

IFABRIC CORP.

**CONSOLIDATED
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2018 AND 2017

(EXPRESSED IN CANADIAN DOLLARS)

CONTENTS

AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	2
Consolidated Statements of Earnings and Comprehensive Earnings	3
Consolidated Statements of Changes in Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 25



Tel: 416 865 0200
Fax: 416 865 0887
www.bdo.ca

BDO Canada LLP
222 Bay Street
Suite 2200, PO Box 131
Toronto ON M5K 1H1 Canada

Independent Auditor's Report

To the Shareholders of iFabric Corp.

We have audited the accompanying consolidated financial statements of iFabric Corp. which comprise the consolidated statements of financial position as at September 30, 2018 and 2017 and the consolidated statements of earnings and comprehensive earnings, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of iFabric Corp. as at September 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
December 21, 2018

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	September 30, 2018	September 30, 2017
ASSETS		
Current assets		
Cash	3,542,899	668,425
Accounts receivable (note 4)	2,200,669	5,695,362
Inventories (note 5)	4,293,436	3,909,807
Prepaid expenses and deposits (note 6)	165,296	254,078
Foreign exchange forward contracts (note 7)	37,055	112,533
Total current assets	10,239,355	10,640,205
Non-current assets		
Due from related parties (note 8)	123,000	123,000
Property, plant and equipment (note 9)	2,844,091	2,873,632
Deferred development costs (note 10)	151,163	275,241
Deferred income taxes (note 11)	766,700	757,400
Goodwill	55,050	55,050
Total non-current assets	3,940,004	4,084,323
Total assets	14,179,359	14,724,528
LIABILITIES		
Current liabilities		
Bank indebtedness (note 12)	-	774,908
Accounts payable and accrued liabilities (note 13)	770,790	1,112,078
Income taxes payable	413,239	675,645
Current portion of deferred revenue	39,300	39,300
Current portion due to related parties (note 14)	15,023	91,620
Current portion of bank loan payable (note 15)	78,962	1,681,944
Total current liabilities	1,317,314	4,375,495
Non-current liabilities		
Deferred revenue	91,700	131,000
Due to related parties (note 14)	468,668	455,544
Bank loan payable (note 15)	1,258,289	-
Total non-current liabilities	1,818,657	586,544
Total liabilities	3,135,971	4,962,039
Commitments (note 22)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 21)	2,963,824	2,929,331
Reserves	2,567,433	2,430,687
Retained earnings	5,315,707	4,390,964
Accumulated other comprehensive earnings	182,403	-
Total equity attributable to iFabric Corp. shareholders	11,029,367	9,750,982
Non-controlling interest	14,021	11,507
Total equity	11,043,388	9,762,489
Total liabilities and equity	14,179,359	14,724,528

Approved on behalf of the Board of Directors on December 21, 2018:

"Hylton Karon"
Director

"Hilton Price"
Director

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

IFABRIC CORP.**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS****(Expressed in Canadian Dollars)**

For the year ended September 30,	2018	2017
REVENUE	15,121,370	18,856,477
COST OF SALES	8,017,914	10,374,982
GROSS PROFIT	7,103,456	8,481,495
EXPENSES		
Selling, general and administrative costs (note 17)	5,425,859	5,258,592
Interest on operating line	9,395	33,588
Interest on bank loan	56,990	72,733
Amortization of property, plant and equipment	68,870	73,803
Amortization of deferred development costs	124,078	161,465
	5,685,192	5,600,181
EARNINGS FROM OPERATIONS	1,418,264	2,881,314
OTHER EXPENSES (INCOME)		
Share-based compensation	151,839	447,402
Loss (gain) on foreign exchange	(105,663)	98,773
	46,176	546,175
EARNINGS BEFORE INCOME TAXES	1,372,088	2,335,139
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 19)		
Current	454,131	682,617
Deferred	(9,300)	62,600
	444,831	745,217
NET EARNINGS	927,257	1,589,922
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	924,743	1,597,070
Non-controlling interest	2,514	(7,148)
	927,257	1,589,922
OTHER COMPREHENSIVE EARNINGS		
Unrealized gain on translation of foreign operations	182,403	-
TOTAL COMPREHENSIVE EARNINGS	1,109,660	1,589,922
EARNINGS PER SHARE (note 20)		
Basic	0.035	0.061
Diluted	0.034	0.059

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Attributable to iFabric Corp. shareholders							Non-controlling interest	Total equity
	Reserves				Accumulated Other Comprehensive Earnings	Total			
	Capital stock	Contributed surplus	Warrants	Options					
							Retained earnings		
Balance at September 30, 2017	2,929,331	125,568	579,293	1,725,826	4,390,964	-	9,750,982	11,507	9,762,489
Total comprehensive earnings	-	-	-	-	924,743	182,403	1,107,146	2,514	1,109,660
Expiry of options	-	483,060	-	(483,060)	-	-	-	-	-
Exercise of options	34,493	-	-	(15,093)	-	-	19,400	-	19,400
Share-based compensation	-	-	-	151,839	-	-	151,839	-	151,839
Balance at September 30, 2018	2,963,824	608,628	579,293	1,379,512	5,315,707	182,403	11,029,367	14,021	11,043,388

	Attributable to iFabric Corp. shareholders							Non-controlling interest	Total equity
	Reserves					Total			
	Capital stock	Contributed surplus	Warrants	Options	Retained earnings		Accumulated Other Comprehensive Earnings		
Balance at September 30, 2016	2,807,538	-	704,861	1,331,717	2,793,894	-	7,638,010	18,655	7,656,665
Total comprehensive earnings (loss)	-	-	-	-	1,597,070	-	1,597,070	(7,148)	1,589,922
Expiry of warrants	-	125,568	(125,568)	-	-	-	-	-	-
Exercise of options	121,793	-	-	(53,293)	-	-	68,500	-	68,500
Share-based compensation	-	-	-	447,402	-	-	447,402	-	447,402
Balance at September 30, 2017	2,929,331	125,568	579,293	1,725,826	4,390,964	-	9,750,982	11,507	9,762,489

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

For the year ended September 30,	2018	2017
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings	927,257	1,589,922
Items not affecting cash		
Amortization of property, plant and equipment	68,870	73,803
Amortization of deferred development costs	124,078	161,465
Fair value adjustment on foreign exchange forward contracts	(60,670)	(29,126)
Share-based compensation	151,839	447,402
Deferred income tax provision	(9,300)	62,600
	1,202,074	2,306,066
Changes in operations assets and liabilities		
Accounts receivable	3,494,693	(2,865,183)
Inventories	(383,629)	(378,405)
Prepaid expenses and deposits	88,782	82,622
Foreign exchange forward contracts	136,148	3,785
Due from related parties	-	(123,000)
Accounts payable and accrued liabilities	(341,288)	(463,870)
Deferred revenue	(39,300)	170,300
Income taxes payable	(262,406)	655,665
	2,693,000	(2,918,086)
	3,895,074	(612,020)
FINANCING ACTIVITIES		
Bank operating line	(774,908)	(114,995)
Due to related parties	(63,473)	(156,433)
Proceeds from bank loan (note 15)	-	350,000
Repayment of bank loan (note 15)	(344,693)	(118,056)
Share issuances (note 21)	19,400	68,500
	(1,163,674)	29,016
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(41,729)	(8,784)
Proceeds on disposal of property, plant and equipment	2,400	-
	(39,329)	(8,784)
CHANGE IN CASH POSITION	2,692,071	(591,788)
CASH, beginning of year	668,425	1,260,213
Effect of foreign currency translation	182,403	-
CASH, end of year	3,542,899	668,425

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

iFabric Corp. ("iFabric" or the "Company") is a Canadian public company, incorporated under the Alberta Business Corporations Act and is domiciled in Canada. iFabric is listed on the Toronto Stock Exchange ("TSX") under the trading symbol "IFA". The head office is located at 525 Denison Street, Unit 1, Markham, Ontario, Canada.

The Company's principle activities relate to the business of designing and distributing women's intimate apparel as well as a range of complimenting accessories. The Company is also in the business of developing and distributing a range of innovative products and treatments that are suitable for application to textiles, plastics, liquids, and hard surfaces as well as finished performance apparel which integrate one or more such treatments. These products are designed to provide added benefits to the user.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

These consolidated financial statements were prepared on a historical cost basis except for certain items which may be accounted for at fair value as further discussed in subsequent notes, using the significant accounting policies and measurement basis summarized below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of consolidation

The consolidated financial statements include the accounts of iFabric Corp., and its wholly-owned subsidiaries:

(i) Coconut Grove Textiles Inc., which includes the consolidated accounts of:

- a. Coconut Grove Pads Inc., a wholly-owned subsidiary;
- b. CG Intimates Inc., a U.S. company and wholly-owned subsidiary;
- c. 2074160 Ontario Inc., a 60%-owned subsidiary;
- d. Intelligent Fabric Technologies (North America) Inc. a wholly-owned subsidiary, which includes the consolidated accounts of:
 - i. Intelligent Fabric Technologies Inc., a U.S. company and wholly-owned subsidiary;
 - ii. Intelligent Fabric Technologies (Taiwan), a Taiwanese branch office

(ii) Protx (Shanghai) Trading Co., Ltd., a company incorporated in China.

All inter-corporate balances and transactions have been eliminated on consolidation.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars.

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. The change in functional currency from Canadian dollars to US dollars is accounted for prospectively from October 1, 2017.

The results and financial position of the above mentioned Companies are translated into Canadian dollars as follows:

- i. Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- ii. Income and expenses are translated at average exchange rates;
- iii. All resulting exchange differences are recognized in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued***(c) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts and rebates, which have been provided to certain of the Company's customers as a condition of sale. An allowance for the discounts and rebates is netted against total accounts receivable outstanding.

Revenue is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(d) Cash

Cash consists of cash on hand and bank balances held at various major financial institutions.

(e) Inventories

Inventories are comprised of merchandise for resale and are valued at the lower of cost (determined on a first-in, first-out basis) and net realizable value.

Cost includes the cost of purchase, duty, brokerage and transportation costs that are directly incurred to bring inventories to their present location and condition.

The Company estimates net realizable value as the amount at which inventories are expected to be sold less any costs to complete the sale. Inventories are written down to net realizable value when it is determined that the cost of inventories is not recoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Buildings	4% Declining balance
Computer and office equipment	30% Declining balance
Factory machinery	20% Declining balance

Amortization methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

(g) Goodwill

Goodwill is measured at cost less accumulated impairment loss.

(h) Finite-life intangible assets**Research and development costs**

Costs related to research are expensed as incurred.

Development costs of new products for sale, net of government assistance, are capitalized as deferred development costs if they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the product. Otherwise, development costs are expensed as incurred.

Deferred development costs are amortized, commencing when the product in question is commercially available for sale, over the estimated product life of five years using the straight-line method.

Subsequent to initial measurement, deferred development costs are stated at cost less accumulated amortization and accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued***(i) Impairment of non-financial assets**

The Company reviews the carrying value of its non-financial assets, which include property, plant and equipment, and deferred development costs at each reporting date to determine whether events or changed circumstances indicate that the carrying value may not be recoverable. For goodwill, the recoverability is estimated annually, on September 30 or more often when there are indicators of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying value of a non-financial asset exceeds the recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(j) Foreign currency translation

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are recognized in net earnings (loss).

(k) Leases**The Company as the lessee**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term, provided there is no reasonable certainty that the Company will obtain ownership of the asset by the end of the lease term. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed as part of financing cost. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownerships are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Company as the lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense on a straight-line basis over the lease term.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(l) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of earnings (loss) and comprehensive earnings (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Tax for current and prior periods is, to the extent unpaid, recognized as a tax payable in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as a tax recoverable in the statement of financial position.

Deferred tax

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable earnings will be available against which the difference can be utilized.

(m) Share-based payments

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, key employees and consultants. Terms and conditions of options granted under the Plan are determined by the Board of Directors.

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded over the vesting period as share-based compensation expense in the financial statements. The fair value determined by using the Black-Scholes option pricing model at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche separately based on the Company's estimate of shares that will eventually vest factoring in any forfeitures. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital.

Compensation expense on stock options or shares granted to non-employees is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, the value is measured by reference to the fair value of the equity instruments granted by use of a Black-Scholes option pricing model.

In order to determine the fair value using the Black-Scholes option pricing model, the expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(n) Financial instruments

Classification and measurement

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

On initial recognition, all financial instruments are measured at fair value, adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value through profit or loss, the amount of transaction costs directly attributable to the instrument.

After initial recognition, the measurement of financial instruments depends on their classification, which could include the following categories:

Financial assets: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables, or available for sale financial assets.

Financial liabilities: financial liabilities at FVTPL or other financial liabilities.

The Company classifies and measures its financial instruments as follows:

Financial Instrument	Category	Measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Foreign exchange forward contracts	Financial assets (liabilities) at FVTPL	FVTPL

Financial instruments measured at amortized cost are done so using the effective interest method.

In accordance with its risk management policy, the Company uses foreign exchange forward contracts to manage its foreign currency risk. These derivatives are not hedging items and are measured at fair value, with the changes in fair value recognized in profit or loss for the year.

Impairment of financial assets

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(n) Financial instruments, *continued*

Fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Forward foreign exchange contracts are measured at the fair value based on the mark-to-market variance calculated between the forward and spot rate. These derivative instruments are categorized as Level 2 in the fair value hierarchy. The Company has no financial instruments classified as Level 3 on the fair value hierarchy.

(o) Management judgments and use of estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

Significant judgments include the following:

Recoverability of deferred development costs

Management deems all such costs as recoverable based on the expectation of realizing future economic benefits through the profitable commercialization of the relevant products under development.

Benefits of deferred income tax assets

The recognition of deferred income tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which the deferred income tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve based on its internal projections. The estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credit. Deferred income tax assets are recognized to the extent it is probable that estimated taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized.

Significant estimates include the following:

Valuation of inventories

Provisions for non-saleable inventories are prepared by management based on their knowledge of sales history.

Estimated useful life of property, plant and equipment

Management makes this estimate based on past experience with similar assets and future business plans.

Share-based payment transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate.

Actual results could differ from these estimates and may require a material adjustment to the carrying amount of affected assets and liabilities.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(p) Earnings (loss) per share

Basic and diluted earnings (loss) per share is calculated by dividing the net earnings (loss) attributable to the Company's shareholders by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method of calculating diluted per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

(q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company also reports on the external revenues received from different geographical regions.

(r) Adoption of new or amended accounting standards

During the year ended September 30, 2018, the Company did not amend any of its accounting policies as the result of new or revised accounting standards.

(s) 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, 2018 or later periods. The standards implemented or 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 starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have a significant impact on the Company's accounting for financial instruments.
- ii) IFRS 15, 'Revenue From Contracts With Customers' was issued in May 2014. The standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers except for those that fall within the scope of IAS 17, 'Leases' or other applicable IFRS. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The adoption of IFRS 15 is not expected to have a significant impact on the Company's accounting for revenue.
- 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.

IFABRIC CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in Canadian Dollars)****4. ACCOUNTS RECEIVABLE**

	September 30, 2018	September 30, 2017
Trade receivables	2,217,913	5,707,294
Allowance for doubtful accounts	(4,285)	(4,285)
Allowance for discounts and rebates	(17,592)	(25,092)
Other	4,633	17,445
	2,200,669	5,695,362

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the year, the amount of inventories charged to net earnings (loss) was \$6,743,744 (2017 - \$8,893,641) and the amount of inventory write-downs were \$14,225 (2017 - \$289,297). There were no reversals of prior years write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2018	September 30, 2017
Prepaid expenses and other assets	102,877	112,818
Deposits paid to suppliers	62,419	141,260
	165,296	254,078

7. FOREIGN EXCHANGE FORWARD CONTRACTS

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

	September 30, 2018	September 30, 2017
Margin balance – cash deposit	76,935	74,917
Mark to market variance – gain (loss) on foreign exchange	(39,880)	37,616
	37,055	112,533

As at September 30, 2018, the Company had contracted to sell 150,000 British Pounds Sterling and sell 1,810,000 U.S. Dollars.

For the year ended September 30, 2018, there is an unrealized loss on foreign exchange of \$60,670 (September 30, 2017 - \$29,126 gain) recognized in net earnings (loss), with respect to changes in fair value of the Company's foreign exchange forward contracts.

8. DUE FROM RELATED PARTIES

The amounts due from related parties represent a housing loan to an executive officer. The loan bears interest at a rate of 1% per annum and is repayable in full by May 5, 2024.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
9. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2018		
	Cost	Accumulated amortization	Net carrying amount
Land and buildings (i)	3,096,936	357,056	2,739,880
Computer and office equipment	247,386	146,654	100,732
Factory machinery	8,753	5,274	3,479
	3,353,075	508,984	2,844,091

	September 30, 2017		
	Cost	Accumulated amortization	Net carrying amount
Land and buildings (i)	3,062,900	318,604	2,744,296
Computer and office equipment	243,559	118,518	125,041
Factory machinery	7,288	2,993	4,295
	3,313,747	440,115	2,873,632

(i) Land and buildings are owned by a subsidiary of the Company with a 40% non-controlling interest.

The tables below summarize the changes in the net carrying amounts of property, plant and equipment during the years presented:

	September 30, 2017				September 30, 2018
	Net carrying amount	Additions	Amortization	Disposals	Net carrying amount
Land and buildings	2,744,296	34,036	(38,452)	-	2,739,880
Computer and office equipment	125,041	3,828	(28,137)	-	100,732
Factory machinery	4,295	3,865	(2,281)	(2,400)	3,479
	2,873,632	41,729	(68,870)	(2,400)	2,844,091

	September 30, 2016				September 30, 2017
	Net carrying amount	Additions	Amortization	Disposals	Net carrying amount
Land and buildings	2,778,589	4,950	(39,243)	-	2,744,296
Computer and office equipment	154,694	3,834	(33,487)	-	125,041
Factory machinery	5,368	-	(1,073)	-	4,295
	2,938,651	8,784	(73,803)	-	2,873,632

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
10. DEFERRED DEVELOPMENT COSTS

	September 30, 2018		
	Cost	Accumulated amortization	Net carrying amount
Product development costs	941,427	790,264	151,163

	September 30, 2017		
	Cost	Accumulated amortization	Net carrying amount
Product development costs	941,427	666,186	275,241

11. DEFERRED INCOME TAXES

Temporary differences between accounting and taxable income which result in deferred income taxes are as follows:

	September 30, 2018	September 30, 2017
Unutilized loss carry forward	816,300	840,600
Capital cost allowance claimed in excess of amortization	(9,500)	(10,300)
Deferred development costs	(40,100)	(72,900)
	766,700	757,400

12. CREDIT FACILITIES

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 September 30, 2018 (\$774,908 – September 30, 2017). 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.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018	September 30, 2017
Trade payables	515,481	894,261
Government remittances	3,143	49,040
Accrued liabilities	243,319	159,930
Tenants deposits	8,847	8,847
	770,790	1,112,078

IFABRIC CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in Canadian Dollars)****14. DUE TO RELATED PARTIES**

The amounts due to related parties are unsecured, non-interest bearing and due on demand.

	September 30, 2018	September 30, 2017
Due to director	15,023	91,620
Due to director of subsidiary co. (i)	468,668	455,544
	483,691	547,164
Less current portion	15,023	91,620
Due beyond one year	468,668	455,544

(i) This creditor has waived their right to call for payment over the next year, and accordingly, this loan has been classified as non-current.

15. BANK LOAN PAYABLE

	September 30, 2018	September 30, 2017
Bank loan (i)	1,337,251	1,681,944
Less current portion	(78,962)	(1,681,944)
Due beyond one year	1,258,289	-

(i) On March 6, 2018, the Company refinanced its bank loan payable, replacing a previous bank loan.

The previous bank loan details were as follows:

Non-revolving demand term loan, payable in monthly principal payments of \$9,722 plus interest, bearing interest at the bank's prime rate plus 0.75%, amortized over a fifteen-year period ending February 28, 2032 and secured by a first-ranking all-indebtedness collateral mortgage in the amount of \$3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and three of its subsidiary companies.

The new bank loan details are as follows:

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.

Management expects to repay solely the minimum monthly payments, totaling \$126,262 over the next twelve months.

Estimated principal repayments are as follows:

2019	78,962
2020	1,258,289
	1,337,251

The bank loan payable is owed by a subsidiary of the Company with a 40% non-controlling interest.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
16. SEGMENTED INFORMATION

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

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

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

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Operating Segments 2018					
Revenues					
Third party	10,909,112	4,109,857	102,401	-	15,121,370
Inter-segment	7,200	78,616	163,332	(249,148)	-
Total Revenues	10,916,312	4,188,473	265,733	(249,148)	15,121,370
Earnings (loss) before income taxes	1,382,199	104,458	12,217	(126,786)	1,372,088
Amortization of deferred development costs	-	124,078	-	-	124,078
Amortization of property, plant and equipment	5,241	2,591	61,038	-	68,870
Interest on operating line	9,395	-	-	-	9,395
Interest on long-term debt	-	-	56,990	-	56,990
Segment assets	7,194,026	3,987,539	2,855,490	142,304	14,179,359
Expenditures on property, plant, and equipment	3,865	3,828	34,036	-	41,729

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Operating Segments 2017					
Revenues					
Third party	13,981,487	4,772,590	102,400	-	18,856,477
Inter-segment	-	122,168	164,886	(287,054)	-
Total Revenues	13,981,487	4,894,758	267,286	(287,054)	18,856,477
Earnings (loss) before income taxes	2,542,215	220,747	(20,336)	(407,487)	2,335,139
Amortization of deferred development costs	-	161,465	-	-	161,465
Amortization of property, plant and equipment	5,236	1,093	67,474	-	73,803
Interest on operating line	33,588	-	-	-	33,588
Interest on long-term debt	-	-	72,733	-	72,733
Segment assets	8,998,691	2,726,829	2,861,881	137,127	14,724,528
Expenditures on property, plant, and equipment	3,834	-	4,950	-	8,784

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

16. SEGMENTED INFORMATION, *continued*

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

	2018	2017
External sales revenue		
Canada	1,616,991	1,092,342
United States	9,756,309	12,333,934
United Kingdom	803,432	916,139
Southeast Asia and other	2,944,638	4,514,062
Total	15,121,370	18,856,477

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

17. SELLING, GENERAL AND ADMINISTRATIVE COSTS

	2018	2017
General and administrative costs	4,138,184	4,023,662
Selling costs	1,287,675	1,234,930
	5,425,859	5,258,592

General and administrative costs are primarily comprised of employee wages and short-term benefits, product design costs, office costs, regulatory costs, professional fees, and management and executive functions.

Selling costs are primarily comprised of commissions, royalties, advertising and promotional costs, distribution costs, and travel costs.

18. PERSONNEL EXPENSES

	2018	2017
Wages, salaries and short-term benefits	1,729,184	1,653,953
Management, professional, and directors' fees	668,000	489,752
Share-based compensation	151,839	447,402
	2,549,023	2,591,107
Included in cost of sales	172,527	155,184
Included in selling, general and administrative costs	2,224,657	1,988,521
Included in share-based compensation	151,839	447,402
	2,549,023	2,591,107

IFABRIC CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in Canadian Dollars)****19. INCOME TAXES**

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2017 - 26.5%) to the earnings for the year as follows:

	2018	2017
Earnings for the year before income taxes	1,372,088	2,335,139
Tax expense on accounting earnings	363,600	618,800
Tax effect of the following:		
Non-deductible share-based compensation	40,200	118,600
Items not deductible for tax purposes	10,100	8,900
Other	30,931	(1,083)
Provision for income taxes	444,831	745,217

20. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings per share is based on net earnings attributable to iFabric Corp.'s shareholders for the year ended September 30, 2018 of \$924,743 (earnings of \$1,597,090 for the year ended September 30, 2017). The number of shares used in the earnings per share calculation is as follows:

	2018	2017
Weighted average number of shares outstanding - basic	26,180,823	26,056,031
Dilutive effect of options	1,076,212	1,058,913
Dilutive effect of warrants	-	-
Weighted average number of shares outstanding - diluted	27,257,035	27,114,944

For the year ended September 30, 2018, 75,000 options and 203,625 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive. For the year ended September 30, 2017, 325,000 options and 230,625 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive.

21. CAPITAL STOCK

(a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2017	26,161,000	2,929,331
Shares issued pursuant to exercise of stock options	48,500	19,400
Ascribed value credited to share capital on exercise of options	-	15,093
Balance at September 30, 2018	26,209,500	2,963,824

	Number of common shares	Common share capital
Balance at September 30, 2016	25,989,750	2,807,538
Shares issued pursuant to exercise of stock options	171,250	68,500
Ascribed value credited to share capital on exercise of options	-	53,293
Balance at September 30, 2017	26,161,000	2,929,331

(b) Stock option plan

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

	Number of stock options	Weighted average exercise price
Balance at September 30, 2017	2,058,750	1.46
Exercised, during the year	(48,500)	0.40
Expired, during the year	(150,000)	3.53
Balance at September 30, 2018	1,860,250	1.32

	Number of stock options	Weighted average exercise price
Balance at September 30, 2016	1,630,000	1.00
Granted, during the year	600,000	2.40
Exercised, during the year	(171,250)	0.40
Balance at September 30, 2017	2,058,750	1.46

As of September 30, 2018, the following options were outstanding and exercisable:

Expiry date	Options Outstanding			Options Exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
January 16, 2023	1,085,250	4.29	0.40	1,085,250	0.40
April 1, 2024	75,000	5.50	4.15	75,000	4.15
May 6, 2025	100,000	6.60	2.70	100,000	2.70
June 5, 2027	600,000	8.68	2.40	300,000	2.40
	1,860,250	5.88	1.32	1,560,250	1.11

21. CAPITAL STOCK, *continued***(c) Warrants**

The following table summarizes warrants that have been issued, exercised, or expired during the years presented:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2017 and September 30, 2018	203,625	5.25

The following summarizes the warrants outstanding at September 30, 2018:

Expiry date	Number of warrants	Weighted average exercise price
December 13, 2018	203,625	5.25

22. COMMITMENTS

- (a) The Company's total commitments, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

2019	276,308
2020	289,450
2021	22,633
2022	14,270
	<u>602,661</u>

- (b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 for more information.
- (c) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 4-10%. Minimum annual royalties have been established for the balance of the contract periods ending December 31, 2018, 2019 and 2020 in U.S. dollar amounts of \$168,000, \$175,000 and \$187,000, respectively. In addition, the Company is required to pay an advertising fee of 1-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2020.

23. RELATED PARTY TRANSACTIONS

- (a) Key management personnel of the Company are those individuals having authority and responsibility for planning, directing, and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Company's Board of Directors, which includes three executive officers of the Company.

Remuneration of key management personnel of the Company was as follows:

	2018	2017
Salaries, management and professional fees, directors' fees, and short-term benefits	861,835	658,485
Share-based compensation	-	654,500
	861,835	1,312,985

- (b) Included in selling, general and administrative costs are management fees in the amount of \$5,424 (2017 - nil) paid to a company controlled by a director of one of the Company's subsidiaries.
- (c) Included in revenue is rental income earned in the amount of \$48,284 (2017 - \$48,284) from a company controlled by a director of one of the Company's subsidiaries.
- (d) Included in accounts payable and accrued liabilities is an amount of \$9,000 (2017 - \$15,000) due to directors and key management personnel of the Company in respect of unpaid fees.
- (e) Included in selling, general and administrative costs is an amount of \$45,751 (2017 - \$63,737) paid to the spouse of an executive officer of the Company for marketing and administrative services rendered.

24. FINANCIAL RISK MANAGEMENT**Fair Value**

The fair values of financial assets and liabilities, together with the carrying amounts presented in the balance sheets, are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
Bank loan payable	Level 2	1,337,251	1,334,616

The carrying values of cash, accounts receivables, balances with related party and accounts payable approximate their fair values due to the immediate or short-term maturity of these financial instruments. These financial instruments have been classified as level 2 within the fair value hierarchy.

The fair values of bank loan payable are calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest is determined by reference to similar liabilities.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company routinely assesses the financial strength of its customers to mitigate its exposure to credit risk.

In order to mitigate its credit risk, the Company insures its trade accounts receivable with Chartis Insurance Company of Canada based on specific or discretionary credit limits, dependant on the level of amounts outstanding from individual customers at that time. At the financial year end, a claim in the amount of 19,596 British Pounds Sterling was still pending under this policy.

The Company's maximum exposure to credit risk is \$2,200,669 (2017 - \$5,695,362). Included in selling, general and administrative costs are bad debts of \$10,928 (2017 - \$34,845) expensed during the year.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

24. FINANCIAL RISK MANAGEMENT, *continued*

The following table provides further details on trade receivables not impaired:

	September 30, 2018	September 30, 2017
Trade receivables not past due	1,544,795	5,331,108
Trade receivables past due and not impaired		
Under 31 days	385,286	351,951
31 - 60 days	135,673	14,131
61 - 90 days	100,526	2,817
Over 90 days	47,348	3,002
Trade receivables, net of allowance for doubtful accounts	2,213,628	5,703,009

Economic Dependence

Approximately 50% of the Company's total sales were to two customers (2017 - 52% of sales were to two customers). At September 30, 2018, two customers accounted for 68% (September 30, 2017 - two customers accounted for 79%) of the Company's accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities. The Company is exposed to this risk mainly with respect to its accounts payable and accrued liabilities, income taxes payable, related party loans, bank loan payable, and commitments. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to pay trade creditors and repays long term debt interest and principal as it becomes due using cash generated from operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to currency risk and interest rate risk.

Currency risk

The Company conducts certain of its operations in U.S. Dollars ("USD"), British Pounds Sterling ("GBP"), and New Taiwanese Dollars ("TWD"). The Company manages its currency risk with foreign exchange forward contracts (see note 7). The following balances were included in the financial statements:

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

24. FINANCIAL RISK MANAGEMENT, *continued*

USD	September 30, 2018	September 30, 2017
Cash	1,934,790	273,050
Accounts receivable	1,025,951	4,033,745
Accounts payable and accrued liabilities	(286,206)	(632,472)
Prepaid expenses and deposits	-	104,976
Foreign exchange forward contract margin deposit	60,050	60,000
	2,734,585	3,839,299
GBP	September 30, 2018	September 30, 2017
Cash	190,260	38,952
Accounts receivable	69,134	123,539
Accounts payable and accrued liabilities	1,635	(21,579)
	261,029	140,912
TWD	September 30, 2018	September 30, 2017
Cash	573,035	6,083,150
Accounts receivable	3,162,972	7,406,796
Accounts payable and accrued liabilities	(86,439)	(229,431)
	3,649,568	13,260,515

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. The effect of a 5% strengthening (weakening) of the USD against the Canadian Dollar as at September 30, 2018, in relation to the net amount of USD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$44,000 to net earnings (loss) for 2018, all other variables held constant. The effect of a 5% strengthening (weakening) of the GBP against the Canadian Dollar as at September 30, 2018, in relation to the net amount of GBP-denominated currency balances, would have resulted in an increase (decrease) of approximately \$7,000 to net earnings (loss) for 2018, all other variables held constant. The effect of a 5% strengthening (weakening) of the TWD against the Canadian Dollar as at September 30, 2018, in relation to the net amount of TWD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$6,000 to net earnings (loss) for 2018, all other variables held constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its secured bank loan and its bank operating line, which bear interest at floating rates, since changes in market rates can cause fluctuations in cash flows.

The Company has performed a sensitivity analysis on its interest rate risk. The effect of a 1% decrease (increase) in the average interest rate paid during the year would have resulted in an increase (decrease) of approximately \$12,000 to net earnings (loss) for 2018, all other variables held constant.

25. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while providing a return to its stakeholders.

The capital structure of the Company is composed of bank indebtedness, bank loan payable, and equity attributable to iFabric Corp.'s shareholders.

The Company's primary uses of capital are to finance working capital and capital expenditures.

The Company is subject to externally imposed capital requirements on debt described in notes 12 and 15. As at September 30, 2018, the Company met these financial covenants requirements.

26. SUBSEQUENT EVENTS

- (a) On November 13, 2018, the Company purchased 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. Refer note 9.
- (b) On November 19, 2018, 50,000 options granted to a former employee expired.
- (c) On December 13, 2018, 203,625 warrants expired.