The following Management's Discussion and Analysis ("MD&A") of iFabric Corp. and its subsidiaries ("iFabric" or the "Company") is based upon and should be read in conjunction with the Company's unaudited condensed consolidated interim statements as at and for the period ended June 30, 2016 and the audited consolidated financial statements and notes thereto for the year ended September 30, 2015 and the comparative year ended September 30, 2014. All financial information in this MD&A and the unaudited condensed consolidated interim financial statements and accompanying notes thereto were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A is dated August 10, 2016.

All references to dollars or "$" are to Canadian dollars, the Company's functional and presentation currency, unless otherwise noted. In the discussion that follows, "2016" refers to the annual fiscal period ended September 30, 2016, "2015" refers to the annual fiscal period ended September 30, 2015, "2014" refers to the annual fiscal period ended September 30, 2014, "Q1" refers to the period of October 1 to December 31, "Q2" refers to the period of January 1 to June 30, "Q3" refers to the period of April 1 to June 30, and "Q4" refers to the period of July 1 to September 30.

Certain comparative figures in this MD&A have been reclassified to conform to the presentation used in the Company's most recent audited consolidated financial statements.

FORWARD-LOOKING INFORMATION

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

BUSINESS OVERVIEW

General

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

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

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

NATURE OF OPERATIONS

Intimate Apparel

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

The division outsources production of its products to China, where currently over 95% of its inventory production takes place.

The division utilizes contract warehouse facilities located in Los Angeles, California and Manchester, England in order to service its key US and European markets and, Company-owned premises located in Markham, Ontario serve as the distribution center for the Canadian market. Premises rented in Manhattan, New York, houses the division's sales team and, additionally, includes showroom space for the purpose of hosting marketing appointments with major retail buyers in the United States.

In the past several years, the Company has repositioned the division's product strategy by way of leveraging a number of key license agreements in order to sell products under some of the most recognized brands in the intimate apparel industry, including Maidenform®, Splendid® and Ella Moss®. In addition, the division develops and supplies products for sale under the private label brands of certain major retailers as well as the Company's own brand.

Products are sold internationally to the division's customer base which includes a number of major retailers as well as specialty boutiques. Major retail customers include Wal-Mart Canada, Sears Canada, Debenhams, Kohl's, Hanesbrands, Bloomingdale's, Marks & Spencer, Nordstrom, La Vie En Rose, House of Fraser, Boux Avenue and Amazon.com amongst others.

Intelligent Fabrics

A second strategic division commenced operations in 2010, when the Company obtained exclusive North American distribution rights for a new generation of textile treatment technologies, which have the ability to kill bacteria, repel insects, and help encourage a healthy skin environment, amongst others. Management anticipates that the intelligent fabrics division will be the main driving force of the Company's future growth and expansion.

On December 6, 2013, the Company secured global distribution and marketing rights in respect of antimicrobial, antiviral and other textiles technologies with the additional rights to distribute such technologies under the Company's own brands.

The Intelligent Fabrics business segment has two key supply centers in Asia (China and Taiwan), that service the Asian market, which represents the main production region for goods supplied to North America and is accordingly the Company's main market area for the distribution of its products. In addition, technical support specialists in Asia provide guidance and support to customers regarding the integration of the Company's chemical formulations into their products.

Development, testing and regulatory activities are primarily funded with income earned from both the Intelligent Fabrics division and the Intimate Apparel division. Additional funding, when required, is sourced from additional equity and/or debt.

The Intelligent Fabrics division currently focuses its regulatory, product development, and marketing efforts on three key technologies, namely:

1. Protx2® Anti-Microbial Technologies

Protx2® formulations impart anti-microbial and/or anti-viral powers to fibers, plastic, paint and paper treated with these formulations. Numerous laboratory tests have shown that treated products inhibit the growth of a wide variety of infectious agents associated with Healthcare-Associated Infections ("HAI"), including MRSA, C-Difficile, VRE, and H1N1, and by their application may assist in preventing the spread of such infections.

The company is currently targeting two key markets with regard to the distribution of Protx2®:

a) Sports apparel, outerwear and footwear

There is an increasing trend amongst major sports apparel, outerwear and footwear manufactures to offer technologically-enhanced products. With the ability of Protx2® to combat odour-causing bacteria, the Company is able to provide manufacturers with the ability to produce apparel and footwear that stays fresher longer without the need for repeated washing or cleaning. Innovative application methodology developed by the Company over a number of years allows for Protx2® to be integrated into almost any fabric as well as all the components of footwear including foam, rubber, and plastics. With its current Environmental Protection Agency ("EPA") registrations, the Company is in a position to distribute Protx2® for use in sportswear and footwear sold in the US market.

b) Medical

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

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

In order to fully enter the medical market for Protx2®, the Company is in process of securing a second and higher level of EPA registrations that will allow it to make applicable claims in connection with the efficacy of Protx2® ("kill claims") for medical use. A testing protocol for this purpose has been negotiated and agreed to by the EPA and the requisite testing in conformity with Good Laboratory Practice ("GLP") Recognition Standards had commenced as at the date hereof. On completed of testing, the reports covering the test results will be submitted to the EPA for review and their approval to include the appropriate kill claims in future product labeling.

2. Dreamskin®

Dreamskin® textile technology helps encourage a healthy skin environment.

Dreamskin® is effective during both summer and winter months as high and low moisture environments both offer discomfort and irritation. In particular, athletic apparel has two key areas that can cause skin irritation, namely friction and excessive moisture. Dreamskin® targets both of these to help prevent irritation.

3. Enguard® Insect Repellent Fabric

Applying Enguard® to fabrics results in a highly effective and durable insect repellent. A major strength of Enguard® is that it is safe for children. Testing carried out by the London School of Hygiene and Tropical Medicine show Enguard® to have repelling power comparable to high-concentration DEET and significantly greater than any other natural insect repellents. The Company is currently in process of securing EPA approvals for Enguard® in the US. The current Zika virus outbreak, which has been linked to mosquitos, and the potential relevancy of Enguard® as protection tool may allow for fast tracking of regulatory approvals. This is currently being investigated by the Company's regulatory consultants.

In addition to its three core technologies the Intelligent Fabrics division also markets the following additional textile technologies:

UVtx™

Textiles infused with UVtx™ provides apparel with a built in ultraviolet ("UV") light blocker. The UVtx™ formulation contains both UV reflecting and UV absorption elements, giving apparel treated with UVtx™ the ultraviolet protection factor ("UPF") strength of up to UPF 30. This allows the wearer of UVtx™ treated apparel to enjoy permanent sun protection without the need to apply sprays or lotions to the area covered by the garment. Testing has shown that UVtx treated textiles never lose efficacy.

(In Canadian dollars, except as otherwise noted)

FreshTx™

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

DryTx™

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

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

RepelTX™

RepelTX™ is an environmentally friendly coating that is resistant to moisture. The RepelTX™ coating can be used on various surfaces including electronics and fabrics, which are then protected against water and moisture by simply treating them in a fluorinated solvent. The coating dries in just over one minute at room temperature, and it starts working immediately once set.

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

The Company's main objective in offering these additional formulations is to utilize them in combination with Protx2®, Dreamskin® and Enguard®, which results in unique products that provide a multiple of benefits to the user. The additional benefit to iFabric will be increased revenue from every sale involving a multiple of chemicals. Particularly in health care environments, the combination of water repellency and an antimicrobial allows for garments that repel liquids (for example, blood) and at the same time are able to kill bacteria. These combined attributes are optimal for the industry.

SELECTED ANNUAL INFORMATION

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

For the year ended and as at September 30,	**2015**	2014	2013	2012	2011
Income Statement Data					
Revenue	**13,074,848**	13,021,482	8,165,983	6,074,766	5,660,288
Net earnings (loss) attributable to common shareholders	**(109,837)**	542,214	(144,556)	(218,680)	484,231
Net earnings (loss) per common share					
Basic	**(0.004)**	0.021	(0.006)	(0.009)	0.038
Diluted	**(0.004)**	0.020	(0.006)	(0.009)	0.038
Balance Sheet Data					
Total assets	**11,928,359**	11,559,443	9,154,711	8,454,058	8,292,672
Total non-current financial liabilities	**1,408,893**	1,952,287	2,084,741	2,801,891	3,485,694
Cash dividends declared	**-**	-	-	-	-

(In Canadian dollars, except as otherwise noted)

RESULTS OF OPERATIONS – THREE AND NINE MONTHS ENDED JUNE 30, 2016 AND 2015

The following table sets forth the Company's unaudited condensed consolidated statements of earnings (loss) and comprehensive earnings (loss) for the three and nine months ended June 30, 2016 and 2015:

	Three months		Nine months	
For the period ended June 30,	**2016**	2015	**2016**	2015
REVENUE	**2,999,317**	3,700,502	**9,400,354**	9,994,384
COST OF SALES	**1,580,985**	1,532,773	**4,695,361**	4,751,495
GROSS PROFIT	**1,418,332**	2,167,728	**4,704,993**	5,242,889
EXPENSES				
Selling, general and administrative costs	**1,429,914**	1,478,359	**4,744,653**	4,391,162
Interest on operating line	**7,532**	4,009	**18,754**	16,187
Interest on long-term debt	**6,586**	10,529	**25,476**	33,049
Amortization of property, plant and equipment	**21,182**	9,783	**38,597**	29,349
Amortization of deferred development costs	**40,365**	40,366	**121,097**	121,097
	1,505,579	1,543,046	**4,948,577**	4,590,844
EARNINGS (LOSS) FROM OPERATIONS	**(87,247)**	624,683	**(243,584)**	652,045
OTHER EXPENSES (INCOME)				
Share-based compensation	**16,280**	232,754	**101,943**	442,130
Loss (gain) on foreign exchange	**52,277**	7,156	**176,619**	(244,396)
	68,557	239,910	**278,562**	197,734
EARNINGS (LOSS) BEFORE INCOME TAXES	**(155,804)**	384,773	**(522,146)**	454,311
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current	**2,818**	219,212	**8,304**	429,457
Deferred	**(36,660)**	(43,200)	**(126,017)**	(151,400)
	(33,842)	176,012	**(117,713)**	278,057
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)	**(121,962)**	208,761	**(404,433)**	176,254
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) ATTRIBUTABLE TO:				
iFabric Corp. shareholders	**(121,653)**	206,806	**(406,723)**	172,234
Non-controlling interest	**(309)**	1,955	**2,290**	4,020
	(121,962)	208,761	**(404,433)**	176,254
EARNINGS (LOSS) PER SHARE				
Basic	**(0.005)**	0.008	**(0.016)**	0.007
Diluted	**(0.005)**	0.008	**(0.016)**	0.006

SELECTED OPERATING SEGMENT DATA

Q3 2016	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
External revenues	2,662,904	310,813	25,600	-	2,999,317
Earnings (loss) before income taxes	54,358	(244,402)	(455)	34,695	(155,804)

Q3 2015	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
External revenues	3,469,499	206,374	24,629	-	**3,700,502**
Earnings (loss) before income taxes	830,875	(274,507)	7,601	(179,196)	**384,773**

DISCUSSION OF THE RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30, 2016 AND 2015

Revenue

Revenue decreased by $701,185 to $2,999,317 in Q3 2016 from $3,700,502 in Q3 2015. With respect to reportable operating segments of the Company, revenue decreased by 23% or $806,595 in its Intimate Apparel segment and revenue increased by 51% or $104,439 in its Intelligent Fabrics segment. Geographically, revenue decreased in each of the Company's geographical operating segments in Q3 2016 versus Q3 2015.

Overall, revenue decreased 19% during Q3 2016 in comparison to Q3 2015. However, there are a number of variables, both internal and external, which have contributed to a decrease in revenue in Q3 2016 from the comparative prior period. When expressed in their regional transactional currencies, the Company's Intimate Apparel operating segment decreased its sales in Canada by approximately 46%, decreased sales in the United States by approximately 22%, and decreased sales in the UK by 16% in Q3 2016 versus Q3 2015. The majority of the Company's revenues are generated in foreign currencies. A weakened Canadian dollar vis-à-vis the U.S. dollar during Q3 2016 translated foreign currency revenues at higher exchange rates when expressed in Canadian dollars, relative to Q3 2015. This foreign exchange impact significantly offset the decrease in US sales in the Intimate Apparel division. As well, a stronger Canadian dollar against the British pound sterling during Q3 2016 vs Q3 2015 further contributed to lower revenue. In addition, a general weakness in US retail sales, and softness in sales in the UK resultant from uncertainty leading up to the UK vote to exit from the European Union, further contributed to the decrease in sales during Q3 2016. The Intelligent Fabrics division continued its integration of its core products with major manufacturing clients, specifically in the United States and in Asia, resulting in an increase in total revenue within this operating segment compared to Q3 2015.

Gross profit

Gross profit as a percentage of revenue decreased to 47% in Q3 2016 from 59% in Q3 2015. The decrease in gross profit percentage is mainly due to a steadily less favourable Canadian dollar exchange rate vis-à-vis the U.S. dollar during Q3 2016 compared to Q3 2015. Gross profit percentage also decreased in Q3 2016 from Q3 2015 due to the sales mix of products in the Intimate Apparel segment, including a higher proportion of seasonal intimate apparel and sleepwear, which typically carry lower margins than apparel accessories. In addition, the clearance of end of season fashion goods at low margins further contributed to lower gross profit percentage. Gross profit in dollars decreased by 35% or $749,396 to $1,418,332 in Q3 2016 from $2,167,728 in Q3 2015. The decrease in gross profit dollars is largely attributable to a decreased gross profit percentage, for the reasons discussed above. Similar to the changes in revenue in Q3 2016 versus Q3 2015, as discussed above in the section entitled "Revenue", reduced sales transacted in foreign currencies in Q3 2016, which contributed to a decrease in gross profit dollars, were significantly offset by a weakened Canadian dollar relative to the U.S. dollar.

Selling, general and administrative costs

In Q3 2016, selling, general and administrative costs decreased by 3% or $48,445 to $1,429,914 from $1,478,359 in Q3 2015. In the Intimate Apparel operating segment, the Company increased its selling, general and administrative costs for the purposes of developing and supporting a new line of sleepwear products, as part of a renewed license agreement signed in 2015. However, the increase in staffing was fully offset by reduced advertising and promotional costs and lower royalty costs in Q3 2016 versus Q3 2015, resulting in overall lower selling, general, and administrative costs. In the Intelligent Fabrics segment, the Company increased its travel, regulatory and testing costs to facilitate growth of existing products, as well as the launch of new products. However, these increased costs were offset by lower advertising and promotional costs relating to sample trials, most of which had been completed prior to the commencement of the current quarter. Selling, general and administrative costs have also increased as a result of the Canadian dollar weakening in Q3 2016 against the U.S. dollar, as many of the Company's overhead expenses are paid for in U.S. dollars.

Interest Expense

Interest expense during Q3 2016 was $14,118 compared to $14,538 during Q3 2015. The overall change in interest expense was nominal.

Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $61,547 during Q3 2016 compared to $50,119 during Q3 2015.

Share-based compensation

Share-based compensation costs in Q3 2016 were $216,474 lower than in Q3 2015. The decrease in share-based compensation costs is the result of previously issued stock options vesting during 2015.

Loss (gain) on foreign exchange

In Q3 2016, the Company's loss on foreign exchange was $52,277 versus a loss of $7,156 in Q3 2015. The main contributor to the exchange loss in Q3 2016 was the strengthening of the Canadian Dollar against the U.S. dollar during the quarter.

Provision for (recovery of) income taxes

The Company's total recovery of income taxes in Q3 2016 was $33,842 compared to a provision for income taxes of $176,012 in Q3 2015. Included in the earnings (loss) before income taxes are certain non-deductible items for tax purposes. Specifically, a decrease in Q3 2016 from Q3 2015 in share-based compensation by $216,474 is the main reason for the change in the Company's effective income tax rate.

Net earnings (loss)

Net loss attributable to iFabric's shareholders during Q3 2016 was $121,653 ($0.005 per share, basic and diluted) compared to net earnings of $206,806 in Q3 2015 ($0.008 per share, basic and diluted). The reduction net earnings in Q3 2016 versus Q3 2015 is largely attributable lower revenues and lower gross profit dollars, for the reasons discussed above.

DISCUSSION OF THE RESULTS OF OPERATIONS – NINE MONTHS ENDED JUNE, 2016 AND 2015

Revenue

Revenue decreased by $594,030 to $9,400,354 for the nine months ended June 30, 2016 from $9,994,384 for the comparable period in 2015. With respect to reportable operating segments of the Company, revenue decreased by 10% or $946,962 in its Intimate Apparel segment and revenue increased by 57% or $334,618 in its Intelligent Fabrics segment. Geographically, for the first three quarters to date in 2016, revenue in the United States, Canada, and other regions decreased, but increased in the United Kingdom, versus the same period in 2015.

Overall, revenue decreased 6% during the nine months ended June 30, 2016 in comparison to 2015. However, there are a number of variables, both internal and external, which have contributed to a decrease in revenue for the year to date ended June 30, 2016 from the comparative 2015 period. When expressed in their regional transactional currencies, the Company's Intimate Apparel operating segment decreased its sales in Canada by approximately 36%, decreased sales in the United States by approximately 19%, and increased sales in the UK by 2% in the nine months ended June 30, 2016 versus 2015. A weakened Canadian dollar vis-à-vis the U.S. dollar and the British pound sterling during the nine months ended June 30, 2016 translated foreign currency revenues at higher exchange rates when expressed in Canadian dollars, relative to the same nine months in 2015. This foreign exchange impact significantly offset the decrease in US sales in the Intimate Apparel division. During the nine months ended June 30, 2016, the Intelligent Fabrics division had commenced integration of its core products with major manufacturing clients, resulting in a significant increase in total revenue within th is operating segment compared to the same period in 2015.

Gross profit

Gross profit as a percentage of revenue decreased to 50% for the nine months ended June 30, 2016 from 52% in the same period of 2015. The decrease in gross profit percentage for the year to date was mostly the result of a decrease in gross profit percentage during Q3 2016 compared to Q3 2015. Gross profit in dollars decreased by 10% or $537,896 to $4,704,993 for the year to date 2016 from $5,242,889 in the same period of 2015. The decrease in gross profit dollars was primarily caused by a decrease in gross profit dollars during Q3 2016 versus Q3 2015.

Selling, general and administrative costs

For the nine months ended June 30, 2016, selling, general and administrative costs increased by 8% or $353,491 to $4,744,653 from $4,391,162 for the nine months ended June 30, 2015. In the Intimate Apparel operating segment, the Company increased its selling, general and administrative costs for the purposes of developing and supporting a new line of sleepwear products, as part of a renewed license agreement signed in 2015. In the Intelligent Fabrics segment, the Company increased its travel, regulatory and testing costs to facilitate growth of existing products, as well as the launch of new products. Selling, general and administrative costs have also incre ased as a result of the Canadian dollar weakening during the nine months ended June 30, 2016 compared to 2015, against the U.S. dollar, as a significant portion of the Company's overhead expenses are paid for in U.S. dollars.

Interest Expense

Interest expense during the nine months ended June 30, 2016 was $44,230 compared to $49,236 during the same period in 2015. The overall change in interest expense was nominal.

Amortization

Amortization of the Company's property, plant and equipment and deferred development costs totaled $159,694 during the nine months ended June 30, 2016 compared to $150,446 during the same period in 2015.

Share-based compensation

Share-based compensation costs for the nine months ended June 30, 2016 were $340,187 lower than for the same period in 2015. The decrease in share-based compensation costs is the result of previously issued stock options vesting during 2015.

Loss (gain) on foreign exchange

For the nine months ended June 30, 2016, the Company's loss on foreign exchange was $176,619 versus a gain of $244,396 in the same period of 2015. The Company experienced a loss for the year to date in 2016 on foreign exchange as a result of the Canadian dollar strengthening against the U.S. dollar and British pound sterling during Q3, as opposed to gains on foreign exchange during the nine months ended June 30, 2015 where the Canadian dollar weakened throughout the whole period.

Provision for (recovery of) income taxes

The Company's total recovery of income taxes for the year to date in 2016 was $117,713 compared to a provision for income taxes of $278,057 for the same period in 2015. Included in the earnings (loss) before income taxes are certain non-deductible items for tax purposes. Specifically, a decrease in share-based compensation by $340,187 for the first three quarters of 2016 versus 2015 is the main reason for the change in the Company's effective income tax rate.

Net earnings (loss)

Net loss attributable to iFabric's shareholders during the nine months ended June 30, 2016 was $406,723 ($0.016 per share, basic and diluted) compared to earnings of $172,234 for the nine months ended June 30, 2015 ($0.007 per share, basic and $0.006 per share diluted). The decreased net earnings for the first three quarters of 2016 compared to 2015 is largely attributable to lower revenues, lower gross profit and losses on foreign exchange as opposed to gains on exchange in the comparable periods.

SEASONALITY AND QUARTERLY FLUCTUATIONS

The Company's business is seasonal and results of operations for any interim period are not necessarily indicative of results of operations for the full fiscal year.

(In Canadian dollars, except as otherwise noted)

SUMMARY OF QUARTERLY RESULTS

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

Fiscal 2015	Q1	Q2	Q3	Q4
Revenue	3,042,404	3,251,478	3,700,502	3,080,464
Net earnings (loss) attributable to common shareholders	(160,905)	126,333	206,806	(282,071)
Net earnings (loss) per common share				
Basic	(0.006)	0.005	0.008	(0.011)
Diluted	(0.006)	0.005	0.008	(0.011)

Fiscal 2014	Q1	Q2	Q3	Q4
Revenue	3,005,785	2,911,274	3,881,993	3,222,430
Net earnings (loss) attributable to common shareholders	212,157	278,431	245,205	(193,579)
Net earnings (loss) per common share				
Basic	0.008	0.011	0.009	(0.008)
Diluted	0.008	0.010	0.009	(0.008)

OVERVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Company's cash balance decreased to $768,001 as at June 30, 2016 from $852,016 as at September 30, 2015.

Total accounts receivable at the end of Q3 2016 was $1,796,931 compared to $2,143,066 as at September 30, 2015.

Total inventory decreased by $812,474 to $3,893,952 at the end of Q3 2016 from $4,706,426 at the end of fiscal 2015. Whilst the Company substantially reduced its inventory levels, in terms of quantities, the decrease in inventory value was partially offset by a weakened Canadian dollar vis-à-vis the U.S. dollar. The Company expects inventory levels to continue to decrease during Q4 2016 as improvements in inventory management implemented during the period are expected to result in increased inventory turnover frequency.

Property, plant and equipment at the end of Q3 2016 totaled $2,756,910 compared to $2,487,880 at the end of fiscal 2015 as a result renovations and refitting of the Company's head office premises during Q3 2016, for the purpose of providing a more efficient work environment for the Company's employees as well as to provide workspace for the additional staff that will be required to support the growth of the Intelligent Fabrics division. These renovations will be fully completed during the fourth quarter. Renovations are being funded by an increase in the Company's secured loan.

Deferred development costs decreased to $477,074 at the end of Q3 2016 from $598,171 at the end of fiscal 2015. The decrease is attributed to amortization of deferred development costs.

Deferred income taxes increased to $846,300 at the end of Q3 2016 from $720,283 at the end of fiscal 2015. The increase is mostly attributable to non-capital losses incurred in the Company's Intelligent Fabrics operating segment during the first three quarters of 2016.

Total liabilities at the end of Q3 2016 were $598,398 lower than at the end of fiscal 2015. The Company decreased its liabilities mainly with respect to its accounts payable and accrued liabilities as well as a reduction in the amount of income tax owing.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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

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

Bank Operating Line

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 $503,925 was outstanding as at June 30, 2016 (September 30, 2015 - nil). The loan facility bears interest at the bank's prime lending rate plus 1.75%. 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 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.

Long-term Debt

The Company's subsidiaries group has a bank loan, payable in monthly principal payments of $10,000 plus interest, bearing interest at the bank's variable interest rate (3.95% as of the date of this MD&A), due September 1, 2028 and secured by a first readvanceable mortgage on the land and building owned by a subsidiary, a general security agreement over all assets of another subsidiary, subject to priority on inventories and accounts receivable to the lender of the bank operating line described above, a general assignment of rents, as well as a guarantee from another one of the Company's subsidiaries. As at June 30, 2016, the total amount of this loan outstanding was $1,200,578 (September 30, 2015 - $980,000). The increase in long-term debt was utilized to fund building renovations as discussed above.

Working capital

Working capital represents current assets less current liabilities. As at June 30, 2016, the Company's working capital was $5,094,987 compared to working capital of $5,419,934 as at September 30, 2015, representing a decrease of $324,947 or 6%.

Operating activities

Cash used in operating activities during the nine months ended June 30, 2016 amounted to $448,548 compared to an amount of $213,342 provided by operating activities during the nine months ended June 30, 2015, representing an increase in cash outflow of $661,890. The increase in operational cash flow outflow can be largely attributed to the net loss in 2016 compared to net income 2015.

Financing activities

Cash provided by financing activities during the nine months ended June 30, 2016 amounted to $672,160, compared to $348,701 used in financing activities during the nine months ended June 30, 2015, representing an increase of $1,020,861 in financing cash inflow. The difference can be mostly attributed to the utilization of the Company's bank operating line and an increase in the secured bank loan during the first three quarters of 2016 versus 2015.

Investing activities

$307,627 was used in investing activities during the nine months ended June 30, 2016, primarily on building improvements. No cash was provided by or used in investing activities during the nine months ended June 30, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of June 30, 2016, with the exception of the operating leases as noted in the "Commitments & Contractual Obligations" section below.

COMMITMENTS & CONTRACTUAL OBLIGATIONS

During Q3 2016, there have been no significant changes in the contractual obligations from those disclosed in the Company's 2015 annual MD&A.

The Company's other commitments are outlined below:

- The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 of the Company's Q3 2016 unaudited condensed consolidated interim financial statements for more information.
- Effective January 1, 2015, the Company entered into a worldwide license agreement for 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

contract periods ending December 31, 2015, 2016, 2017, and 2018 in U.S. dollar amounts of $131,000, $190,000, $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 license term is in effect until December 31, 2018.

RELATED PARTY TRANSACTIONS

During the three and nine month periods ended June 30, 2016, there have been no significant changes in the related party transactions from those disclosed in the Company's 2015 audited consolidated financial statements.

BUSINESS OUTLOOK

Intimate Apparel

Sales of Splendid® and Ella Moss® branded products across all market segments, including the Company's market segment, have been underperforming in recent months and on June 30, 2016, VF Corporation announced that it had signed a definitive agreement to sell its Contemporary Brands businesses (including its Splendid® and Ella Moss® brands) to Delta Galil Industries, Ltd. After much deliberation, on July 29, 2016, the Company decided not to renew its Splendid® and Ella Moss® license agreement and notified the licensor accordingly. With what the Company considered onerous and unrealistic requirements in terms of commitments to minimum sales and minimum royalties in order to renew the license agreement, the Company felt that the risks inherent in signing a new agreement with these terms were not acceptable.

Accordingly, with the exception of the clearing of end of season merchandise, marketing of Splendid® and Ella Moss® products will be discontinued at the end of calendar 2016. For the quarter ended June 30, 2016 sales of Splendid® and Ella Moss® branded product amounted to $475,000 or 16% of revenue compared to $980,000 or 26% of sales for the same quarter of 2015 representing a decrease of $505,000 or 51%. This decrease in sales was a major component of the decrease in revenue in Q3 2016 compared to Q3 2015 as discussed under the heading "Revenue" above.

Given the high cost of product development and design, as well as margin and marketing support provided to major retailers for Splendid® and Ella Moss® programs, sales of Splendid® and Ella Moss® products do not currently provide a significant contribution to the earnings of iFabric. Accordingly, the discontinuance of Splendid® and Ella Moss® sales are not expected to have a material impact on future operations and earnings for the Intimate Apparel division. Instead, resources currently allocated to Splendid® and Ella Moss® brands will be reallocated to developing new products for and increasing sales of Maidenform® branded product, which enjoys a much higher level of market acceptance as well as a high level of marketing support from the Maidenform® licensor. By increasing its commitment to the Maidenform® brand and eliminating its underperforming brands, the Company anticipates that it will be able to replace future losses of Splendid® and Ella Moss® sales with increased Maidenform® sales at better margins thus providing a more solid base from which to grow both sales and earnings. The initial season of the new Maidenform® sleepwear program will commence shipping at the end of Q4 2016.

Intelligent Fabrics

For July 2016, the Intelligent Fabrics division recorded sales of $573,000, which represents a record month for this division. Accordingly, the Company believes that it remains on track to deliver chemical treatments for around 30 million yards of textiles in calendar 2016, as was previously announced by the Company. The bulk of these sales will be recorded in Q4 of 2016 and Q1 of 2017. In addition, resources freed up from the discontinuance of Splendid® and Ella Moss® brands will be available to further expedite the marketing efforts of this division.

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 and months ended June 30, 2016 from those described in the Company's audited annual consolidated financial statements for the year ended September 30, 2015.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 25,989,750 common shares outstanding. Furthermore, as of the date of this MD&A, the Company had 1,630,000 options issued and outstanding, of which 1,580,000 were exercisable, as well as 232,133 warrants outstanding.

RISKS & UNCERTAINTIES

The Company is exposed to various operational risks and uncertainties which are described in the Company's 2015 annual MD&A. The risks and uncertainties disclosed in the 2015 annual MD&A are not exhaustive. There have been no specific additional risks or uncertainties identified during Q3 2016. New risk factors may emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business, performance, condition, results, operations or strategies and plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based upon the Q3 2016 unaudited condensed consolidated interim financial statements, which have been prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting". The preparation of the Q3 2016 unaudited condensed consolidated interim financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities at the end of the reporting period. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

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

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

During Q3 2016, there were no significant changes to methods used to:

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

For further details concerning the use of estimates, judgments and assumptions in the preparation of the Company's Q3 2016 unaudited condensed consolidated interim financial statements, along with details of the significant accounting policies used in the preparation of such interim financial statements, specific reference should be made to note 3 of the Company's audited annual consolidated financial statements for the fiscal year ended September 30, 2015.

ACCOUNTING POLICY DEVELOPMENTS

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended September 30, 2015 have been applied consistently in the preparation of the Q3 2016 unaudited condensed consolidated interim financial statements.

(a) Future changes in accounting standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on January 1, 2015 or later periods. The standards impacted that are applicable to the Company are as follows:

i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November, 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have 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, 2017, 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) '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 revised rules are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company expects there to be no impact or adjustments necessary as a result of applying the revised rules.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers") by others on a timely basis so that appropriate decisions can be made regarding public disclosure within the time periods required by applicable securities laws. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures. Based on an evaluation of the Company's disclosure controls and procedures, the Company's Certifying Officers have concluded that these controls are appropriately designed and were operating effectively as of June 30, 2016. Although the Company's disclosure controls and procedures were operating effectively as of June 30, 2016, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the annual regulatory filings.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS. The Certifying Officers are responsible for establishing and maintaining adequate ICFR for the Company. The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at June 30, 2016 and whether any material weaknesses relating to the design of the Company's ICFR were existing as at June 30, 2016. Based on that evaluation, the Certifying Officers concluded that the ICFR, as defined by National Instrument 52-109 – Certification of Disclosure on Issuers' Annual and Interim Filings, are appropriately designed and were operating effectively and that no material weaknesses were identified through their evaluation. The Certifying Officers have evaluated whether there were any changes in the Company's ICFR that occurred during the fiscal period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

ADDITIONAL INFORMATION

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