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, 2018 and the audited consolidated financial statements and notes thereto for the year ended September 30, 2018 and the comparative year ended September 30, 2017. 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, 2019.

All references to dollars or "$" are to Canadian dollars, the Company's presentation currency, unless otherwise noted. In the discussion that follows, "2019" refers to the annual fiscal period ended September 30, 2019, "2018" refers to the annual fiscal period ended September 30, 2018, "2017" refers to the annual fiscal period ended September 30, 2017, "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.

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

NATURE OF OPERATIONS

Intimate Apparel

The Intimate Apparel Division 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.

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 96-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

The Intelligent Fabrics Division currently enjoys exclusive worldwide distribution rights in respect of a number of proprietary chemical formulations that can be applied textiles in order to kill bacteria, repel insects, absorb odours, repel and wick moisture, block ultraviolet light and help encourage a healthy skin environment, amongst others. 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 chemicals suitable for application to textiles as well as finished performance apparel which integrate one or more chemical enhancements, in order to achieve the performance characteristics demanded by the customer. The current focus is on technologies that improve the safety and well-being of the wearer. The Division's current product offerings include Protx2® (anti-microbial and anti-viral formulations) Enguard® (insect 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 new products will be added to its pipeline in the future.

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

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

b) Medical

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

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

Dreamskin®

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

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

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

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

Enguard® Insect Repellent Fabric

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

UVtx™

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

(In Canadian dollars, except as otherwise noted)

FreshTx™

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

DryTx™

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

The main attributes of DryTx™ are its abilities to:

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

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

RepelTX™

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

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

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

SELECTED ANNUAL INFORMATION

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

For the year ended and as at September 30,	2018	2017	2016	2015	2014
Income Statement Data					
Revenue	15,121,370	18,856,477	13,570,365	13,074,848	13,021,482
Net earnings (loss) attributable to common shareholders	924,743	1,597,070	(373,977)	(109,837)	542,214
Net earnings (loss) per common share					
Basic	0.035	0.061	(0.014)	(0.004)	0.021
Diluted	0.034	0.059	(0.014)	(0.004)	0.020
Balance Sheet Data					
Total assets	14,179,359	14,724,528	12,296,093	11,928,359	11,559,443
Total non-current financial liabilities	1,818,657	586,544	1,893,809	1,408,893	1,952,287
Cash dividends declared	-	-	-	-	-

(In Canadian dollars, except as otherwise noted)

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

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

For the three months ended December 31,	2018	2017
REVENUE	2,471,881	5,136,771
COST OF SALES	1,590,273	2,549,577
GROSS PROFIT	881,608	2,587,194
EXPENSES		
Selling, general and administrative costs	1,330,233	1,276,910
Interest on operating line	-	9,395
Interest on bank loan	12,359	16,644
Amortization of property, plant and equipment	17,211	16,548
Amortization of deferred development costs	10,971	40,366
	1,370,774	1,359,863
EARNINGS (LOSS) FROM OPERATIONS	(489,166)	1,227,331
OTHER EXPENSES (INCOME)		
Share-based compensation	73,378	45,483
Loss (gain) on foreign exchange	64,610	(117,044)
	137,988	(71,561)
EARNINGS (LOSS) BEFORE INCOME TAXES	(627,154)	1,298,892
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	(53,391)	223,237
Deferred	(16,900)	124,700
	(70,291)	347,937
NET EARNINGS (LOSS)	(556,863)	950,955
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	(557,122)	950,480
Non-controlling interest	259	475
	(556,863)	950,955
OTHER COMPREHENSIVE EARNINGS		
Unrealized gain on translation of foreign operations	125,085	13,307
	125,085	13,307
TOTAL COMPREHENSIVE EARNINGS (LOSS)	(431,778)	964,262
EARNINGS (LOSS) PER SHARE		
Basic	(0.021)	0.036
Diluted	(0.021)	0.035

(In Canadian dollars, except as otherwise noted)

SELECTED OPERATING SEGMENT DATA

Three months ended December 31, 2018	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
External Revenue	1,304,322	1,141,959	25,600		**2,471,881**
Earnings (loss) before income taxes	(405,655)	(169,334)	2,753	(54,918)	**(627,154)**

Three months ended December 31, 2017	Intimate Apparel	Intelligent Fabrics	Other Segments	. Items and Eliminations	Consolidated
External Revenue	3,479,795	1,631,376	25,600		**5,136,771**
Earnings (loss) before income taxes	678,102	576,653	2,532	41,605	**1,298,892**

Revenue by geographic regions:

Three months ended December 31,	2018	2017
External sales revenue		
Canada	**693,141**	131,685
United States	**1,031,787**	3,195,790
United Kingdom	**170,150**	183,821
Southeast Asia and other	**576,803**	1,625,474
Total	**2,471,881**	5,136,771

Q1 2019 FINANCIAL HIGHLIGHTS

Three months ended December 31,	2018	2017
Revenue	**2,471,881**	5,136,771
Earnings (loss) from operations	**(489,166)**	1,227,331
Share based compensation	**(73,378)**	(45,483)
Adjusted EBITDA *(Note)	**(513,235)**	1,427,328
Net earnings (loss) after tax	**(556,863)**	950,955
Net earnings (loss) after tax attributable to shareholders	**(557,122)**	950,480
Net earnings (loss) per share		
Basic	**(0.021)**	0.036
Diluted	**(0.021)**	0.035

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

DISCUSSION OF THE RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2018 AND 2017

Revenue

Revenue decreased by $2,664,890 to $2,471,881 in Q1 2019 from $5,136,771 in Q1 2018. With respect to the reportable operating segments of the Company, revenue decreased by 63% or $2,175,473 in its Intimate Apparel segment to $1,304,322 in Q1 2019 from $3,479,795 in Q1 2018 and revenue decreased by 30% or $489,417 in its Intelligent Fabrics segment to $1,141,959 in Q1 2019 from $1,631,376 in Q1 2018. Geographically, revenue increased in Canada but decreased in the U.K., the U.S. and Southeast Asia and other areas in Q1 2019 versus Q1 2018.

Overall, revenue decreased by 52% during Q1 2019 in comparison to Q1 2018. In the Intelligent Fabrics operating segment, the decrease in revenue was mainly attributable to no license revenue being received in Q1 2019 compared $320,000 received during Q1 2018. Timing differences in chemical sales to a major customer further contributed to the decrease. In the Intimate Apparel operating segment, the decrease in revenue during Q1 2019 from Q1 2018 was primarily attributable to the discontinuance of sleepwear products, which were fully phased out prior to the commencement of the current quarter.

Gross profit

Gross profit as a percentage of revenue decreased to 36% in Q1 2019 from 50% in Q1 2018. The decrease in gross profit percentage is due to a number of factors. In Q1 2018, the Intelligent Fabrics received license revenue of $320,000 against which there was no cost of sales. There was no corresponding license revenue receipt in Q1 2019. Additional reasons for the reduction in the overall gross margin percentage include there being a higher proportion of Intelligent Fabric segment sales at lower margins in Q1 2019 versus Q1 2018, as well as incentives provided to a major customer in this operating segment, in respect of initial finished performance apparel programs. Gross profit in dollars decreased by 66% or $1,705,586 to $881,608 in Q1 2019 from $2,587,194 in Q1 2018. The decrease in gross profit dollars is attributable to factors discussed above.

Selling, general and administrative costs

In Q1 2019, selling, general and administrative costs amounted to $1,330,233 compared to $1,276,910 in Q1 2018. The increase in costs amounting to $53,323 in Q1 2019 versus 2018, is mainly attributable to increased selling expenses to secure new programs in the Company's Intelligent Fabrics operating segment, as well a severance payments resulting from the realignment of marketing personnel to provide for greater skills in the areas of online sales and the use of social media to promote products.

Interest Expense

Interest expense during Q1 2019 was $12,359 compared to $26,039 during Q1 2018. The decrease in interest expense was mainly due to the Company's operating line remaining unutilized during Q1 2019, as well as a reduction in the interest rate on the Company's bank term loan, which was renegotiated in the previous fiscal year.

Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $28,182 during Q1 2019 compared to $56,914 during Q1 2018. The reduction in amortization costs was mainly attributable to certain categories of development costs being fully amortized during the previous fiscal year.

Share-based compensation

Share-based compensation costs in Q1 2019 were $73,378 compared to $45,483 in Q1 2018 resulting in an increase of $27,895. The increase in share-based compensation costs is due to the vesting of previously issued stock options.

Gain on foreign exchange

In Q1 2019, the Company's loss on foreign exchange was $64,610 versus a gain of $117,044 in Q1 2018. The primary reasons for the exchange variance in Q1 2019 versus 2018 were instability in the Canadian dollar during Q1 2019, as well increased unrealized gains on the translation of foreign operations amounting to $117,778, which are now reflected in other comprehensive earnings instead of earnings, pursuant to the recognition of the US dollar as the functional currency for both of the Company's operating segments, effective October 1, 2017.

Provision for (recovery of) income taxes

The Company's recovery of income taxes in Q1 2019 was $70,291 compared to a provision for income taxes of $347,937 in Q1 2018. 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 2018 to Q1 2019.

Net earnings (loss) and EBITDA

Other comprehensive earnings (loss)

Effective October 1, 2017, the Company's subsidiaries Coconut Grove Pads Inc. and, Intelligent Fabric Technologies (North America) Inc., changed their functional currency to United States Dollars given the increasing prevalence of United States Dollar denominated transactions in their operations. This change in functional currency is accounted for prospectively from October 1, 2017. Accordingly, all unrealized exchange differences resultant from the translation of balances from the functional currency (US dollars) to the presentation currency (Canadian dollars), subsequent to October 1, 2017, are now recognized in other comprehensive earnings. For the three months ended December 31, 2018 an amount of $125,085 was included in other comprehensive earnings, in respect of the unrealized gain arising on currency translation of foreign operations at the end of Q1 2019 compared to $13,307 included in other comprehensive earnings for Q1 of 2018. The primary reason for this increase was the continued weakening of the Canadian dollar during Q1 2019.

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 2019	Q1	Q2	Q3	Q4
Revenue	2,471,881			
Net earnings (loss) attributable to common shareholders	(557,122)			
Net earnings (loss) per common share				
Basic	(0.021)			
Diluted	(0.021)			

Fiscal 2018	Q1	Q2	Q3	Q4
Revenue	3,102,120	4,255,192	4,888,400	6,610,765
Net earnings (loss) attributable to common shareholders	(125,375)	488,321	264,213	969,911
Net earnings (loss) per common share				
Basic	(0.005)	0.019	0.010	0.037
Diluted	(0.005)	0.018	0.010	0.036

Fiscal 2017	Q1	Q2	Q3	Q4
Revenue	3,102,120	4,255,192	4,888,400	6,610,765
Net earnings (loss) attributable to common shareholders	(125,375)	488,321	264,213	969,911
Net earnings (loss) per common share				
Basic	(0.005)	0.019	0.010	0.037
Diluted	(0.005)	0.018	0.010	0.036

(In Canadian dollars, except as otherwise noted)

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

As at	**December 31, 2018**	September 30, 2018
ASSETS		
Current assets		
Cash	**3,413,219**	3,542,899
Accounts receivable	**2,089,349**	2,200,669
Inventories	**3,960,722**	4,293,436
Prepaid expenses and deposits	**181,371**	165,296
Foreign exchange forward contracts	**(78,673)**	37,055
Total current assets	**9,565,988**	10,239,355
Non-current assets		
Due from related parties	**123,000**	123,000
Property, plant and equipment	**2,886,880**	2,844,091
Deferred development costs	**140,192**	151,163
Deferred income taxes	**783,600**	766,700
Goodwill	**55,050**	55,050
Total non-current assets	**3,988,722**	3,940,004
Total assets	**13,554,710**	14,179,359
LIABILITIES		
Current liabilities		
Bank indebtedness	**-**	-
Accounts payable and accrued liabilities	**984,251**	770,790
Income taxes payable	**359,848**	413,239
Current portion of deferred revenue	**39,300**	39,300
Current portion due to related parties	**15,023**	15,023
Current portion of bank loan payable	**79,616**	78,962
Total current liabilities	**1,478,038**	1,317,314
Non-current liabilties		
Deferred revenue	**81,875**	91,700
Due to related parties	**471,380**	468,668
Bank loan payable	**1,238,429**	1,258,289
Total non-current liabilities	**1,791,684**	1,818,657
Total liabilities	**3,269,722**	3,135,971
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock	**2,963,824**	2,963,824
Reserves	**2,246,069**	2,567,433
Retained earnings	**4,758,585**	5,315,707
Accumulated other comprehensive earnings	**307,488**	182,403
Total equity attributable to iFabric Corp. shareholders	**10,275,966**	11,029,367
Non-controlling interest	**9,022**	14,021
Total equity	**10,284,988**	11,043,388
Total liabilities and equity	**13,554,710**	14,179,359

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Company's cash balance decreased to $3,413,219 as at December 31, 2018 from $3,542,899 as at September 30, 2018 representing a decrease of $129,680.

Total accounts receivable at the end of Q1 2019 was $2,089,349 compared to $2,200,669 as at September 30, 2018. The reduction in accounts receivable is attributable to reduced revenues in Q1 2019 compared to 2018.

Total inventory decreased by $332,714 to $3,960,722 at the end of Q1 2019 from $4,293,436 at the end of fiscal 2018. The decrease is attributed to reduced revenues with the corresponding need to carry lower levels of inventory.

Property, plant and equipment at the end of Q1 2019 totaled $2,886,880 compared to $2,844,091 at the end of fiscal 2018, with the change attributable to purchase of new capital assets.

Deferred development costs decreased to $140,192 at the end of Q1 2019 from $151,163 at the end of fiscal 2018. The decrease is attributed to amortization of deferred development costs.

Deferred income taxes increased to $783,600 at the end of Q1 2019 from $766,700 at the end of fiscal 2018. The increase is mostly attributable to losses incurred in the Company's Intelligent Fabric operating segment during the first quarter of 2019.

Total liabilities at the end of Q1 2019 were $133,751 higher than at the end of fiscal 2018. The Company increased its liabilities mainly with respect to trade payables and accrued liabilities at the end of the quarter.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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

The Company's capital resources include a bank operating line, 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 $3,750,000, against which $0 was outstanding as at December 31, 2018 (September 30, 2018 - $0). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of $3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

Fixed Rate Term-Loan

One of the Company's subsidiaries has fixed rate term loan, payable in monthly payments of $10,522 comprising principal and interest at a fixed rate of 3.64% per annum, amortized over a fifteen-year period ending February 28, 2032, maturing March 5, 2020 and secured by a first-ranking all-indebtedness collateral mortgage in the amount of $3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and three of its subsidiary companies. The loan balance amounted to $1,318,045 as at December 31, 2018 compared to $1,337,251. The decrease is attributable to payments of principal during the current quarter. Management expects to repay solely the minimum monthly payments, totaling $126,262 over the next twelve months.

Working capital

Working capital represents current assets less current liabilities. As at December 31, 2018, the Company's working capital was $8,087,950 compared to working capital of $8,922,041 as at September 30, 2018, representing a decrease of $834,091 or 9%. Portion of this decrease was as a result of the acquisition on November 13, 2018, of an additional 15% of the common shares in 2074160 Ontario Inc. from the non-controlling shareholders for cash consideration of $400,000, resulting in the Company's shareholding in 2074160 Ontario Inc. increasing to 75% and the non-controlling interest decreasing to 25%. 2074160 Ontario Inc. owns the land and buildings occupied by the Company as offices and a warehouse. An independent valuation of the land and buildings received at the date of the transaction, reflected an appraised market value of $5,000,000, representing an increase in value of $2,269,519 over the book value of $2,730,481 as at December 31, 2018.

Operating activities

Cash provided by operating activities during the three months ended December 31, 2018 amounted to $221,729 compared to an amount of $2,952,163 provided by operating activities during the three months ended December 31, 2017, representing a decrease in cash flow of $2,730,434. The decrease in operational cash flow can be largely attributed to the decrease in earnings for the quarter.

Financing activities

Cash used in financing activities during the three months ended December 31, 2018 amounted to $416,494, compared to $856,338 used in financing activities during the three months ended December 31, 2017, representing a decrease of $439,844 in financing cash outflow. In respect of Q1 2018 the financing outflow was mainly the result of the repayment of the Company's bank operating line. For Q1 2019 the outflow was mainly the result of the increase in ownership of the Company's property owing subsidiary, as discussed under working capital above.

Investing activities

An amount of $60,000 was used in investing activities during the three months ended December 31, 2018, in respect of the acquisition of capital assets, compared to no cash used in investing activities during the three months ended December 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of December 31, 2018, with the exception of the operating leases as noted in the "Commitments & Contractual Obligations" section of the Company's 2018 annual MD&A.

COMMITMENTS & CONTRACTUAL OBLIGATIONS

During Q1 2019, there have been no significant changes in the contractual obligations from those disclosed in the Company's 2018 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 2019 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, 2019 and 2020 in U.S. dollar amounts of $175,000 and $187,000, respectively. In addition, the Company is required to pay an advertising fee of 1-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2020.

RELATED PARTY TRANSACTIONS

During the three month period ended December 31, 2018, there have been no significant changes in the related party transactions from those disclosed in the Company's 2018 audited consolidated financial statements and the 2018 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, 2018 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2018.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 26,209,500 common shares outstanding. Furthermore, as of the date of this MD&A, the Company had 1,885,250 options issued and outstanding, of which 1,685,250 were exercisable. The total amount of outstanding warrants of 203,625 expired on December 13, 2018.

RISKS & UNCERTAINTIES

The Company is exposed to various operational risks and uncertainties which are described in the Company's 2018 annual MD&A. The risks and uncertainties disclosed in the 2018 annual MD&A are not exhaustive. There have been no specific additional risks or uncertainties identified during Q1 2019. 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 2019 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 2019 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 2019, there were no significant changes to methods used to:

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

For further details concerning the use of estimates, judgments and assumptions in the preparation of the Company's Q1 2019 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, 2018.

ACCOUNTING POLICY DEVELOPMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2018 have been applied consistently in the preparation of the unaudited condensed consolidated interim financial statements for the quarter ended December 31, 2018, except as detailed below.

a) New standards recently adopted

IFRS 9 – Financial Instruments

Effective October 1, 2018, the Company adopted IFRS 9, "Financial Instruments", issued in July 2014, which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new standard accounts for all aspects of financial instruments and includes a logical model for classification and measurement, a single forward looking 'expected-loss' impairment model and a substantially reformed approach to hedge accounting. Adoption of this new standard did not have a material impact on the Company's financial statements. The Company has adopted IFRS 9 using a retrospective approach with no impact to the net earnings or opening retained earnings of comparative periods.

The Company has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

On initial recognition, financial instruments as measured at fair value. Measurement in subsequent periods depends on the classification of the financial instruments described below:

Amortized cost: Financial instruments under this classification include cash, accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, due to related parties and loan payable.

Fair value through profit or loss: Financial instruments under this classification include foreign exchange forward contracts.

Fair value through other comprehensive income: The Company has no financial instruments under this classification.

IFRS 9 replaces the incurred loss model in IAS39 with a forward-looking expected credit loss model ("ECL"). This new model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company's accounts receivable balance is primarily comprised of amounts due from customers. The Company has determined the adoption of IFRS 9 has resulted in no additional recorded impairment allowance for the three months ended December 31, 2018.

IFRS 15 – Revenue from Contracts with Customers

Effective October 1, 2018, the Company adopted IFRS 15 issued in May 2014, and amended in September 2015 and April 2016. IFRS 15 replaces the existing revenue recognition guidance with a single comprehensive accounting model. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser of such goods and services.

As a result of the adoption of IFRS 15, no changes to the Company's comparative financial statements were required. IFRS 15 did not have a material impact on the condensed interim financial statements of loss and comprehensive loss or its condensed interim statements of financial position as at December 31, 2018.

The Company has revised the description of its accounting policy for revenue recognition to reflect the new standard as follows:

The Company recognizes revenue when control of the goods and services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

Net revenue reflects the Company's sale of merchandise, less returns, and after making allowance for anticipated discounts and rebates.

b) Future changes to accounting standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on January 1, 2019 or later periods. The standards implemented or impacted that are applicable to the company are as follows:

i) 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. 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, 2018. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2018, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the annual regulatory filings.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

ADDITIONAL INFORMATION

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