iFabric Corp.

iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2016

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

CONTENTS

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements of iFabric Corp. have been prepared by, and are the responsibility of, management. The unaudited condensed consolidated interim financial statements have not been reviewed by iFabric Corp.'s auditors.

iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited, Expressed in Canadian Dollars)

As at	December 31, 2016	September 30, 2016
ASSETS		
Current assets		
Cash	**1,485,887**	1,260,213
Accounts receivable (note 4)	**2,078,029**	2,830,179
Inventories (note 5)	**3,870,244**	3,531,402
Prepaid expenses and deposits (note 6)	**434,032**	336,700
Foreign exchange forward contracts (note 7)	**31,647**	87,192
Total current assets	**7,899,839**	8,045,686
Non-current assets		
Property, plant and equipment	**2,926,486**	2,938,651
Deferred development costs	**396,341**	436,706
Deferred income taxes	**863,000**	820,000
Goodwill	**55,050**	55,050
Total non-current assets	**4,240,877**	4,250,407
Total assets	**12,140,716**	12,296,093
LIABILITIES		
Current liabilities		
Bank indebtedness (note 8)	**753,112**	889,903
Accounts payable and accrued liabilities (note 9)	**1,689,599**	1,575,948
Income taxes payable	**27,405**	19,980
Current portion due to related parties	**132,886**	139,788
Current portion of bank loan payable	**120,000**	120,000
Total current liabilities	**2,723,002**	2,745,619
Non-current liabilties		
Due to related parties	**567,877**	563,809
Bank loan payable	**1,300,000**	1,330,000
Total non-current liabilities	**1,867,877**	1,893,809
Total liabilities	**4,590,879**	4,639,428
Commitments (note 13)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 12)	**2,807,538**	2,807,538
Contributed surplus	**125,568**	-
Warrants (note 12)	**579,293**	704,861
Options (note 12)	**1,348,176**	1,331,717
Retained earnings	**2,668,519**	2,793,894
Total equity attributable to iFabric Corp. shareholders	**7,529,094**	7,638,010
Non-controlling interest	**20,743**	18,655
Total equity	**7,549,837**	7,656,665
Total liabilities and equity	**12,140,716**	12,296,093

Approved on behalf of the Board of Directors on February 13, 2017:

"Hylton Karon"
Director

"Hilton Price"
Director

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

iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

(Unaudited, Expressed in Canadian Dollars)

For the three months ended December 31,	2016	2015
REVENUE	**3,102,120**	3,329,010
COST OF SALES	**1,955,034**	1,544,795
GROSS PROFIT	**1,147,086**	1,784,215
EXPENSES		
Selling, general and administrative costs	**1,210,046**	1,651,592
Interest on operating line	**9,878**	3,875
Interest on long-term debt	**14,178**	9,657
Amortization of property, plant and equipment	**12,503**	8,649
Amortization of deferred development costs	**40,366**	40,366
	1,286,971	1,714,139
EARNINGS (LOSS) FROM OPERATIONS	**(139,885)**	70,076
OTHER EXPENSES (INCOME)		
Share-based compensation	**16,459**	44,405
Gain on foreign exchange	**(4,405)**	(48,783)
	12,054	(4,378)
EARNINGS (LOSS) BEFORE INCOME TAXES	**(151,939)**	74,454
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	**14,348**	76,909
Deferred	**(43,000)**	(43,851)
	(28,652)	33,058
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)	**(123,287)**	41,396
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	**(125,375)**	39,588
Non-controlling interest	**2,088**	1,808
	(123,287)	41,396
EARNINGS (LOSS) PER SHARE (note 11)		
Basic	**(0.005)**	0.002
Diluted	**(0.005)**	0.001

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iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited, Expressed in Canadian Dollars)

	Attributable to iFabric Corp. shareholders							
	Capital stock	Contributed surplus	Warrants	Options	Retained earnings	Total	Non-controlling interest	Total equity
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)	-	-	-	-	(125,375)	(125,375)	2,088	**(123,287)**
Expiry of warrants	-	125,568	(125,568)	-	-	-	-	**-**
Share-based compensation	-	-	-	16,459	-	16,459	-	**16,459**
Balance at December 31, 2016	**2,807,538**	**125,568**	**579,293**	**1,348,176**	**2,668,519**	**7,529,094**	**20,743**	**7,549,837**

	Attributable to iFabric Corp. shareholders							
	Capital stock	Contributed surplus	Warrants	Options	Retained earnings	Total	Non-controlling interest	Total equity
Balance at September 30, 2015	2,743,530	-	704,861	1,241,323	3,167,871	7,857,585	14,840	**7,872,425**
Total comprehensive earnings	-	-	-	-	39,588	39,588	1,808	**41,396**
Share-based compensation	-	-	-	44,405	-	44,405	-	**44,405**
Balance at December 31, 2015	**2,743,530**	-	**704,861**	**1,285,728**	**3,207,459**	**7,941,578**	**16,648**	**7,958,226**

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iFABRIC CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited, Expressed in Canadian Dollars)

For the three months ended December 31,	**2016**	2015
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	**(123,287)**	41,396
Items not affecting cash		
Amortization of property, plant and equipment	**12,503**	8,649
Amortization of deferred development costs	**40,366**	40,366
Fair value adjustment on foreign exchange forward contracts	**57,405**	21,988
Share-based compensation	**16,459**	44,405
Deferred income tax recovery	**(43,000)**	(43,851)
	(39,554)	112,953
Change in non-cash operating working capital items		
Accounts receivable	**752,150**	222,398
Inventories	**(338,842)**	(584,605)
Prepaid expenses and deposits	**(97,332)**	176,066
Foreign exchange forward contracts	**(1,860)**	(2,970)
Accounts payable and accrued liabilities	**113,651**	(668,420)
Income taxes payable	**7,425**	76,908
	435,192	(780,623)
	395,638	(667,670)
FINANCING ACTIVITIES		
Bank operating line	**(136,792)**	709,777
Due to related parties	**(2,834)**	(42,242)
Repayment of bank loan	**(30,000)**	(30,000)
	(169,626)	637,535
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(339)**	-
	(339)	-
CHANGE IN CASH POSITION	**225,674**	(30,135)
CASH, beginning of period	**1,260,213**	852,016
CASH, end of period	**1,485,887**	821,881

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

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 and sleepwear, as well as a range of complimenting accessories. The Company is also in the business developing and distributing a range 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.

2. BASIS OF PREPARATION

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, Interim Financial Reporting. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended September 30, 2016. Certain comparative figures have been reclassified to conform to the current year's presentation.

(b) Basis of consolidation

These unaudited condensed consolidated interim 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.

(c) Seasonal fluctuations

The interim period results of operations do not necessarily reflect results for the full fiscal year because of seasonal fluctuations that characterize the apparel and textiles industries.

(d) Basis of measurement

These unaudited condensed consolidated interim 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 the significant accounting policies of the most recent audited annual financial statements for the year ended September 30, 2016.

(e) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2016 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements, with the exception of the following:

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

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

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

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

(b) Future changes 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, 2016 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 for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.

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

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

(Unaudited, Expressed in Canadian Dollars)

4. ACCOUNTS RECEIVABLE

	December 31, 2016	September 30, 2016
Trade receivables	**2,100,847**	2,902,312
Allowance for doubtful accounts	**(2,788)**	(8,213)
Allowance for discounts and rebates	**(23,635)**	(66,500)
Other	**3,605**	2,580
	2,078,029	2,830,179

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the three months ended December 31, 2016, the amount of inventories charged to net earnings was $1,729,479 (2015 - $1,195,960) and the amount of inventory write-downs were $797 (2015 - nil). There were no reversals of prior period write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2016	September 30, 2016
Prepaid expenses and other assets	**137,831**	66,708
Deposits paid to suppliers	**296,201**	269,992
	434,032	336,700

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:

	December 31, 2016	September 30, 2016
Margin balance – cash deposit	**80,562**	78,702
Mark to market variance – gain (loss) on foreign exchange	**(48,915)**	8,490
	31,647	87,192

As at December 31, 2016, the Company had contracted to sell 50,000 British Pounds Sterling ("GBP") and sell 1,200,000 U.S Dollars ("USD") .

For the three months ended December 31, 2016, there is a loss on foreign exchange of $57,405 (2015 - $21,988 loss) recognized in net earnings (loss), with respect to changes in fair value of the Company's foreign exchange forward contracts.

8. CREDIT FACILITIES

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

(Unaudited, Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2016	September 30, 2016
Trade payables	**1,387,088**	1,208,152
Government remittances	**125,591**	131,632
Accrued liabilities	**168,073**	227,317
Tenants deposits	**8,847**	8,847
	1,689,599	1,575,948

10. 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, 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.

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

There has been no material change in the total assets for each reportable segment since the last annual audited financial statements.

Three months ended December 31, 2016	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
Revenue					
Third party	1,785,939	1,290,581	25,600	-	**3,102,120**
Inter-segment	5,400	52,299	41,704	(99,403)	-
Total Revenue	1,791,339	1,342,880	67,304	(99,403)	**3,102,120**
Earnings (loss) before income taxes	(170,688)	(4,065)	6,346	16,468	**(151,939)**

Three months ended December 31, 2015	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
Revenue					
Third party	3,183,307	106,029	39,674	-	**3,329,010**
Inter-segment	10,800	-	38,925	(49,725)	-
Total Revenue	3,194,107	106,029	78,599	(49,725)	**3,329,010**
Earnings (loss) before income taxes	263,752	(248,656)	7,226	52,132	**74,454**

(Unaudited, Expressed in Canadian Dollars)

10. SEGMENTED INFORMATION, *continued*

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

Three months ended December 31,	2016	2015
External sales revenue		
Canada	**226,712**	165,319
United States	**1,379,161**	2,770,530
United Kingdom	**261,134**	320,704
Southeast Asia and other	**1,235,113**	72,457
Total	**3,102,120**	3,329,010

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

11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings (loss) per share is based on net loss attributable to iFabric Corp.'s shareholders for the three months ended December 31, 2016 of $125,375 (earnings of $39,588 for the three months ended December 31, 2015). The number of shares used in the earnings (loss) per share calculation is as follows:

Three months ended December 31,	2016	2015
Weighted average number of shares outstanding - basic	**25,989,750**	25,899,750
Dilutive effect of options	**-**	1,203,271
Weighted average number of shares outstanding - diluted	**25,989,750**	27,103,021

For the three months ended December 31, 2016, 1,630,000 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 three months ended December 31, 2015, 225,000 options and 232,133 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive.

12. CAPITAL STOCK

(a) Authorized, issued and outstanding

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2016 and December 31, 2016	25,989,750	2,807,538

	Number of common shares	Common share capital
Balance at September 30, 2015 and December 31, 2015	25,899,750	2,743,530

(Unaudited, Expressed in Canadian Dollars)

12. CAPITAL STOCK, *continued*

(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, 2016 and December 31, 2016	1,630,000	1.00

	Number of stock options	Weighted average exercise price
Balance at September 30, 2015 and December 31, 2015	1,720,000	0.80

As of December 31, 2016, the following options were outstanding and exercisable:

	Options Outsanding			Options Exercisable	
Expiry date	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
September 17, 2018	75,000	1.71	2.90	75,000	2.90
January 16, 2023	1,305,000	6.04	0.40	1,305,000	0.40
April 1, 2024	150,000	7.25	4.15	100,000	4.15
May 6, 2025	100,000	8.35	2.70	100,000	2.70
	1,630,000	**6.09**	**1.00**	**1,580,000**	**0.90**

(c) Warrants

The following tables summarize changes in the status of the Company’s outstanding warrants:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2016	232,133	5.10
Expired (i)	(28,508)	4.00
Balance, Decemner 31, 2016	203,625	5.25

	Number of warrants	Weighted average exercise price
Balance, September 30, 2015 and December 31, 2015	232,133	5.10

(i) On December 13, 2016, 28,508 previously outstanding warrants expired. As a result, the Company transferred $125,568 from its Warrants equity reserve to contributed surplus.

12. CAPITAL STOCK, *continued*

(c) Warrants, *continued*

The following table summarizes warrants outstanding as of December 31, 2016:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2015 and December 31, 2015	232,133	5.10

(i) On November 21, 2016, the Company announced that the TSX had consented to the extension of the time to exercise shareholder warrants previously issued on December 13, 2013. A total of 203,625 shareholder warrants issued as part of a brokered private placement on December 13, 2013, were due to expire on December 13, 2016, and had been extended to expire on December 13, 2017. The amendment to the expiry date of these warrants became effective 10 business days following the date of the news release, being December 2, 2016. Each shareholder warrant entitles the holder to acquire one common share of the Company at an exercise price of $5.25 per share. All warrantholders are arm's length to the Company.

13. COMMITMENTS

(a) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 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.

14. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the three months ended December 31, 2016 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2016.