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, 2017 and the audited consolidated financial statements and notes thereto for the year ended September 30, 2016 and the comparative year ended September 30, 2015. 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 12, 2017.

All references to dollars or "$" are to Canadian dollars, the Company's functional and presentation currency, unless otherwise noted. In the discussion that follows, "2017" refers to the annual fiscal period ended September 30, 2017, "2016" refers to the annual fiscal period ended September 30, 2016, "2015" refers to the annual fiscal period ended September 30, 2015, "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.

## 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 has a pipeline of products including Protx2® (anti-microbial and anti-viral formulations) Enguard® (insect repellant technology), Dreamskin® (skin polymer), UVtx (ultraviolet light blocker), FreshTx (odour-absorbing technology), RepelTX (durable water repellant) and DryTx (moisture-wicking technology). The Company anticipates that several additional products will be added to its pipeline in the future.

The Company 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 elsewhere and is the Company's chief 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.

Development, testing and regulatory activities are primarily funded with income earned from both the Intelligent Fabrics division and the Intimate Apparel division. Additional funding, when required, is sourced from additional equity and/or debt.

The following describes the Division's current product 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 odour 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 EPA registrations, the Company can distribute Protx2® for use in all sportswear and footwear for distribution in the U.S. market. Verification programs for major customers were completed during the middle of 2016 and the division commenced shipping Protx2® for major programs in July 2016.

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.

In order to fully enter the medical market for Protx2®, the Company is in process of securing a second and higher level of EPA registrations that will allow it to make applicable claims in connection with the efficacy of Protx2® ("kill claims") for medical use. A testing protocol for this purpose has been negotiated and agreed to by the EPA and testing in conformity with the protocol has commenced as at the date hereof. On completion of testing, the reports covering the applicable test results will be submitted to the EPA for their review and approval of the appropriate public health claims to be included in future product labeling.

Entry into the medical market in the form of scrubs treated with Protx2® has already commenced at the date of this MDA via programs for two key customers, covering both the retail scrubs market as well as the direct to hospital market.

*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.

The potential also exists for Dreamskin® to be marketed as a medical device for integration in clothing in order 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 could serve as a useful tool to alleviate irritation.

In order to be marketed as a medical device Dreamskin® will need to be registered with the United States Food and Drug Administration ("FDA") as a medical device. Such registration may necessitate a clinical trial and the Company is currently consulting with its regulatory and industry experts regarding the best approach for conducting such a trial. Based on the information received by the Company to date, the cost of a clinical trial is estimated to be in the order of $100,000 and the estimated completion period could be in the range of 18 to 36 months. The commencement date of the Company's FDA application for Dreamskin® as a medical device is not yet certain.

Dreamskin® is also currently being integrated into certain product offerings of the Company's Intimate Apparel Division and in particular intimate apparel and sleepwear. The market launch of these products commenced in January 2017.

*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.

Application for regulatory approval of Enguard® by the US Environmental Protection Agency (the "EPA") is in process. Application will also be made to the Pest Management Regulatory Agency ("PMRA") division of Health Canada for approval of Enguard® for the Canadian market utilizing EPA data once the US EPA application has been completed. Whilst the timelines for regulatory approvals of Enguard® in the U.S. and Canada are not certain, the Company is currently working towards initially launching Enguard® products in international markets where regulatory approvals are far less stringent than that of the U.S. and Canada.

*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.

*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.

(In Canadian dollars, except as otherwise noted)

*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 water and moisture by simply treating them in a fluorinated solvent. The coating dries in just over one minute at room temperature, and it starts working immediately once set.

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.

The Company's ancillary objective in offering these additional formulations is to utilize them in combination with Protx2®, Dreamskin® and Enguard®, which results in unique products that provide a multiple of benefits to the user. The additional benefit to iFabric will be increased revenue from every sale involving a multiple of chemicals. 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 are able to kill bacteria. These combined attributes are optimal for the industry

## 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, | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Income Statement Data** | | | | | |
| Revenue | **13,570,365** | 13,074,848 | 13,021,482 | 8,165,983 | 6,074,766 |
| Net earnings (loss) attributable to common shareholders | **(373,977)** | (109,837) | 542,214 | (144,556) | (218,680) |
| Net earnings (loss) per common share | | | | | |
| Basic | **(0.014)** | (0.004) | 0.021 | (0.006) | (0.009) |
| Diluted | **(0.014)** | (0.004) | 0.020 | (0.006) | (0.009) |
| | | | | | |
| **Balance Sheet Data** | | | | | |
| Total assets | **12,296,093** | 11,928,359 | 11,559,443 | 9,154,711 | 8,454,058 |
| Total non-current financial liabilities | **1,893,809** | 1,408,893 | 1,952,287 | 2,084,741 | 2,801,891 |
| Cash dividends declared | **-** | - | - | - | - |

(In Canadian dollars, except as otherwise noted)

## RESULTS OF OPERATIONS – THREE AND SIX MONTHS ENDED MARCH 31, 2017 AND 2016

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, 2017 and 2016:

| | Three months | | Six months | |
|---|---|---|---|---|
| For the period ended March 31, | **2017** | 2016 | **2017** | 2016 |
| **REVENUE** | **4,255,192** | 3,072,027 | **7,357,311** | 6,401,037 |
| **COST OF SALES** | **2,172,277** | 1,569,581 | **4,127,310** | 3,114,376 |
| **GROSS PROFIT** | **2,082,915** | 1,502,446 | **3,230,001** | 3,286,661 |
| **EXPENSES** | | | | |
| Selling, general and administrative costs | **1,336,191** | 1,663,147 | **2,546,237** | 3,314,739 |
| Interest on operating line | **8,172** | 7,347 | **18,050** | 11,222 |
| Interest on long-term debt | **27,673** | 9,233 | **41,851** | 18,890 |
| Amortization of property, plant and equipment | **15,558** | 8,766 | **28,061** | 17,415 |
| Amortization of deferred development costs | **40,366** | 40,366 | **80,732** | 80,732 |
| | **1,427,960** | 1,728,859 | **2,714,931** | 3,442,998 |
| **EARNINGS (LOSS) FROM OPERATIONS** | **654,955** | (226,413) | **515,070** | (156,337) |
| **OTHER EXPENSES (INCOME)** | | | | |
| Share-based compensation | **16,101** | 41,258 | **32,560** | 85,663 |
| Loss (gain) on foreign exchange | **(8,545)** | 173,125 | **(12,950)** | 124,342 |
| | **7,556** | 214,383 | **19,610** | 210,005 |
| **EARNINGS (LOSS) BEFORE INCOME TAXES** | **647,399** | (440,796) | **495,460** | (366,342) |
| **PROVISION FOR (RECOVERY OF) INCOME TAXES** | | | | |
| Current | **81,440** | (71,423) | **95,788** | 5,486 |
| Deferred | **82,000** | (45,506) | **39,000** | (89,357) |
| | **163,440** | (116,929) | **134,788** | (83,871) |
| **NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)** | **483,959** | (323,867) | **360,672** | (282,471) |
| **NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO:** | | | | |
| iFabric Corp. shareholders | **472,221** | (324,657) | **346,846** | (285,069) |
| Non-controlling interest | **(4,362)** | 790 | **(2,274)** | 2,598 |
| | **467,859** | (323,867) | **344,572** | (282,471) |
| **EARNINGS (LOSS) PER SHARE** | | | | |
| Basic | **0.018** | (0.013) | **0.013** | (0.011) |
| Diluted | **0.017** | (0.013) | **0.013** | (0.011) |

## SELECTED OPERATING SEGMENT DATA

| **Q2 2017** | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| External Revenue | 3,022,496 | 1,207,096 | 25,600 | - | **4,255,192** |
| Earnings (loss) before income taxes | 657,158 | 51,430 | (15,330) | (45,859) | **647,399** |

| **Q2 2016** | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| External Revenue | 2,538,908 | 507,519 | 25,600 | - | **3,072,027** |
| Earnings (loss) before income taxes | (289,217) | (129,166) | 3,966 | (26,379) | **(440,796)** |

## DISCUSSION OF THE RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2017 AND 2016

### Revenue

Revenue increased by $1,183,165 to $4,255,192 in Q2 2017 from $3,072,027 in Q2 2016. With respect to reportable operating segments of the Company, revenue increased by 19% or $483,588 in its Intimate Apparel segment and revenue increased by 138% or $699,577 in its Intelligent Fabrics segment. Geographically, revenues increased in Canada, the US, and Southeast Asia and other markets, while revenue decreased in the UK during Q2 2017 versus Q2 2016.

Overall, revenue increased 39% during Q2 2017 in comparison to Q2 2016. The Intelligent Fabrics division continued its integration of its core products with major manufacturing clients, specifically in the United States and in Asia, resulting in a substantial increase in total revenue within this operating segment compared to Q2 2016. The Company anticipates further growth in revenue in this segment. In the Intimate Apparel segment, the Company realized strong sales in its new Maidenform® sleepwear lines, which launched earlier in fiscal 2017, and were the primary driver of revenue growth in this segment.

### Gross profit

Gross profit as a percentage of revenue was 49% in Q2 2017, unchanged from the same percentage in Q2 2016. While gross profit percentage remained unchanged in Q2 2017 versus Q2 2016, the Intimate Apparel division realized greater gross profit margins in the current quarter versus the same period in the prior year, mainly due to lower clearances of seasonal goods. The Intelligent Fabrics division contributed a higher proportion of consolidated revenue in Q2 2017 versus Q2 2016, but carried a lower gross profit percentage than revenue in the Intimate Apparel segment, offsetting most of the increased overall gross profit percentage. Gross profit in dollars increased by 39% or $580,469 to $2,082,915 in Q2 2017 from $1,502,446 in Q2 2016. The increase in gross profit dollars is largely attributable to an increase in revenue from Q2 2016 to Q2 2017.

### Selling, general and administrative costs

In Q2 2017, selling, general and administrative costs decreased by 20% or $326,956 to $1,336,191 from $1,663,147 in Q2 2016. In the Intimate Apparel operating segment, the Company lowered its selling, general and administrative costs with respect to its product development staff, in conjunction with the elimination of products under a previous licensing arrangement. The division also realized substantial savings in its selling and promotional costs in Q2 2017 versus Q2 2016 for the same reason. In the Intelligent Fabrics segment, the Company increased its travel, regulatory and testing costs to facilitate growth of existing products, as well as the launch of new products. Selling, general and administrative costs have also decreased as a result of the Canadian dollar strengthening in Q2 2017 against the U.S. dollar, as many of the Company's overhead expenses are paid for in U.S. dollars.

### Interest Expense

Interest expense during Q2 2017 was $35,845 compared to $16,580 during Q2 2016. The primary change in interest expense was as the result of interest penalties paid on the early retirement of non-current debt, pursuant to a restructuring of, and an increase in, bank borrowings for the purpose of funding the anticipated growth in both of the Company's divisions.

### Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $55,924 during Q2 2017 compared to $49,132 during Q2 2016.

### Share-based compensation

Share-based compensation costs in Q2 2017 were $25,157 lower than in Q2 2016. The decrease in share-based compensation costs is the result of previously issued stock options vesting during 2016.

### Loss (gain) on foreign exchange

In Q2 2017, the Company's gain on foreign exchange was $8,545 versus a loss of $173,125 in Q2 2016. The main reason for the large loss on foreign exchange in the comparative period was a rapidly appreciating Canadian dollar during the latter part of Q2 2016, which resulted in losses on translating the Company's US-denominated assets into Canadian dollars. The Company has also implemented improved hedging measures in order to minimize the effect of foreign exchange on operating results.

### Provision for (recovery of) income taxes

The Company's total provision for income taxes in Q2 2017 was $163,440 compared to a recovery of income taxes of $116,929 in Q2 2016. Included in the earnings (loss) before income taxes are certain non-deductible items for tax purposes. Specifically, a decrease in Q2 2017 from Q2 2016 in share-based compensation by $25,157 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 2017 was $472,221 ($0.018 per share, basic, and $0.017 per share, diluted) compared to net loss of $324,657 in Q2 2016 ($0.013 per share, basic and diluted). The increase in attributable net earnings of $796,878 in Q2 2017 versus Q2 2016 is largely attributable higher revenues, higher gross profit in terms of percentage and dollars, and lower selling, general and administrative costs, for the reasons discussed above.

## DISCUSSION OF THE RESULTS OF OPERATIONS – SIX MONTHS ENDED MARCH 31, 2017 AND 2016

### Revenue

Revenue increased by $956,274 to $7,357,311 for the six months ended March 31, 2017 from $6,401,037 for the comparable period in 2016. With respect to reportable operating segments of the Company, revenue decreased by 16% or $913,781 in its Intimate Apparel segment and revenue increased by 307% or $1,884,129 in its Intelligent Fabrics segment. Geographically, for the first two quarters to date in 2017, revenue in Canada and Southeast Asia and other regions increased, but decreased in the UK and US regions, versus the same period in 2016.

Overall, revenue increased 15% during the six months ended March 31, 2017 in comparison to 2016. During the six months ended March 31, 2017, the Intimate Apparel operating segment saw increased revenues in Q2 2017 versus Q1 2016, but these increases were offset by lower revenues in the first quarter of 2017 when compared to the prior year. During the six months ended March 31, 2017, the Intelligent Fabrics division continued the integration of its core products with major manufacturing clients, resulting in a significant increase in total revenue within this operating segment compared to the same period in 2016.

### Gross profit

Gross profit as a percentage of revenue decreased to 44% for the six months ended March 31, 2017 from 51% in the same period of 2016. The decrease in gross profit percentage for the year to date was mostly the result of a higher proportion of sales in the Intelligent Fabrics operating segment, which carry lower margins compared to the Intimate Apparel operating segment. Gross profit in dollars decreased by 2% or $56,660 to $3,230,001 for the year to date 2017 from $3,286,661 in the same period of 2016. The decrease in gross profit dollars was primarily caused by a decrease in gross profit percentage for the reasons discussed above; however, greater revenues during the year to date in 2017 versus 2016 largely offset this impact.

### Selling, general and administrative costs

For the six months ended March 31, 2017, selling, general and administrative costs decreased by 23% or $768,502 to $2,546,237 from $3,314,739 for the six months ended March 31, 2016. In the Intimate Apparel operating segment, the Company decreased its selling, general and administrative costs with respect to its product development staff, in conjunction with streamlining its product assortments. The division also lowered its promotional costs for the year to date in Q2 2017 compared to the same period in 2016. In the Intelligent Fabrics segment, the Company increased its travel, regulatory and testing costs to facilitate growth of existing products, as well as the launch of new products. Selling, general and administrative costs have also decreased as a result of the Canadian dollar strengthening during the six months ended March 31, 2017 compared to 2016, against the U.S. dollar, as a significant portion of the Company's overhead expenses are paid for in U.S. dollars.

### Interest Expense

Interest expense during the six months ended March 31, 2017 was $59,901 compared to $30,112 during the same period in 2016. The overall change in interest expense was the result of the Company carrying higher long-term debt during the six months ending March 31, 2017 versus the same period in 2016.

### Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $108,793 during the six months ended March 31, 2017 compared to $98,147 during the same period in 2016.

### Share-based compensation

Share-based compensation costs for the six months ended March 31, 2017 were $53,103 lower than for the same period in 2016. The decrease in share-based compensation costs is the result of previously issued stock options vesting during 2016.

(In Canadian dollars, except as otherwise noted)

### Loss (gain) on foreign exchange

For the six months ended March 31, 2017, the Company's gain on foreign exchange was $12,950 versus a loss of $124,342 in the same period of 2016. The Company faced a more stabilized exchange rate with respect to the Canadian dollar versus the US dollar during the year to date in Q2 2017 when compared to the same period in 2016, which is the primary reason for the change in the foreign exchange gains and losses

### Provision for (recovery of) income taxes

The Company's total provision for income taxes for the year to date in 2017 was $134,788 compared to a recovery of income taxes of $83,871 for the same period in 2016. Included in the earnings (loss) before income taxes are certain non-deductible items for tax purposes. Specifically, a decrease in share-based compensation by $53,103 for the first two quarters of 2017 versus 2016 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, 2017 was $346,846 ($0.013 per share, basic and diluted) compared to a loss of $285,069 for the six months ended March 31, 2016 ($0.011 per share, basic and diluted). The increased net earnings for the first two quarters of 2017 compared to 2016 is largely attributable to higher revenues, higher gross profit, lower selling general and administrative costs, and greater foreign exchange gains.

## 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.

## SUMMARY OF QUARTERLY RESULTS

| Fiscal 2017 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| Revenue | 3,102,120 | 4,255,192 | | |
| Net earnings (loss) attributable to common shareholders | (125,375) | 472,221 | | |
| Net earnings (loss) per common share | | | | |
| Basic | (0.005) | 0.018 | | |
| Diluted | (0.005) | 0.017 | | |

| 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 |

| Fiscal 2015 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| Revenue | 3,042,404 | 3,251,478 | 3,700,502 | 3,080,464 |
| Net earnings (loss) attributable to common shareholders | (160,905) | 126,333 | 206,806 | (282,071) |
| Net earnings (loss) per common share | | | | |
| Basic | (0.006) | 0.005 | 0.008 | (0.011) |
| Diluted | (0.006) | 0.005 | 0.008 | (0.011) |

## OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Company's cash balance decreased to $1,202,172 as at March 31, 2017 from $1,260,213 as at September 30, 2016.

Total accounts receivable at the end of Q2 2017 was $2,934,687 compared to $2,830,179 as at September 30, 2016.

Total inventory decreased by $127,398 to $3,404,004 at the end of Q2 2017 from $3,531,402 at the end of fiscal 2016.

Property, plant and equipment at the end of Q2 2017 totaled $2,919,374 compared to $2,938,651 at the end of fiscal 2016.

Deferred development costs decreased to $355,975 at the end of Q2 2017 from $436,706 at the end of fiscal 2016. The decrease is mainly attributable to the amortization of deferred development costs.

Deferred income taxes decreased to $781,000 at the end of Q2 2017 from $820,000 at the end of fiscal 2016. The decrease is mostly attributable to non-capital losses utilized in the Company's Intelligent Fabrics operating segment during the Q2 2017.

Total liabilities at the end of Q2 2017 were $476,778 lower than at the end of fiscal 2016. The Company decreased its liabilities mainly with respect to its bank indebtedness, accounts payable and accrued liabilities.

## 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, long-term debt, 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 $3,500,000, against which $600,441 was outstanding as at March 31, 2017 (September 30, 2016 – $889,903). 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.

**Long-term Debt**

The Company's subsidiaries group has a non-revolving demand term loan, payable in monthly principal payments of $9,722 plus interest, bearing interest at the bank's prime rate plus 0.75%, due by 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. As at March 31, 2017, the total amount of this loan outstanding was $1,740,277 (September 30, 2016 - $1,450,000). The increase in long-term debt was utilized to finance working capital.

**Working capital**

Working capital represents current assets less current liabilities. As at March 31, 2017, the Company's working capital was $6,170,802 compared to working capital of $5,300,067 as at September 30, 2016, representing an increase of $870,735 or 16%.

**Operating activities**

Cash provided by operating activities during the six months ended March 31, 2017 amounted to $185,151 compared to an amount of $977,197 used in operating activities during the six months ended March 31, 2016, representing an increase in cash inflow of $1,162,348. The increase in operational cash flow outflow can be largely attributed to the net loss in 2017 compared to net income 2016.

**Financing activities**

Cash used in financing activities during the six months ended March 31, 2017 amounted to $234,407, compared to $642,556 provided by financing activities during the six months ended March 31, 2016, representing an increase of $876,963 in financing cash outflow. The difference can be mostly attributed to the repayment of the Company's bank operating line in Q2 2017, as opposed to increasing the operating line in Q2 2016.

**Investing activities**

$8,784 was used in investing activities during the six months ended March 31, 2017 compared to $1,558 used in investing activities during the six months ended March 31, 2016.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of March 31, 2017, 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 2016 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 2017 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, 2017 and 2018 in U.S. dollar amounts of $288,000 and $368,000, 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 Company is also required to pay an administration fee for the last remaining year of the contract, due January 1 2018, in the amount of $20,500 USD. The license term is in effect until December 31, 2018.

## RELATED PARTY TRANSACTIONS

During the three and six month periods ended March 31, 2017, there have been no significant changes in the related party transactions from those disclosed in the Company's 2016 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 months ended March 31, 2017 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2016.

## OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 26,011,000 common shares outstanding. Furthermore, as of the date of this MD&A, the Company had 1,608,750 options issued and outstanding, of which 1,608,750 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 2016 annual MD&A. The risks and uncertainties disclosed in the 2016 annual MD&A are not exhaustive. There have been no specific additional risks or uncertainties identified during Q2 2017. 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 2017 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 2017 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 2017, 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 allowance for doubtful accounts
- Determine the allowance for discounts and rebates
- 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 2017 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, 2016.

## ACCOUNTING POLICY DEVELOPMENTS

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2016 have been applied consistently in the preparation of the Q2 2017 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 annual accounting periods beginning on January 1, 2016 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 an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.

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 an 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, 2017. Although the Company's disclosure controls and procedures were operating effectively as of March 31, 2017, 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, 2017 and whether any material weaknesses relating to the design of the Company's ICFR were existing as at March 31, 2017. 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, 2017 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.