bank operating line, a secured bank loan, and equity attributable to the Company's shareholders.

Bank Operating Line

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 zero was outstanding as at March 31, 2018 (September 30, 2017 – \$774,908). 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. As a result of an accelerated payment of \$250,000 against the demand term-loan referred to below, the bank increased the amount of the Company's operating line from \$3,500,000 to \$3,750,000 during the quarter.

Demand Term-Loan

One of the Company's subsidiaries has a non-revolving demand term-loan, payable in monthly payments of \$10,522 comprising principal and interest at a fixed rate of 3.64% per annum, amortized over a fifteen-year period ending February 28, 2032, maturing March 5, 2020 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. Following an accelerated payment of \$250,000 against this loan during Q2 2018, this loan was renegotiated to carry a more favorable interest rate compared to the previous loan.

Notwithstanding the fact that this is a demand loan, and classified as a current liability, management expects to pay solely the minimum monthly payments, totaling \$126,264 over the next twelve months.

Working capital

Working capital represents current assets less current liabilities. For the purposes of calculating working capital the Company has excluded the demand term-loan referred to above. Although classified as a current liability as required by IFRS, the loan carries a term of greater than 12 months and does not impact the amount of available working capital. As at March 31, 2018, the Company's working capital was \$9,481,795 compared to working capital of \$7,946,654 as at September 30, 2017, representing an increase of \$1,535,141 or 19%.

iFABRIC CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

(In Canadian dollars, except as otherwise noted)

Operating activities

Cash provided by operating activities during the six months ended March 31, 2018 amounted to \$4,821,517 compared to an amount of \$185,151 provided by operating activities during the six months ended March 31, 2017, representing an increase in cash inflow of \$4,636,366. The increase in operational cash flow inflow can be largely attributed to the substantial increase in the Company's earnings and the collection of accounts receivable related thereto, as well as a reduction in the level of inventories.

Financing activities

Cash used in financing activities during the six months ended March 31, 2018 amounted to \$1,133,881, compared to \$234,407 used in financing activities during the six months ended March 31, 2017, representing an increase of \$899,474 in financing cash outflow. The difference can be mostly attributed to the repayment of the Company's bank operating line as well as an accelerated payment made against the Company's term-loan.

Investing activities

\$3,827 was used in investing activities during the six months ended March 31, 2018 compared to \$8,784 used in investing activities during the six months ended March 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of March 31, 2018, with the exception of the operating leases as noted in the "Commitments & Contractual Obligations" section below.

COMMITMENTS & CONTRACTUAL OBLIGATIONS

During Q2 2017, there have been no significant changes in the contractual obligations from those disclosed in the Company's 2017 annual MD&A.

The Company's other commitments are outlined below:

- The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 of the Company's Q2 2018 unaudited condensed consolidated interim financial statements for more information.
- In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 4-10%. Minimum annual royalties have been established for the balance of the contract periods ending December 31, 2018, 2019 and 2020, in U.S. dollar amounts of \$168,000, \$175,000 and \$187,000, 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, 2020.

RELATED PARTY TRANSACTIONS

During the three and six month periods ended March 31, 2018, there have been no significant changes in the related party transactions from those disclosed in the Company's 2017 audited consolidated financial statements.

FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the three and six months ended March 31, 2018 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2017.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 26,169,500 common shares outstanding. Furthermore, as of the date of this MD&A, the Company had 2,050,250 options issued and outstanding, of which 1,750,250 were exercisable, as well as 203,625 warrants outstanding.

RISKS & UNCERTAINTIES

The Company is exposed to various operational risks and uncertainties which are described in the Company's 2017 annual MD&A. The risks and uncertainties disclosed in the 2017 annual MD&A are not exhaustive. There have been no specific additional risks or uncertainties identified during Q2 2018. New risk factors may emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business, performance, condition, results, operations or strategies and plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based upon the Q2 2018 unaudited condensed consolidated interim financial statements, which have been prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting". The preparation of the Q2 2018 unaudited condensed consolidated interim financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities at the end of the reporting period. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant assumptions about the future that management has made could result in a material adjustment to the carrying amounts of assets and liabilities, or on the reported results of revenues, expenses, gains, or losses, in the event that actual results differ from assumptions made. The methods used to calculate critical accounting estimates are consistent with prior periods.

During Q2 2018, there were no significant changes to methods used to:

- Cost inventory or determine provisions for obsolete or slow-moving inventory
- Determine impairment of deferred development costs
- Determine impairment of deferred income tax assets
- Determine impairment or estimated useful lives of property, plant and equipment
- Determine the fair value of share-based payment transactions

For further details concerning the use of estimates, judgments and assumptions in the preparation of the Company's Q2 2018 unaudited condensed consolidated interim financial statements, along with details of the significant accounting policies used in the preparation of such interim financial statements, specific reference should be made to note 3 of the Company's audited annual consolidated financial statements for the fiscal year ended September 30, 2017.

ACCOUNTING POLICY DEVELOPMENTS

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2017 have been applied consistently in the preparation of the Q2 2018 unaudited condensed consolidated interim financial statements.

(a) Future changes in accounting standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on January 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

- i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have a significant impact on the Company's accounting for financial instruments.
- ii) IFRS 15, 'Revenue From Contracts With Customers' was issued in May 2014. The standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers except for those that fall within the scope of IAS 17, 'Leases' or other applicable IFRS. Application of the standard is mandatory for annual reporting periods beginning on or after

January 1, 2018, with early adoption permitted. The adoption of IFRS 15 is not expected to have a significant impact on the Company's accounting for revenue and the Company is currently assessing when to adopt IFRS 15.

- iii) IFRS 16, 'Leases', was published in January 2016, replacing IAS 17, 'Leases', and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers") by others on a timely basis so that appropriate decisions can be made regarding public disclosure within the time periods required by applicable securities laws. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures. Based on an evaluation of the Company's disclosure controls and procedures, the Company's Certifying Officers have concluded that these controls are appropriately designed and were operating effectively as of March 31, 2018. Although the Company's disclosure controls and procedures were operating effectively as of March 31, 2018, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the annual regulatory filings.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS. The Certifying Officers are responsible for establishing and maintaining adequate ICFR for the Company. The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at March 31, 2018 and whether any material weaknesses relating to the design of the Company's ICFR were existing as at March 31, 2018. Based on that evaluation, the Certifying Officers concluded that the ICFR, as defined by National Instrument 52-109 – Certification of Disclosure on Issuers' Annual and Interim Filings, are appropriately designed and were operating effectively and that no material weaknesses were identified through their evaluation. The Certifying Officers have evaluated whether there were any changes in the Company's ICFR that occurred during the fiscal period ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, consolidated audited annual financial statements, and unaudited condensed consolidated interim financial statements, is available on SEDAR at www.sedar.com. Additional information can also be found on the Company's website at www.ifabriccorp.com.