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, 2017 and the audited consolidated financial statements and notes thereto for the year ended September 30, 2017 and the comparative year ended September 30, 2016. All financial information in this MD&A and the unaudited condensed consolidated interim financial statements and accompanying notes thereto were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A is dated February 9, 2018.

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

FORWARD-LOOKING INFORMATION

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

BUSINESS OVERVIEW

General

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

The Company's business activities are divided into three reportable operating segments, which offer different products and services, and are managed separately because they require different marketing strategies and resource allocations. The following summarizes the operations of each segment:

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

NATURE OF OPERATIONS

Intimate Apparel

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

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

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

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

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

Intelligent Fabrics

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

The business of the Intelligent Fabrics Division includes the development, testing and distribution of specialty textiles as well as chemicals suitable for application to textiles. The current focus is on technologies that improve the safety and well-being of the wearer. The division'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 Company has two key supply centers in Asia (namely China and Taiwan) which service the Asian market. This market represents the main production region for manufactured textiles supplied to North America and 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 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,	2017	2016	2015	2014	2013
Income Statement Data					
Revenue	18,856,477	13,570,365	13,074,848	13,021,482	8,165,983
Net earnings (loss) attributable to common shareholders	1,597,070	(373,977)	(109,837)	542,214	(144,556)
Net earnings (loss) per common share					
Basic	0.061	(0.014)	(0.004)	0.021	(0.006)
Diluted	0.059	(0.014)	(0.004)	0.020	(0.006)
Balance Sheet Data					
Total assets	14,724,528	12,296,093	11,928,359	11,559,443	9,154,711
Total non-current financial liabilities	586,544	1,893,809	1,408,893	1,952,287	2,084,741
Cash dividends declared	-	-	-	-	-

(In Canadian dollars, except as otherwise noted)

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

The following table sets forth the Company's unaudited condensed consolidated statements of earnings (loss) and comprehensive earnings (loss) for the three months ended December 31, 2017 and 2016:

For the three months ended December 31,	2017	2016
REVENUE	**5,136,771**	3,102,120
COST OF SALES	**2,549,577**	1,955,034
GROSS PROFIT	**2,587,194**	1,147,086
EXPENSES		
Selling, general and administrative costs	**1,276,910**	1,210,046
Interest on operating line	**9,395**	9,878
Interest on bank loan	**16,644**	14,178
Amortization of property, plant and equipment	**16,548**	12,503
Amortization of deferred development costs	**40,366**	40,366
	1,359,863	1,286,971
EARNINGS (LOSS) FROM OPERATIONS	**1,227,331**	(139,885)
OTHER EXPENSES (INCOME)		
Share-based compensation	**45,483**	16,459
Loss (gain) on foreign exchange	**(117,044)**	(4,405)
	(71,561)	12,054
EARNINGS (LOSS) BEFORE INCOME TAXES	**1,298,892**	(151,939)
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	**223,237**	14,348
Deferred	**124,700**	(43,000)
	347,937	(28,652)
NET EARNINGS (LOSS)	**950,955**	(123,287)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	**950,480**	(125,375)
Non-controlling interest	**475**	2,088
	950,955	(123,287)
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain on translation of foreign operations	**13,307**	-
	13,307	-
TOTAL COMPREHENSIVE EARNINGS (LOSS)	**964,262**	**(123,287)**
EARNINGS (LOSS) PER SHARE		
Basic	**0.036**	(0.005)
Diluted	**0.035**	(0.005)

(In Canadian dollars, except as otherwise noted)

SELECTED OPERATING SEGMENT DATA

Three months ended December 31, 2017	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate 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**

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

Revenue by geographic regions:

Three months ended December 31,	**2017**	2016
External sales revenue		
Canada	**131,685**	226,712
United States	**3,195,790**	1,379,161
United Kingdom	**183,821**	261,134
Southeast Asia and other	**1,625,474**	1,235,113
Total	**5,136,771**	3,102,120

Q1 2018 FINANCIAL HIGHLIGHTS

	2017	2016
Revenue	**5,136,771**	3,102,120
Earnings (loss) from operations	**1,227,331**	(139,885)
Share based compensation	**(45,483)**	(16,459)
Adjusted EBITDA *(Note)	**1,427,328**	(58,555)
Net earnings (loss) after tax	**950,955**	(123,287)
Net earnings (loss) after tax attributable to shareholders	**950,480**	(125,375)
Net earnings (loss) per share		
Basic	**0.036**	(0.005)
Diluted	**0.035**	(0.005)

**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, 2017 AND 2016

Revenue

Revenue increased by $2,034,651 to $5,136,771 in Q1 2018 from $3,102,120 in Q1 2017. With respect to the reportable operating segments of the Company, revenue increased by 95% or $1,693,856 in its Intimate Apparel segment to $3,479,795 in Q1 2018 from $1,785,939 in Q1 2017 and revenue increased by 26% or $340,795 in its Intelligent Fabrics segment to $1,631,376 in Q1 2018 from $1,290,581 in Q1 2017. Geographically, revenue increased in the U.S. and Southeast Asia and other areas but decreased in the UK and Canada in Q1 2018 versus Q1 2017.

Overall, revenue increased by 66% during Q1 2018 in comparison to Q1 2017. In the Intelligent Fabrics operating segment, revenue growth was mainly attributable to increased license revenue resultant from achieving certain milestones in respect of a major customer. In the Intimate Apparel operating segment, the increase in revenue during Q1 2018 from Q1 2017 was primarily attributable to the continued growth in sleepwear products.

Gross profit

Gross profit as a percentage of revenue increased to 50% in Q1 2018 from 37% in Q1 2017. The increase in gross profit percentage is mainly due to a substantial reduction in margin guarantee payments and end of season clearances, as well as in the product mix in Q1 2018 compared to the product mix in Q1 2017. Milestone license revenue in the Intelligent Fabrics operating segment further contributed to the increase in gross margins in Q1 2018 versus Q1 2017. Gross profit in dollars increased by 126% or $1,440,108 to $2,587,194 in Q1 2018 from $1,147,086 in Q1 2017. The increase in gross profit dollars is largely attributable to the increase in revenues in Q1 2018 compared to 2017, as well as the additional factors discussed above.

Selling, general and administrative costs

In Q1 2018, selling, general and administrative costs were virtually unchanged at $1,276,910 compared to $1,210,046 in Q1 2017. The minor increase in costs is mainly attributable to increased staffing costs in Q1 2018 versus Q1 2017.

Interest Expense

Interest expense during Q1 2018 was $26,039 compared to $24,056 during Q1 2017. The small increase in interest expense was mainly due to an increase in the Company's term bank loan in 2017, which was advanced with the purpose of funding certain renovations to the Company's head office in Markham, Ontario, as well as to provide additional working capital for the Company.

Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $56,914 during Q1 2018 compared to $52,869 during Q1 2017.

Share-based compensation

Share-based compensation costs in Q1 2018 were $45,483 compared to $16,459 in Q1 2017 resulting in an increase of $29,024. The increase in share-based compensation costs is the due to the vesting of previously issued stock options.

Gain on foreign exchange

In Q1 2018, the Company's gain on foreign exchange was $117,044 versus a gain of $4,405 in Q1 2017. The primary reason for the increase in exchange gains is the strengthening of the U.S. Dollar during Q1 2018, compared to a relatively more stable exchange rate during Q1 2017.

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 abovementioned 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. The resulting exchange difference amounting to $13,307 has been recognized in other comprehensive income for the quarter.

(In Canadian dollars, except as otherwise noted)

Provision for (recovery of) income taxes

The Company's provision for income taxes in Q1 2018 was $347,937 compared to a recovery income taxes of $28,652 in Q1 2017. 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 2017 to Q1 2018.

Net earnings (loss) and EBITDA

Net earnings attributable to iFabric's shareholders during Q1 2018 was $950,480 ($0.036 per share basic and $0.035 per share diluted) compared to a net loss of $125,375 in Q1 2017 ($0.005 per share, basic and diluted). The $1,075,855 increase net earnings in Q1 2018 versus Q1 2017 is largely attributable the increase in revenues, improved gross margins and increased gross profit dollars, for the reasons discussed above. Adjusted EBITDA for Q1 2018 amounted $1,427,328 compared to negative adjusted EBITDA of $58,555 in Q1 2017 representing an increase of $1,485,883.

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 2018	Q1	Q2	Q3	Q4
Revenue	5,136,771			
Net earnings (loss) attributable to common shareholders	950,480			
Net earnings (loss) per common share				
Basic	0.036			
Diluted	0.035			

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

Fiscal 2016	Q1	Q2	Q3	Q4
Revenue	3,329,010	3,072,027	2,999,317	4,170,011
Net earnings (loss) attributable to common shareholders	39,588	(324,657)	(121,653)	32,745
Net earnings (loss) per common share				
Basic	0.002	(0.013)	(0.005)	0.001
Diluted	0.001	(0.013)	(0.005)	0.001

(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, 2017 and September 30, 2017:

As at	**December 31, 2017**	September 30, 2017
ASSETS		
Current assets		
Cash	**2,764,250**	668,425
Accounts receivable	**4,095,364**	5,695,362
Inventories	**4,307,657**	3,909,807
Prepaid expenses and deposits	**231,575**	254,078
Foreign exchange forward contracts	**104,292**	112,533
Total current assets	**11,503,138**	10,640,205
Non-current assets		
Due from related parties	**123,000**	123,000
Property, plant and equipment	**2,857,084**	2,873,632
Deferred development costs	**234,876**	275,241
Deferred income taxes	**632,700**	757,400
Goodwill	**55,050**	55,050
Total non-current assets	**3,902,710**	4,084,323
Total assets	**15,405,848**	14,724,528
LIABILITIES		
Current liabilities		
Bank indebtedness	**-**	774,908
Accounts payable and accrued liabilities	**1,426,516**	1,112,078
Income taxes payable	**898,944**	675,645
Current portion of deferred revenue	**39,300**	39,300
Current portion due to related parties	**28,945**	91,620
Bank loan payable	**1,652,777**	1,681,944
Total current liabilities	**4,046,482**	4,375,495
Non-current liabilties		
Deferred revenue	**121,175**	131,000
Due to related parties	**465,956**	455,544
Total non-current liabilities	**587,131**	586,544
Total liabilities	**4,633,613**	4,962,039
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock	**2,929,331**	2,929,331
Reserves	**2,476,170**	2,430,687
Retained earnings	**5,341,444**	4,390,964
Accumulated other comprehensive earnings (loss)	**13,307**	-
Total equity attributable to iFabric Corp. shareholders	**10,760,252**	9,750,982
Non-controlling interest	**11,982**	11,507
Total equity	**10,772,234**	9,762,489
Total liabilities and equity	**15,405,848**	14,724,528

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Company's cash balance increased to $2,764,250 as at December 31, 2017 from $668,425 as at September 30, 2017 representing an increase of $2,095,825.

Total accounts receivable at the end of Q1 2018 was $4,095,364 compared to $5,695,362 as at September 30, 2017. The reduction in accounts receivable is attributable to collections from customers during Q1 2018, substantially exceeding the revenue for the quarter.

Total inventory increased by $397,850 to $4,307,657 at the end of Q1 2018 from $3,909,807 at the end of fiscal 2017. The Company increased its inventories of spring seasonal goods within its Intimate Apparel division in anticipation of sales to be recognized early in Q2 2018, while in the Intelligent Fabrics operating segment, the division continued to build its inventories to facilitate anticipated future demand for its product offerings.

Property, plant and equipment at the end of Q1 2018 totaled $2,857,084 compared to $2,873,632 at the end of fiscal 2017, with the change primarily attributable to amortization costs.

Deferred development costs decreased to $234,876 at the end of Q1 2018 from $275,241 at the end of fiscal 2017. The decrease is attributed to amortization of deferred development costs.

Deferred income taxes decreased to $632,700 at the end of Q1 2018 from $757,400 at the end of fiscal 2017. The decrease is mostly attributable to utilization of a portion of the non-capital losses previously incurred in the Company's Intelligent Fabric operating segment during the first quarter of 2018.

Total liabilities at the end of Q1 2018 were $328,426 lower than at the end of fiscal 2017. The Company decreased its liabilities mainly with respect to the repayment of the Company's bank operating line, which carried a zero balance as at December 31, 2017, leaving the full credit line of $3,500,000 available to fund future growth.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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

The Company's capital resources include a bank operating line, long-term debt, and equity attributable to the Company's shareholders.

Bank Operating Line

Two of the Company's subsidiaries share a demand operating loan with a tier one Canadian bank available to a maximum of $3,500,000, against which $0 was outstanding as at December 31, 2017 (September 30, 2017 - $774,908). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of $3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

Demand Term-Loan

One of the Company's subsidiaries has a non-revolving demand term loan, payable in monthly principal payments of $9,722 plus interest, bearing interest at the bank's prime rate plus 0.75%, 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 balance outstanding on this loan as at December 31, 2017 amounted to $1,652,777 compared to $1,681,944 as at September 30, 2017, with the reduction being attributable to the monthly capital repayments during the quarter.

Notwithstanding the fact that this is a demand loan, and classified as a current liability, management expects to repay solely the minimum monthly principal payments, totaling $116,667 over the next twelve months.

Working capital

Working capital represents current assets less current liabilities. For the purposes of calculating working capital the Company has excluded the demand term-loan referred to above. Although classified as a current liability as required by IFRS, the loan carries a term of 15 years and accordingly, does not impact the amount of available working capital. As at December 31, 2017, the Company's working capital was $9,109,433 compared to working capital of $7,946,654 as at September 30, 2017, representing an increase of $1,162,779 or 15%.

Operating activities

Cash provided by operating activities during the three months ended December 31, 2017 amounted to $2,952,163 compared to an amount of $395,638 provided by operating activities during the three months ended December 31, 2017, representing an increase in cash flow of $2,556,525. The increase in operational cash flow can be largely attributed to the substantial increase in earnings for the quarter and the collection of accounts receivable.

Financing activities

Cash used in financing activities during the three months ended December 31, 2017 amounted to $856,338, compared to $169,626 used in financing activities during the three months ended December 31, 2016, representing an increase of $686,712 in financing cash outflow. The difference can be mostly attributed to the repayment in full of the Company's bank operating line.

Investing activities

No cash was used in investing activities during the three months ended December 31, 2017 compared to a nominal amount of $339 used in investing activities during the three months ended December 31, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of December 31, 2017, with the exception of the operating leases as noted in the "Commitments & Contractual Obligations" section of the Company's 2017 annual MD&A.

COMMITMENTS & CONTRACTUAL OBLIGATIONS

During Q1 2017, there have been no significant changes in the contractual obligations from those disclosed in the Company's 2017 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 2018 unaudited condensed consolidated interim financial statements for more information.

b) In terms of a worldwide license agreement, the Company has the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 4-10%. Minimum annual royalties have been established for the balance of the contract periods ending December 31, 2017 and 2018 in U.S. dollar amounts of $288,000 and $368,000, respectively. In addition, the Company is required to pay an advertising fee of 1-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The Company is also required to pay an administration fee for each remaining year of the contract, due January 1, 2017 and 2018, in U.S. dollar amounts of $13,380 and $20,500, respectively. The license term is in effect until December 31, 2018.

RELATED PARTY TRANSACTIONS

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

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 26,161,000 common shares outstanding. Furthermore, as of the date of this MD&A, the Company had 2,058,750 options issued and outstanding, of which 1,758,750 were exercisable, as well as 203,625 warrants outstanding.

RISKS & UNCERTAINTIES

The Company is exposed to various operational risks and uncertainties which are described in the Company's 2017 annual MD&A. The risks and uncertainties disclosed in the 2017 annual MD&A are not exhaustive. There have been no specific additional risks or uncertainties identified during Q1 2018. New risk factors may emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business, performance, condition, results, operations or strategies and plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based upon the Q1 2018 unaudited condensed consolidated interim financial statements, which have been prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting". The preparation of the Q1 2018 unaudited condensed consolidated interim financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities at the end of the reporting period. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

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

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

During Q1 2018, there were no significant changes to methods used to:

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

For further details concerning the use of estimates, judgments and assumptions in the preparation of the Company's Q1 2018 unaudited condensed consolidated interim financial statements, along with details of the significant accounting policies used in the preparation of such interim financial statements, specific reference should be made to note 3 of the Company's audited annual consolidated financial statements for the fiscal year ended September 30, 2017.

ACCOUNTING POLICY DEVELOPMENTS

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2017 have been applied consistently in the preparation of the Q1 2018 unaudited condensed consolidated interim financial statements.

(a) Future changes in accounting standards

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

i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have a significant impact on the Company's accounting for financial instruments.

ii) IFRS 15, 'Revenue From Contracts With Customers' was issued in May 2014. The standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers except for those that fall within the scope of IAS 17, 'Leases' or other applicable IFRS. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The adoption of IFRS 15 is not expected to have a significant impact on the Company's accounting for revenue and the Company is currently assessing when to adopt IFRS 15.

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

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers") by others on a timely basis so that appropriate decisions can be made regarding public disclosure within the time periods required by applicable securities laws. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures. Based on an evaluation of the Company's disclosure controls and procedures, the Company's Certifying Officers have concluded that these controls are appropriately designed and were operating effectively as of December 31, 2017. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2017, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the annual regulatory filings.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS. The Certifying Officers are responsible for establishing and maintaining adequate ICFR for the Company. The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at December 31, 2017 and whether any material weaknesses relating to the design of the Company's ICFR were existing as at December 31, 2017. Based on that evaluation, the Certifying Officers concluded that the ICFR, as defined by National Instrument 52-109 – Certification of Disclosure on Issuers' Annual and Interim Filings, are appropriately designed and were operating effectively and that no material weaknesses were identified through their evaluation. The Certifying Officers have evaluated whether there were any changes in the Company's ICFR that occurred during the fiscal period ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

ADDITIONAL INFORMATION

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