



IFABRIC CORP.

CONSOLIDATED
FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

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

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

Independent Auditor's Report

To the Shareholders of iFabric Corp.

Opinion

We have audited the consolidated financial statements of iFabric Corp. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at September 30, 2019 and 2018, and the consolidated statements of (loss) earnings, and comprehensive (loss) earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Crolla.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
December 23, 2019

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

As at	September 30, 2019	September 30, 2018
ASSETS		
Current assets		
Cash	2,287,548	3,542,899
Accounts receivable (note 4)	2,358,120	2,200,669
Inventories (note 5)	2,752,089	4,293,436
Income taxes recoverable	299,640	-
Prepaid expenses and deposits (note 6)	256,976	165,296
Foreign exchange forward contracts (note 7)	58,830	37,055
Total current assets	8,013,203	10,239,355
Non-current assets		
Due from related parties (note 8)	112,248	123,000
Property, plant and equipment (note 9)	2,799,103	2,844,091
Deferred development costs (note 10)	107,279	151,163
Deferred income taxes (note 11)	896,919	766,700
Goodwill	55,050	55,050
Total non-current assets	3,970,599	3,940,004
Total assets	11,983,802	14,179,359
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	797,947	770,790
Income taxes payable	13,114	413,239
Current portion of contract liability	168,795	39,300
Current portion due to related parties (note 14)	263	15,023
Current portion of bank loan payable (note 15)	1,258,351	78,962
Total current liabilities	2,238,470	1,317,314
Non-current liabilities		
Contract liability	-	91,700
Due to related parties (note 14)	476,747	468,668
Bank loan payable (note 15)	-	1,258,289
Total non-current liabilities	476,747	1,818,657
Total liabilities	2,715,217	3,135,971
Commitments (note 23)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 21)	2,963,824	2,963,824
Reserves	2,293,619	2,567,433
Retained earnings	3,860,997	5,315,707
Accumulated other comprehensive earnings	138,199	182,403
Total equity attributable to iFabric Corp. shareholders	9,256,639	11,029,367
Non-controlling interest	11,946	14,021
Total equity	9,268,585	11,043,388
Total liabilities and equity	11,983,802	14,179,359

Approved on behalf of the Board of Directors on December 23, 2019:

"Hylton Karon"
Director

"Hilton Price"
Director

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

IFABRIC CORP.

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

(Expressed in Canadian Dollars)

For the year ended September 30,	2019	2018
REVENUE	10,435,348	15,121,370
COST OF SALES	6,687,652	8,017,914
GROSS PROFIT	3,747,696	7,103,456
EXPENSES		
Selling, general and administrative costs (note 17)	5,118,744	5,425,859
Interest on operating line	-	9,395
Interest on bank loan	47,361	56,990
Amortization of property, plant and equipment	66,808	68,870
Amortization of deferred development costs	43,884	124,078
Share-based compensation	120,928	151,839
	5,397,725	5,837,031
(LOSS) EARNINGS FROM OPERATIONS	(1,650,029)	1,266,425
OTHER EXPENSES (INCOME)		
Gain on foreign exchange	(46,400)	(105,663)
Loss on disposal of capital assets	14,579	-
	(31,821)	(105,663)
(LOSS) EARNINGS BEFORE INCOME TAXES	(1,618,208)	1,372,088
(RECOVERY OF) PROVISION FOR INCOME TAXES (note 19)		
Current	(245,761)	454,131
Deferred	(75,767)	(9,300)
	(321,528)	444,831
NET (LOSS) EARNINGS	(1,296,680)	927,257
NET (LOSS) EARNINGS ATTRIBUTABLE TO:		
iFabric Corp. shareholders	(1,299,863)	924,743
Non-controlling interest	3,183	2,514
	(1,296,680)	927,257
OTHER COMPREHENSIVE (LOSS) EARNINGS		
Unrealized (loss) gain on translation of foreign operations	(44,204)	182,403
TOTAL COMPREHENSIVE (LOSS) EARNINGS	(1,340,884)	1,109,660
(LOSS) EARNINGS PER SHARE (note 20)		
Basic	(0.050)	0.035
Diluted	(0.050)	0.034

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

	Attributable to iFabric Corp. shareholders							Non-controlling interest	Total equity
	Reserves				Retained earnings	Accumulated Other Comprehensive Earnings	Total		
	Capital stock	Contributed surplus	Warrants	Options					
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
IFRS 15 transition adjustment (note 3)	-	-	-	-	(154,847)	-	(154,847)	-	(154,847)
Total comprehensive (loss) earnings	-	-	-	-	(1,299,863)	(44,204)	(1,344,067)	3,183	(1,340,884)
Expiry of options	-	638,793	-	(59,500)	-	-	579,293	-	579,293
Expiry of warrants	-	-	(579,293)	-	-	-	(579,293)	-	(579,293)
Transactions with non-controlling interest (note 22)	-	(394,742)	-	-	-	-	(394,742)	(5,258)	(400,000)
Share-based compensation	-	-	-	120,928	-	-	120,928	-	120,928
Balance at September 30, 2019	2,963,824	852,679	-	1,440,940	3,860,997	138,199	9,256,639	11,946	9,268,585

	Attributable to iFabric Corp. shareholders							Non-controlling interest	Total equity
	Reserves				Retained earnings	Accumulated Other Comprehensive Earnings	Total		
	Capital stock	Contributed surplus	Warrants	Options					
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

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,	2019	2018
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net (loss) earnings	(1,296,680)	927,257
Items not affecting cash		
Amortization of property, plant and equipment	66,808	68,870
Amortization of deferred development costs	43,884	124,078
Loss on disposal of capital assets	14,579	-
Fair value adjustment on foreign exchange forward contracts	(20,708)	(60,670)
Share-based compensation	120,928	151,839
Deferred income tax provision	(75,767)	(9,300)
IFRS 15 transition adjustment (note 3)	(209,299)	-
	(1,356,255)	1,202,074
Changes in operating assets and liabilities		
Accounts receivable	(157,451)	3,494,693
Inventories	1,541,347	(383,629)
Income taxes recoverable	(299,640)	-
Prepaid expenses and deposits	(91,680)	88,782
Foreign exchange forward contracts	(1,067)	136,148
Due from related parties	10,752	-
Accounts payable and accrued liabilities	27,157	(341,288)
Contract liability	37,795	(39,300)
Income taxes payable (i)	(400,125)	(262,406)
	667,088	2,693,000
	(689,167)	3,895,074
FINANCING ACTIVITIES		
Bank operating line	-	(774,908)
Due to related parties	(6,681)	(63,473)
Repayment of bank loan (note 15)	(78,900)	(344,693)
Increase in investment in subsidiary (note 22)	(400,000)	-
Share issuances (note 21)	-	19,400
	(485,581)	(1,163,674)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(75,070)	(41,729)
Proceeds on disposal of property, plant and equipment	38,671	2,400
	(36,399)	(39,329)
CHANGE IN CASH POSITION	(1,211,147)	2,692,071
CASH, beginning of year	3,542,899	668,425
Effect of foreign currency translation	(44,204)	182,403
CASH, end of year	2,287,548	3,542,899

(i) Actual taxes paid: \$446,357

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 in terms of protection and performance enhancements.

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 75%-owned subsidiary (2018 – 60%);
- 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.

The functional currency of the Company's subsidiaries - Coconut Grove Pads Inc., Protx (Shanghai) Trading Co., Ltd., and Intelligent Fabric Technologies (North America) Inc., is the United States Dollar ("USD") given the prevalence of USD denominated transactions in their operations. The functional currency of the remaining subsidiaries is Canadian dollars.

The results and financial position of the subsidiaries with USD functional currency 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Adoption of new or amended accounting standards

During the year ended September 30, 2019, the Company adopted IFRS 9, "Financial Instruments" using the retrospective method and IFRS 15 "Revenue from Contracts with Customers" using the cumulative effect method.

The adoption of IFRS 9 resulted in no impact to the net earnings or opening retained earnings of comparative periods. The Company has utilized the exemption to not restate comparative information upon transition. See note 3(o) below for details.

As a result of the adoption of IFRS 15, management reviewed the recognition of license revenue, which resulted in an adjustment to opening retained earnings, revenue, deferred income tax, and contract liability. The following table presents the impact from the adoption of IFRS 15 on the consolidated statement of comprehensive loss (earnings).

	Year ended September 30, 2019		
	Pre-adoption of IFRS 15	IFRS 15 Adjustments	As reported
Revenue	10,297,553	137,795	10,435,348
Deferred income tax provision	(112,200)	36,433	(75,767)
Gain on foreign exchange	(48,087)	1,687	(46,400)
Total comprehensive (loss) earnings	(1,440,559)	99,675	(1,340,884)

	Balance at September 30, 2018	IFRS 15 Adjustments	Balance at October 1, 2018
ASSETS			
Deferred income tax	766,700	54,452	821,152
LIABILITIES			
Contract liability	131,000	209,299	340,299
EQUITY			
Retained Earnings	5,315,707	(154,847)	5,160,860

(d) Revenue recognition

Effective October 1, 2018, the Company adopted IFRS 15, "Revenue from Contracts with Customers", ("IFRS 15"), issued in May 2014, and amended in September 2015 and April 2016 using the cumulative method. IFRS 15 replaces the existing revenue recognition guidance with a single comprehensive accounting model. The Company derives its revenue from the sale of its merchandise to wholesale retailers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser of such goods and services.

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

The Company recognizes revenue when a contract specifying the number of units ordered, price and timing of delivery exists with a customer and control of the goods has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur. Variable consideration received in excess of the performance obligation is recorded as a contract liability.

Net revenue reflects the Company's sale of merchandise, less returns, and after making allowance for anticipated discounts and rebates in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(e) Cash

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

(f) 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.

(g) 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.

(h) Goodwill

Goodwill is measured at cost less accumulated impairment loss.

(i) 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.

(j) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(j) Impairment of non-financial assets, continued

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.

(k) 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).

(l) 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

Where lease contracts contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due, the Company records the total income on a straight-line basis over the term of the relevant lease contract. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing. 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.

During the fiscal year, the Company entered into a five year lease agreement with a lessee which contains rent escalation clauses and rent free periods. Minimum rent is paid in monthly instalments on the first day of each month during each year of the term.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(l) Leases, continued

Rent expected to be collected over the term of the agreement is as follows:

2020	94,131
2021-2024	325,537
	<hr/>
	419,668

(m) 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.

(n) 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 consolidated 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
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(o) Financial instruments

Effective October 1, 2018, the Company adopted IFRS 9, "Financial Instruments", issued in July 2014, which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new standard accounts for all aspects of financial instruments and includes a logical model for classification and measurement, a single forward looking 'expected-loss' impairment model and a substantially reformed approach to hedge accounting. The Company has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

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 described below:

Amortized cost: Financial assets under this classification primarily arise from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contract cash flows are solely the payments of principal and interest. Financial liabilities, other than those held for trading or elected to measure at fair value through profit or loss, are measured at amortized cost. Financial instruments of the Company that are classified as amortized cost include cash, accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, due to related parties, and loan payable.

Fair value through profit or loss: Financial instruments under this classification include foreign exchange forward contracts. Transaction costs associated with these financial instruments are expensed as incurred.

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

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
Bank 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. The fair value of these contracts is based on the current market value of similar contracts with similar remaining duration as if the contract was entered into on September 30, 2019.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS39 with a forward-looking expected credit loss model ("ECL"). This new model applies to financial assets measured at amortized cost. The Company applies the simplified approach of the expected credit loss model when assessing impairment of accounts receivable and long term receivables. Under this approach, lifetime expected credit losses are recognized and are calculated using a provision matrix based on historical impairment rates, which is adjusted based on current conditions and future expectations.

The Company's balances due are primarily comprised of amounts due from customers. The Company has determined the adoption of IFRS 9 has resulted in no additional recorded impairment allowance as at October 1, 2018 and for the year ended September 30, 2019.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(o) 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 hierarchy is as follows:

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.

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.

(p) 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 consolidated 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.

Revenue recognition

Revenue recognized from contracts with variable consideration is based on estimates and judgments on achieving future milestones and project unit sales.

Valuation of receivables

Provisions for expected credit losses are prepared by management based on historical rates of impairment, which is adjusted based on current conditions and future expectations.

Valuation of inventories

Provisions for non-saleable inventories are prepared by management based on estimates and judgments that include current market prices, current economic trends and past experience in the measurement of net realizable value.

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
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(q) 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.

(r) 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.

(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, 2019 or later periods. The standards implemented or impacted that are applicable to the company are as follows:

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

Management is expecting an increase to assets and liabilities due to the requirement to record a right-of-use asset and corresponding lease liability using an initial present value of unavoidable future lease payments on the Consolidated Statement of Financial Position. It is expected that there will be a decrease to selling, general, and administrative costs, an increase to interest costs (due to the accretion of the lease liability) and an increase to depreciation and amortization (due to amortization of the right-to-use asset) on the Consolidated Statement of (Loss) Earnings and Comprehensive (Loss) Earnings. Actual cash flows are expected to be unaffected, cash flows from operations are expected to increase and cash flows from financing activities are expected to decrease. Leases with a low value or a duration of twelve months or less may be exempt.

- ii) IFRIC Interpretation 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23"), was published in June 2017 and clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The interpretation requires retrospective application, with some practical expedients available on adoption. The Company is currently assessing the impact of the Interpretation on its consolidated financial statements.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. ACCOUNTS RECEIVABLE

	September 30, 2019	September 30, 2018
Trade receivables	2,352,984	2,217,913
Allowance for doubtful accounts	-	(4,285)
Allowance for discounts and rebates	(20,592)	(17,592)
Rent Receivable	23,660	-
Other	2,068	4,633
	2,358,120	2,200,669

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the year, the amount of inventories charged to net earnings (loss) was \$5,438,554 (2018 - \$6,743,744) and the amount of inventory write-downs were \$42,779 (2018 - \$14,225). There were no reversals of prior years write-downs of inventory.

6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2019	September 30, 2018
Prepaid expenses and other assets	122,116	102,877
Deposits paid to suppliers	134,860	62,419
	256,976	165,296

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, 2019	September 30, 2018
Margin balance – cash deposit	119,418	76,935
Mark to market variance – loss on foreign exchange	(60,588)	(39,880)
	58,830	37,055

As at September 30, 2019, the Company had contracted to sell 1,310,000 U.S. Dollars.

For the year ended September 30, 2019, there is an unrealized loss on foreign exchange of \$20,708 (September 30, 2018 - \$60,670 loss) 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 that is the greater of 1% per annum and the minimum interest rate per the Canada Revenue Agency, and, is repayable in full by May 5, 2024. The fair market value of the loan using the applicable market interest rate would not result in a material adjustment to the carrying value of the loan, and as such, no adjustment has been made by the Company in this regard.

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

9. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2019		
	Cost	Accumulated amortization	Net carrying amount
Land and buildings (i)	3,112,006	394,953	2,717,053
Computer and office equipment	243,189	163,922	79,267
Factory machinery	8,753	5,970	2,783
	3,363,948	564,845	2,799,103

	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

(i) Land and buildings are owned by a subsidiary of the Company with a 25% non-controlling interest (2018 – 40%).

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

	September 30, 2018				September 30, 2019
	Net carrying amount	Additions	Amortization	Disposals	Net carrying amount
Land and buildings	2,739,880	15,070	(37,897)	-	2,717,053
Computer and office equipment	100,732	-	(21,465)	-	79,267
Factory machinery	3,479	-	(696)	-	2,783
Automobile	-	60,000	(6,750)	(53,250)	-
	2,844,091	75,070	(66,808)	(53,250)	2,799,103

	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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10. DEFERRED DEVELOPMENT COSTS

	September 30, 2019		
	Cost	Accumulated amortization	Net carrying amount
Product development costs	941,427	834,148	107,279

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

11. DEFERRED INCOME TAXES

Temporary differences between accounting and taxable income which result in deferred income tax assets (liabilities) are as follows:

	September 30, 2019	September 30, 2018
Unutilized loss carry forward	934,019	816,300
Capital cost allowance claimed in excess of amortization	(8,700)	(9,500)
Deferred development costs	(28,400)	(40,100)
	896,919	766,700

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, 2019 (September 30, 2018 - \$0). The loan facility bears interest at either the bank's prime lending rate or USD base rate, as applicable, plus 0.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by a first-ranking all-indebtedness collateral mortgage in the amount of \$3,000,000 on land and buildings, a general security agreement, an assignment of rents, as well as guarantees from the Company and two of its subsidiary companies.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019	September 30, 2018
Trade payables	543,142	515,481
Government remittances	54,350	3,143
Accrued liabilities	180,541	243,319
Tenants deposits	19,914	8,847
	797,947	770,790

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. DUE TO RELATED PARTIES

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

	September 30, 2019	September 30, 2018
Due to director	263	15,023
Due to director of subsidiary co. (i)	476,747	468,668
	477,010	483,691
Less current portion	263	15,023
Due beyond one year	476,747	468,668

(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, 2019	September 30, 2018
Bank loan	1,258,351	1,337,251
Less current portion	(1,258,351)	(78,962)
Due beyond one year	-	1,258,289

The Company has a fixed rate term loan, payable in monthly increments of \$10,522 comprising principal and interest at a fixed rate of 3.64% per annum, amortized over a fifteen-year period ending February 29, 2032, maturing February 28, 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 the balance totaling \$1,258,351 over the next twelve months.

The bank loan payable is owed by a subsidiary of the Company with a 25% non-controlling interest. Refer to note 26 regarding the Company's capital management strategy as well as compliance with covenants associated with the bank loan.

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.

IFABRIC CORP.
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16. SEGMENTED INFORMATION, continued

Operating Segments 2019	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	5,926,805	4,393,723	114,820	-	10,435,348
Inter-segment	17,850	310,136	163,752	(491,738)	-
Total Revenues	5,944,655	4,703,859	278,572	(491,738)	10,435,348
Earnings (loss) before income taxes	(1,075,111)	(484,603)	12,842	(71,336)	(1,618,208)
Provision for (recovery of) income taxes	(259,194)	(75,667)	111	13,222	(321,528)
Amortization of deferred development costs	-	43,884	-	-	43,884
Amortization of property, plant and equipment	9,634	1,209	55,965	-	66,808
Interest on operating line	-	-	-	-	-
Interest on long-term debt	-	-	47,361	-	47,361
Segment assets	5,620,075	3,296,430	2,823,099	244,198	11,983,802
Expenditures on property, plant, and equipment	60,000	-	15,070	-	75,070

Operating Segments 2018	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
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
Provision for (recovery of) income taxes	441,731	1,428	5,931	(4,259)	444,831
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

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

	2019	2018
External sales revenue		
Canada	2,295,497	1,616,991
United States	4,742,109	9,756,309
United Kingdom	501,454	803,432
Southeast Asia and other	2,896,288	2,944,638
Total	10,435,348	15,121,370

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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17. SELLING, GENERAL AND ADMINISTRATIVE COSTS

	2019	2018
General and administrative costs	3,656,459	4,138,184
Selling costs	1,462,285	1,287,675
	5,118,744	5,425,859

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

	2019	2018
Wages, salaries and short-term benefits	1,415,198	1,729,184
Management, professional, and directors' fees	507,100	668,000
Share-based compensation	120,928	151,839
	2,043,226	2,549,023
Included in cost of sales	166,584	172,527
Included in selling, general and administrative costs	1,755,714	2,224,657
Included in share-based compensation	120,928	151,839
	2,043,226	2,549,023

19. INCOME TAXES

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2018 - 26.5%) to the earnings for the year as follows:

	2019	2018
Earnings for the year before income taxes	(1,618,208)	1,372,088
Tax expense on accounting earnings	(428,800)	363,600
Tax effect of the following:		
Non-deductible share-based compensation	32,000	40,200
Items not deductible for tax purposes	13,200	10,100
Other	62,072	30,931
Provision for income taxes	(321,528)	444,831

20. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted loss per share is based on net loss attributable to iFabric Corp.'s shareholders for the year ended September 30, 2019 of \$1,299,863 (earnings of \$924,743 for the year ended September 30, 2018). The number of shares used in the earnings per share calculation is as follows:

	2019	2018
Weighted average number of shares outstanding - basic	26,209,500	26,180,823
Dilutive effect of options	729,430	1,076,212
Weighted average number of shares outstanding - diluted	26,938,930	27,257,035

IFABRIC CORP.
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20. LOSS PER SHARE, continued

For the year ended September 30, 2019, 800,000 options 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, 2018, 75,000 options and 230,625 warrants were excluded from the calculation of diluted earnings 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, 2018 and September 30, 2019	26,209,500	2,963,824

	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

(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, 2018	1,860,250	1.32
Granted, during the year (i)	75,000	1.80
Expired, during the year	(50,000)	2.40
Balance at September 30, 2019	1,885,250	1.31

	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

(i) On October 1, 2018, the Company issued 75,000 stock options to a consultant. Each option entitles the holder to acquire one common share of the Company at a price of \$1.80, and is exercisable for a period of 3 years from the grant date. All 75,000 options vested immediately. Share-based compensation expense, based on the fair value of the options, had been estimated by management at \$52,103 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0
Expected volatility	54.70%
Risk-free interest rate	2.24%
Expected maturity	3 years

IFABRIC CORP.
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21. CAPITAL STOCK, continued

(b) Stock option plan, continued

As of September 30, 2019, 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
October 1, 2021	75,000	2.00	1.80	75,000	1.80
January 16, 2023	1,085,250	3.29	0.40	1,085,250	0.40
April 1, 2024	75,000	4.50	4.15	75,000	4.15
May 6, 2025	100,000	5.60	2.70	100,000	2.70
June 5, 2027	550,000	7.68	2.40	400,000	2.40
	1,885,250	4.69	1.31	1,735,250	1.22

(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, 2018	203,625	5.25
Expired	(203,625)	5.25
Balance, September 30, 2019	-	-

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

22. INVESTMENT IN SUBSIDIARY

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% from 60% in fiscal 2018, and the non-controlling interest decreasing to 25% from 40% in fiscal 2018. 2074160 Ontario Inc. owns the land and buildings occupied by the Company as offices and a warehouse.

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23. COMMITMENTS

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

2020	313,688
2021	52,108
2022	37,688
2023	2,225
	<u>405,709</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, 2019 and 2020 in U.S. dollar amounts of \$175,000 and \$187,000, respectively. If minimum amount is not met, an accrual for the difference is included in accrued liabilities. 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.

24. 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:

	2019	2018
Salaries, management and professional fees, directors' fees, and short-term benefits	730,763	861,835
Share-based compensation	66,787	-
	<u>797,550</u>	<u>861,835</u>

- (b) Included in selling, general and administrative costs are management fees in the amount of \$7,150 (2018 - \$5,424) 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 \$38,895 (2018 - \$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 \$6,000 (2018 - \$9,000) 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 \$39,560 (2018 - \$45,751) paid to the spouse of an executive officer of the Company for marketing and administrative services rendered.

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25. 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	1,258,351	1,257,591

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. Management of the Company monitors the credit worthiness of its customers by performing background checks on all new customers focusing on publicity, reputation in the market and relationships with customers and other vendors. Further, the Company reviews forward looking information such as indications of customers going through financial difficulties that may create doubt over the receipt of funds.

In order to mitigate its credit risk, the Company insures its trade accounts receivable with AIG Insurance Company of Canada based on specific or discretionary credit limits, dependent on the level of amounts outstanding from individual customers at that time.

The Company's maximum exposure to credit risk is \$2,358,120 (2018 - \$2,200,669). Included in selling, general and administrative costs are bad debts of \$28,870 (2018 - \$10,928) expensed during the year.

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

	September 30, 2019	September 30, 2018
Trade receivables not past due	1,330,815	1,544,795
Trade receivables past due and not impaired		
Under 31 days	633,086	385,286
31 - 60 days	164,305	135,673
61 - 90 days	32,890	100,526
Over 90 days	191,888	47,348
Trade receivables, net of expected credit loss allowance	2,352,984	2,213,628

Economic Dependence

Approximately 37% of the Company's total sales were to two customers (2018 - 50% of sales were to two customers). At September 30, 2019, two customers accounted for 44% (September 30, 2018 - two customers accounted for 68%) of the Company's accounts receivable.

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25. FINANCIAL RISK MANAGEMENT, continued

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.

	Carrying amount	Contractual cash flow	2020	2021	2022	2023	2024
Minimum guaranteed royalties	-	247,644	247,644	-	-	-	-
Operating lease obligations	-	158,065	66,044	52,108	37,688	2,225	-
Bank loan payable	1,258,351	1,257,591	1,257,591	-	-	-	-
Trade and other payables	979,856	979,856	979,856	-	-	-	-
Related party loans	477,010	477,010	263	476,747	-	-	-
	2,715,217	3,120,166	2,551,398	528,855	37,688	2,225	-

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"), New Taiwanese Dollars ("TWD") and Chinese Yuan ("RMB"). The Company manages its currency risk with foreign exchange forward contracts (see note 7). The following balances were included in the consolidated financial statements:

USD	September 30, 2019	September 30, 2018
Cash	1,378,292	1,934,790
Accounts receivable	1,061,886	1,025,951
Accounts payable and accrued liabilities	(350,645)	(286,206)
Foreign exchange forward contract margin deposit	59,970	60,050
	2,149,503	2,734,585

GBP	September 30, 2019	September 30, 2018
Cash	56,867	190,260
Accounts receivable	11,417	69,134
Accounts payable and accrued liabilities	-	1,635
	68,284	261,029

TWD	September 30, 2019	September 30, 2018
Cash	2,285,339	573,035
Accounts receivable	8,225,112	3,162,972
Accounts payable and accrued liabilities	(182,121)	(86,439)
	10,328,330	3,649,568

RMB	September 30, 2019	September 30, 2018
Cash	5,403	-
Accounts receivable	407,873	-
Accounts payable and accrued liabilities	(411,693)	-
	1,583	-

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25. FINANCIAL RISK MANAGEMENT, continued

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, 2019, in relation to the net amount of USD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$41,000 to net earnings (loss) for 2019, all other variables held constant. The effect of a 5% strengthening (weakening) of the GBP against the Canadian Dollar as at September 30, 2019, in relation to the net amount of GBP-denominated currency balances, would have resulted in an increase (decrease) of approximately \$4,000 to net earnings (loss) for 2019, all other variables held constant. The effect of a 5% strengthening (weakening) of the TWD against the Canadian Dollar as at September 30, 2019, in relation to the net amount of TWD-denominated currency balances, would have resulted in an increase (decrease) of approximately \$16,000 to net earnings (loss) for 2019, all other variables held constant. The effect of a 5% strengthening (weakening) of the RMB against the Canadian Dollar as at September 30, 2019, in relation to the net amount of RMB-denominated currency balances, would not result in a material adjustment to net earnings (loss) for 2019, 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 fixed rates, since improving market interest rate conditions will not be enjoyed on a fixed interest rate instrument.

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 \$10,000 to net earnings (loss) for 2019, all other variables held constant.

26. 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, 2019, the Company did not meet a fixed term loan covenant requirement which could result in the bank demanding repayment of the bank loan.