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 December 31, 2016 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 February 13, 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 June 30, "Q3" refers to the period of April 1 to June 30, and "Q4" refers to the period of July 1 to September 30.

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 centre 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 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.

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.

The roll-out of Dreamskin® to the market as a retail product has commenced via finished bedding and bathroom products treated with a combination of Dreamskin® and Protx2®, which has been supplied to a customer under a strategic production, sales and marketing agreement between IFTNA and the customer. The target market for these products is international hotel groups.

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 for initial product offerings containing Dreamskin® commenced in January of 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, a key customer for Enguard® commenced product development and testing of Enguard® apparel in January 2017 with the strategy of 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.

Commercialization of UVtx™ commenced during the latter part of 2016 and the first products integrating UVtx™ will be in the market during the second quarter of 2017.

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.

Commercialization of FreshTx™ commenced during the latter part of 2016 and the first products integrating Fresh™ will be in the market during the second quarter of 2017.

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.

(In Canadian dollars, except as otherwise noted)

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.

The first products integrating DryTx™ will be in the market during the second quarter of 2017.

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.

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 will be increased revenue from every sale involving a multiple of chemicals.

RepelTX™ was added to the division's product portfolio during fiscal 2016 and is commercially available for sale. The first products integrating RepelTX™ will be in the market during the second quarter of fiscal 2017.

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 MONTHS ENDED DECEMBER 31, 2016 AND 2015

The following table sets forth the Company's unaudited condensed consolidated statements of earnings (loss) and comprehensive earnings (loss) for the three months ended December 31, 2016 and 2015:

For the three months ended December 31,	2016	2015
REVENUE	**3,102,120**	3,329,010
COST OF SALES	**1,955,034**	1,544,795
GROSS PROFIT	**1,147,086**	1,784,215
EXPENSES		
Selling, general and administrative costs	**1,210,046**	1,651,592
Interest on operating line	**9,878**	3,875
Interest on long-term debt	**14,178**	9,657
Amortization of property, plant and equipment	**12,503**	8,649
Amortization of deferred development costs	**40,366**	40,366
	1,286,971	1,714,139
EARNINGS (LOSS) FROM OPERATIONS	**(139,885)**	70,076
OTHER EXPENSES (INCOME)		
Share-based compensation	**16,459**	44,405
Gain on foreign exchange	**(4,405)**	(48,783)
	12,054	(4,378)
EARNINGS (LOSS) BEFORE INCOME TAXES	**(151,939)**	74,454
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	**14,348**	76,909
Deferred	**(43,000)**	(43,851)
	(28,652)	33,058
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)	**(123,287)**	41,396
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	**(125,375)**	39,588
Non-controlling interest	**2,088**	1,808
	(123,287)	41,396
EARNINGS (LOSS) PER SHARE		
Basic	**(0.005)**	0.002
Diluted	**(0.005)**	0.001

SELECTED OPERATING SEGMENT DATA

Three months ended December 31, 2016	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
External Revenue	1,785,939	1,290,581	25,600	-	**3,102,120**
Earnings (loss) before income taxes	(170,688)	(4,065)	6,346	16,468	**(151,939)**

Three months ended December 31, 2015	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
External Revenue	3,183,307	106,029	39,674	-	**3,329,010**
Earnings (loss) before income taxes	263,752	(248,656)	7,226	52,132	**74,454**

DISCUSSION OF THE RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015

Revenue

Revenue decreased by $226,890 to $3,102,120 in Q1 2017 from $3,329,010 in Q1 2016. With respect to reportable operating segments of the Company, revenue decreased by 44% or $1,397,368 in its Intimate Apparel segment and revenue increased by $1,184,552 in its Intelligent Fabrics segment to $1,290,581 in Q1 2017 from $106,029 in Q1 2016. Geographically, revenue decreased in the U.S. and the UK, but increased in Canada and Southeast Asia and Other areas in Q1 2017 versus Q1 2016.

Overall, revenue decreased 7% during Q1 2017 in comparison to Q1 2016. In the Intelligent Fabrics operating segment, substantial revenue growth continued into Q1 2017, building off of a record quarter in Q4 2016 and representing 42% of overall consolidated revenue in Q1 2017 as opposed to 3% in Q1 2016. Management anticipates further momentum with regards to revenue in this operating segment as the division continues to expand the volume and breadth of its product offerings to key clients. In the Intimate Apparel operating segment, the loss in revenue during Q1 2017 from Q1 2016 can be primarily explained by two factors. Firstly, pursuant to the Company's decision not to renew a prior license agreement, Q1 2017 was the first quarter in which the division was no longer distributing products under the Splendid® and Ella Moss® brands. Sales of these brands represented approximately 47% of total revenue for this segment in Q1 2016. The other major factor for the reduction in revenue in Q1 2017 in the Intimate Apparel segment was the receipt of goods, which were of substandard quality, from two of the division's suppliers. Management estimates that, had these goods been of saleable quality, the Company's revenue within the Intimate Apparel operating segment in Q1 2017 would have been similar to the level it was at in Q1 2016. The division has since further diversified its supply chain and enhanced quality control practices to ensure these issues do not occur in the future. Management is exploring options for recovering the related losses from these suppliers.

Gross profit

Gross profit as a percentage of revenue decreased to 37% in Q1 2017 from 54% in Q1 2016. The decrease in gross profit percentage is mainly due to the substantial change in the product mix in Q1 2017 from the product mix in Q1 2016. In Q1 2016, the Intimate Apparel operating segment represented 97% of consolidated revenue and the Intelligent Fabrics segments made up 3%. In Q1 2017, the proportional mix changed to 58% of revenue derived from the Intimate Apparel operating segment and 42% represented by sales in the Intelligent Fabrics segment. During Q1 2017, the gross margin of sales in the Intelligent Fabrics division were lower than those in the Intimate Apparel segment, resulting in a lower overall consolidated gross profit percentage. Management expects the gross margin in the Intelligent Fabrics division to improve throughout the next several quarters, yielding higher gross profit percentages on a consolidated and divisional basis. Gross profit in dollars decreased by 36% or $637,129 to $1,147,086 in Q1 2017 from $1,784,215 in Q1 2016. The decrease in gross profit dollars is largely attributable to a decreased gross profit percentage, for the reasons discussed above.

Selling, general and administrative costs

In Q1 2017, selling, general and administrative costs decreased by 27%, or $441,546, to $1,210,046 from $1,651,592 in Q1 2016. In the Intimate Apparel operating segment, the Company reduced its selling, general and administrative costs primarily as a result of the elimination of expenses related to the Splendid® and Ella Moss® programs. In addition, the lower revenue in Q1 2017 versus Q1 2016 resulted in lower commissions and royalties expensed. The lower selling, general and administrative costs were partially offset by higher costs in the Intelligent Fabrics segment, which increased its staffing and promotional activities to facilitate the rollout of commercialized product offerings throughout Q1 2017.

Interest Expense

Interest expense during Q1 2017 was $24,056 compared to $13,532 during Q1 2016. The overall change in interest expense was due to the Company carrying higher average balances with respect to both its bank operating line and its long-term bank loan in Q1 2017 versus Q1 2016.

Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $52,869 during Q1 2017 compared to $49,015 during Q1 2016.

Share-based compensation

Share-based compensation costs in Q1 2017 were $27,946 lower than in Q1 2016. The decrease in share-based compensation costs is the due to previously issued stock options vesting during 2016, resulting in lower share-based compensation costs recognized during Q1 2017.

(In Canadian dollars, except as otherwise noted)

Gain on foreign exchange

In Q1 2017, the Company's gain on foreign exchange was $4,405 versus a gain of $48,783 in Q1 2016. The primary reason for the difference in exchange gains is the weakening of the U.S. Dollar during Q1 2016, compared to a relatively more stable exchange rate during Q1 2017.

Provision for (recovery of) income taxes

The Company's total recovery of income taxes in Q1 2017 was $28,652 compared to a provision for income taxes of $33,058 in Q1 2016. Included in the earnings (loss) before income taxes are certain non-deductible items for tax purposes. Differences in the amounts of non-deductible expenses is the primary reason for the change in the Company's effective income tax rate from Q1 2016 to Q1 2017.

Net earnings (loss)

Net loss attributable to iFabric's shareholders during Q1 2017 was $125,375 ($0.005 per share, basic and diluted) compared to net earnings of $39,588 in Q1 2016 ($0.002 per share, basic and $0.001 per share, diluted). The reduction net earnings in Q1 2017 versus Q3 2015 is largely attributable lower revenues and lower gross profit dollars, for the reasons discussed above.

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			
Net earnings (loss) attributable to common shareholders	(125,375)			
Net earnings (loss) per common share				
Basic	(0.005)			
Diluted	(0.005)			

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 increased to $1,485,887 as at December 31, 2016 from $1,260,213 as at September 30, 2016.

Total accounts receivable at the end of Q1 2017 was $2,078,029 compared to $2,830,179 as at September 30, 2016. Whilst the reduction in accounts receivable can be partially explained by the Company's ability to collect cash from its client accounts in a more efficient manner, the primary reason for lower receivables at the end of Q1 2017 is lower revenue in Q1 2017 compared to Q4 2016.

Total inventory increased by $338,842 to $3,870,244 at the end of Q1 2017 from $3,531,402 at the end of fiscal 2016. The Company increased its inventories of spring seasonal goods within its Intimate Apparel division in anticipation of sales to be recognized early in Q2 2017, while in the Intelligent Fabrics operating segment, the division continued to build its inventories to facilitate increasing demand for its product offerings.

Property, plant and equipment at the end of Q1 2017 totaled $2,926,486 compared to $2,938,651 at the end of fiscal 2016, with the change primarily attributable to amortization costs.

Deferred development costs decreased to $396,341 at the end of Q1 2017 from $436,706 at the end of fiscal 2016. The decrease is attributed to amortization of deferred development costs.

Deferred income taxes increased to $863,000 at the end of Q1 2017 from $820,000 at the end of fiscal 2016. The increase is mostly attributable to non-capital losses incurred in the Company's Intimate Apparel operating segment during the first quarter of 2017.

Total liabilities at the end of Q1 2017 were $48,549 lower than at the end of fiscal 2016. The Company decreased its liabilities mainly with respect to its long-term bank loan.

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

One of the Company's subsidiaries has a demand operating loan with a tier one Canadian bank available to a maximum of $2,000,000, against which $753,112 was outstanding as at December 31, 2016 (September 30, 2016 – $889,903). The loan facility bears interest at the bank's prime lending rate plus 0.90%. 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 General Security Agreements covering all the assets of two subsidiary companies, their accounts receivable insurance, an assignment of their fire insurance, and a guarantee in the amount of $1,000,000 from a third subsidiary of the Company. In addition, the Company has credit card facilities amounting to $50,000 Canadian dollars and $25,000 U.S. dollars, which are subject to the same security arrangements.

Long-term Debt

One of the Company's subsidiaries has a bank loan, payable in monthly principal payments of $10,000 plus interest, bearing interest at the bank's variable interest rate (3.95% as of the date of this MD&A), due September 1, 2028 and secured by a first readvanceable mortgage on the land and building owned by the subsidiary, a general security agreement over all assets of another subsidiary, subject to priority on inventories and accounts receivable to the lender of the bank operating line described above, a general assignment of rents, as well as a guarantee from another one of the Company's subsidiaries. As at December 31, 2016, the total amount of the loan outstanding was $1,420,000 (September 30, 2016 - $1,450,000).

Working capital

Working capital represents current assets less current liabilities. As at December 31, 2016, the Company's working capital was $5,176,837 compared to working capital of $5,300,067 as at September 30, 2016, representing a decrease of $123,230 or 2%.

Operating activities

Cash provided by operating activities during the three months ended December 31, 2016 amounted to $395,638 compared to an amount of $667,670 used in operating activities during the three months ended December 31, 2015, representing an increase in cash flow of $1,057,308. The increase in operational cash flow can be largely attributed to the collection of accounts receivable, as well as the fact that during the comparative Q1 2016 period, the Company paid down a significant portion of its financial liabilities.

Financing activities

Cash used in financing activities during the three months ended December 31, 2016 amounted to $169,626, compared to $637,535 provided by financing activities during the three months ended December 31, 2015, representing an increase of $807,161 in financing cash outflow. The difference can be mostly attributed to the utilization of the Company's bank operating line, which increased during Q1 2016 but was paid down during Q1 2017.

Investing activities

A nominal amount was used in investing activities during the three months ended December 31, 2016. No cash was provided by or used in investing activities during the three months ended December 31, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of December 31, 2016, with the exception of the operating leases as noted in the "Commitments & Contractual Obligations" section of the Company's 2016 annual MD&A.

COMMITMENTS & CONTRACTUAL OBLIGATIONS

During Q1 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:

a) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 of the Company's Q1 2017 unaudited condensed consolidated interim financial statements for more information.

b) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 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 each remaining year of the contract, due January 1, 2017 and 2018, in U.S. dollar amounts of $13,380 and $20,500, respectively. The license term is in effect until December 31, 2018.

RELATED PARTY TRANSACTIONS

During the three month period ended December 31, 2016, there have been no significant changes in the related party transactions from those disclosed in the Company's 2016 audited consolidated financial statements and the 2016 annual MD&A.

FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the three months ended December 31, 2016 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 25,989,750 common shares outstanding. Furthermore, as of the date of this MD&A, the Company had 1,630,000 options issued and outstanding, of which 1,580,000 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 Q1 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 Q1 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 Q1 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 Q1 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 Q1 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 Q1 2017 unaudited condensed consolidated interim financial statements, with the exception of the following:

(a) Initial application of new standards, interpretations, and amendments

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for annual periods beginning on or after January 1, 2016. As of October 1, 2016, the Company has adopted the following standards:

i) Amendments to IAS 1, 'Presentation of Financial Statements', was issued by the IASB in December 2014, as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company has assessed there to be no impact or adjustments necessary as a result of applying the revised rules.

ii) 'Annual Improvements to IFRSs 2012-2014 Cycle' was approved by the IASB in September 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The Company has assessed there to be no impact or adjustments necessary as a result of applying the revised rules.

(b) 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, 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 December 31, 2016. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2016, 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 December 31, 2016 and whether any material weaknesses relating to the design of the Company's ICFR were existing as at December 31, 2016. 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 December 31, 2016 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.