iFABRIC CORP.
MANAGEMENTS' DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS – AMENDED
For the Three Months ended December 31, 2013

January 27, 2015

The following amended Management Discussion and Analysis ("MD&A") of iFabric Corp. ("iFabric" or the "Company") should be read together with the restated unaudited consolidated interim financial statements for the three months ended December 31, 2013 and the related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS") including IAS 34 "Interim Financial Reporting".

Continuous disclosure documents, including the Company's press releases and quarterly reports, are available through its filings with the securities regulatory authorities in Canada at www.sedar.com and on the Company's website at www.ifabriccorp.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements 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 statements are 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 statements 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 statements. 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 statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

BUSINESS OVERVIEW

Acquisition of Coconut Grove Textiles Inc.

On June 4, 2012, the Company acquired all of the issued and outstanding common shares of Coconut Grove Textiles Inc. ("Coconut Grove") from its shareholders in exchange for a total of 24,412,500 post-consolidation common shares at a deemed price of $0.40 per share. Accordingly, the deemed value of the transaction was $9,765,000.

Since the transaction resulted in the shareholders of Coconut Grove acquiring control of iFabric, Coconut Grove is deemed to be the acquirer for financial reporting purposes, and the share exchange constituted a reverse takeover of iFabric by the shareholders of Coconut Grove.

Since iFabric was a non-operating public enterprise immediately prior to the takeover, the closing of the transaction did not constitute a business for the purpose of applying business combination accounting. Therefore, the transaction is equivalent to the issuance of shares by Coconut Grove for the net liabilities of iFabric. As a result of the share exchange, Coconut Grove became a wholly-owned subsidiary of iFabric.

In accordance with reverse takeover accounting, the consolidated interim financial statements are a continuation of the consolidated financial statements of Coconut Grove and include the carrying amounts of Coconut Grove's assets and liabilities. The results of operations of iFabric have been consolidated from the date of the reverse takeover transaction on June 4, 2012. Accordingly, all comparative figures presented for periods prior to the transaction are those of Coconut Grove, prior to the reverse takeover.

Nature of Operations

a) Intimate Apparel

Coconut Grove and its subsidiaries (the "Group") commenced operations in 1985 as a manufacturer and distributor of foam shoulder pads. Operations were subsequently expanded to include the design and manufacture of women's intimate apparel and in particular a range of specialty bras including the Group's patented backless, strapless underwire bra. The Group also distributes a range of complimenting accessories. Worldwide consumer demand for these products has contributed to the Group's success to date. The Group's customer base includes a number of major retailers as well as specialty boutiques situated in its main market regions being, the UK, USA and Canada. International sales outside these regions comprise less than 5% of total sales.

Initially all products were manufactured and distributed from manufacturing facilities situated in Ontario, Canada. However, in 2005 the management of the Group took a decision to wind down its Canadian manufacturing operations in favour of outsourcing manufacture to major mills located in China. The benefits of this decision were twofold:

1) Lower and stable direct product costs resulting in improved margins.
2) Significant saving in overheads especially in lower sales months.

As a further consequence of this decision, manufacturing space in the Group owned premises located in Markham, Ontario were converted to warehouse and office space and currently serves as the Group's head office as well as the product distribution centre for the Canadian market. In order to service its customers in the US and UK, the Group currently utilizes contract warehouse facilities located in Los Angeles (US) and London (UK) respectively. Surplus space in its Canadian facility has been rented to third party tenants, which has reduced the carrying cost of this facility.

In early 2010, the management of the Group took a strategic decision to focus its future product sales of intimate apparel and accessories towards well known international branded products. The main perceived benefit in adopting this strategy is the fact that major brand holders have substantial marketing budgets for promoting their brands as opposed to the more modest budget that the Group is able to apply to the promotion of its own brands. Accordingly, the management of the Group was of the opinion that royalties payable to brand holders would be more than offset by the margins realized on increased sales attributable to wider market awareness and acceptance of well-established branded products.

In September, 2010, the Group signed its first exclusive worldwide license and distribution agreement with Maidenform Brands, Inc. ("Maidenform") to manufacture and market products in its market segment under various Maidenform brands. Maidenform is a global intimate apparel company with a portfolio of established, well-known brands. During its 90-year history, Maidenform has built strong equity for its brands and has established a platform for growth through a combination of innovative, first-to-market designs and creative advertising campaigns focused on increasing brand awareness with generations of women. Products are sold under some of the most recognized brands in the intimate apparel industry, including Maidenform®, Control It!®, Fat Free Dressing®, Flexees®, Lilyette®, Maidenform's Charmed®, Bodymates®, Inspirations®, Self Expressions® and Sweet Nothings®.

In January 2012 the Group signed a second license and distribution agreement with Mo Industries, LLC (a subsidiary of VF Corporation) to manufacture and distribute intimate apparel under its Splendid and Ella Moss brands. In terms of this agreement, licensed territories include Australia, Canada, China, the European Union, Mexico, the Russian Federation, Singapore, the UAE, and the USA.

The *Splendid®* brand is known for its use of luxurious fabrics in a wide range of contemporary knit products incorporating modern fit and styling. The *Ella Moss®* brand is an ultra-feminine collection of casual knit tops and dresses featuring bold colors, whimsical styling and fashion silhouettes. *Splendid®* and *Ella Moss®* products are currently marketed internationally, by a number of high-end retail and online chains, specialty boutiques as well as its own stores.

The agreement with Mo Industries necessitated the establishment of new premises located in New York which is being used to house the Group's product design team for the Splendid and Ella Moss programs. The New York office also includes showroom space utilized to hold market appointments with major retail buyers for all brands/lines during New York Intimate Apparel Market weeks throughout the year.

b) Intelligent Fabrics

A second strategic division was added in 2010 when the Group obtained North American distribution rights for a new generation of intelligent textiles which have the ability to kill bacteria, repel insects and heal the skin amongst others. Management anticipates that the intelligent textiles division will be the main driving force of the Company's future growth and expansion.

On December 10, 2013 iFabric announced the execution an agreement that secures global distribution and marketing rights of antimicrobial, antiviral and other textile technologies.

The execution of the agreement provides several significant benefits to iFabric:

- Expansion of distribution and marketing rights from North American rights to Worldwide rights;
- A direct, and more secure, relationship with the manufacturer of the technologies, including access to future product advancements and developments;
- Increased product margins as a result of the direct relationship with the manufacturer; and
- The elimination of the previous profit share arrangement.

As a result of securing the global rights to the products, The Company will rebrand on a global basis, its current offerings of antimicrobial, antiviral and other products. In addition, these products will now be offered on a global basis and will not be restricted to only the North American market as was previously designed.

This new agreement clearly demonstrates the confidence the manufacturer has in the Company to execute on the future growth plans for these products. The agreement provides iFabric with not only worldwide distribution rights at increased margins, but also a direct contractual relationship with the manufacturer and a more efficient supply of products to customers. In addition, iFabric also has the ability to now supply technical assistance and advice on product development in a wide variety of market areas on a global basis.

The intelligent fabrics division will initially focus its regulatory, product development and marketing efforts on three key technologies, namely:

1. Enguard ™ Insect Repellent Fabric

Applying Enguard to fabrics results in a highly effective and durable insect repellent. Fabrics treated with Enguard require rubbing or scrunching in order to release the active ingredient. Once activated, Enguard protection lasts for many hours. 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 Enguard product lasts many months and can be washed up to 10 times without losing effectiveness.

The Company is in the process of securing approvals from the Environmental Protection Agency ("EPA") in the U.S., and Health Canada which will allow it to sell products utilizing the Enguard technology in North America with appropriate claims. The anticipated dates of receiving such approvals are uncertain.

2. Cliniweave ™ Anti Microbial Technology

Cliniweave technology imparts anti-microbial powers to fibers, plastic, paint and paper treated with the Cliniweave chemicals. Numerous laboratory tests have shown that Cliniweave treated products inhibit the growth of a wide variety of infectious agents associated with Hospital Acquired Infections ("HAI") including MRSA, C-Difficile, VRE and H1N1 and by its application may assist in preventing the spread of such infections. In addition, an anti-viral version of Cliniweave (Cliniweave AV) has been developed to combat viral contamination of textiles in community environments.

US Federal EPA registrations in respect of Cliniweave and Cliniweave AV were received in October 2012 and December 2012 respectively and State registrations were completed in July 2013, thus allowing the Company to sell Cliniweave products throughout the US.

3. Dreamskin ™

Dreamskin textile technology is safe for infants and helps encourage a healthy skin environment by its ability to either increase or decrease moisture, a critical step in maintaining a healthy skin.

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.

SELECTED QUARTERLY INFORMATION

The following is a summary of selected financial information for the eight most recent quarters:

	Dec. 31, 2013	**Sept. 30, 2013**	**June 30, 2013**	**Mar. 31, 2013**	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar. 31, 2012**
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
	$	*$*	*$*	*$*	*$*	*$*	*$*	*$*
Total assets	10,336,611	9,154,711	9,821,901	8,781,054	8,427,899	8,454,058	8,421,617	8,452,855
Total long-term financial liabilities	2,086,298	2,084,741	2,142,828	2,327,121	2,580,094	2,801,891	3,000,835	3,442,791
Working capital (deficiency)	5,119,970	3,401,416	3,855,417	3,734,335	3,745,329	4,011,541	4,103,726	4,095,314
Retained earnings	2,947,651	2,735,494	3,099,790	2,900,038	2,888,595	2,880,050	2,771,058	3,306,910
Product sales	2,978,733	1,909,362	2,709,015	2,254,113	1,185,751	2,006,645	1,802,833	1,067,362
Rental revenue	27,052	27,052	32,217	32,217	16,256	26,836	22,837	23,077
Share based compensation	(45,671)	(90,204)	(73,065)	(273,145)	0	0	0	0
Impairment loss	0	(300,253)	0	0	0	0	0	0
RTO transaction costs	0	0	0	0	0	0	(572,170)	0
Net earnings (loss)	213,330	(381,410)	199,715	24,478	12,411	113,386	(550,149)	93,718
Earnings (loss) per share - basic	0.008	(0.016)	0.008	0.001	0.001	0.01	(0.02)	0.01
Earnings (loss) per share - diluted	0.008	(0.016)	0.008	0.001	0.001	0.01	(0.02)	0.01
Dividends declared	0	0	0	0	0	0	0	0

SELECTED ANNUAL INFORMATION

The following is a summary of selected financial information for the three most recent financial years:

	Sept. 30, 2013	**Sept. 30, 2012**	**Sept. 30, 2011**
	Audited	*Audited*	*Audited*
	$	*$*	*$*
Total assets	9,154,711	8,454,058	8,292,672
Total long-term financial liabilities	2,084,741	2,801,891	3,485,694
Working capital (deficiency)	3,401,416	4,011,541	4,140,525
Retained earnings	2,735,494	2,880,050	3,098,730
Revenues	8,165,983	6,074,766	5,660,288
Share based compensation	(436,414)	0	0
Impairment loss	(300,253)	0	0
RTO transaction costs	0	(572,170)	0
Net earnings (loss)	(144,806)	(214,349)	485,519
Earnings (loss) per share - basic	(0.006)	(0.009)	0.04
Earnings (loss) per share - diluted	(0.006)	(0.009)	0.04
Dividends declared	0	0	0

DISCUSSION OF OPERATIONS

REVENUE AND OPERATING EXPENSE ANALYSIS

UNAUDITED RESTATED CONSOLIDATED INTERIM STATEMENTS OF COMPREHESIVE EARNINGS

Three months ended December 31		2013 Restated		2012
REVENUE	**$**	**3,005,785**	$	1,241,673
COST OF SALES		**1,433,373**		533,503
GROSS PROFIT		**1,572,412**		708,170
EXPENSES				
General and administrative costs		**571,138**		433,450
Selling and design costs		**622,421**		295,213
Interest on operating line		**4,838**		-
Interest on long-term debt		**12,962**		14,208
Amortization of property, plant and equipment		**10,930**		12,245
Amortization of deferred development costs		**36,100**		-
		1,258,389		755,116
EARNINGS (LOSS) FROM OPERATIONS		**314,023**		(46,946)
OTHER EXPENSES (INCOME)				
Share based compensation		**47,671**		-
Gain on foreign exchange		**(70,506)**		(22,071)
Unrealized loss (gain) on foreign exchange forward contracts		**21,579**		(61,582)
Sundry income		**(5,693)**		-
		(6,949)		(83,653)
EARNINGS BEFORE INCOME TAXES		**320,972**		36,707
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current		**112,962**		67,643
Deferred		**(5,320)**		(43,347)
		107,642		24,296
NET EARNINGS		**213,330**		12,411
OTHER COMPREHENSIVE EARNINGS		**-**		-
TOTAL COMPREHENSIVE EARNINGS	**$**	**213,330**	$	12,411
EARNINGS PER SHARE				
Basic	**$**	**0.008**	$	0.001
Diluted		**0.008**		0.001

For the quarter ended December 31, 2013, the Company earned after tax income of $213,330 or $0.008 per share (basic and diluted) compared to an after tax earnings of $12,411 or $0.001 per share (basic and diluted) for the quarter ended December 31, 2012. The earnings for the quarter include an amount of $47,671 which was expensed in respect of share based compensation related to stock options granted to directors, employees and consultants of the Company.

Income from operations for the quarter amounted to $314,023 compared to an operating loss of $46,946 in the comparable quarter of 2012.

Revenues

For the quarter ended December 31, 2013, the Company reported revenues of $3,005,785 compared to $1,241,673 in the comparable quarter of 2012, representing an increase of 142%. This increase was mainly attributable to new intimate apparel programs.

Cost of sales

Cost of sales represents the cost of goods imported from China and the USA as well as other direct costs such as freight and import duties incurred to bring inventory to their current state and location.

For the quarter ended December 31, 2013, the Company incurred $1,433,373 on cost of sales compared to $533,503 for the quarter ended December 31, 2012. Gross profit for the quarter amounted to $1,572,412 (or 52% of sales) compared to $708,170 (or 57% of sales) in 2012. The decrease in gross margin is attributable to the clearance of end of season merchandise at lower margins.

General, administrative and operation expenses

Total general, administrative and operation expenses for the quarter amounted to $571,138 compared to $433,450 in 2012 representing an increase of $137,688 or 32%. This increase in general, administrative and operation expenses is attributable to the increase in variable costs related to the increase in sales.

Selling and design costs

Selling and design costs for the quarter ended December 31, 2013 amounted to $622,421 compared to $295,213 in 2012, representing an increase of $327,208 or 111%. This increase is largely attributable to marketing and design expenses incurred in respect of new apparel and antimicrobial programs proportionate to the increase in sales for the quarter compared to 2012.

Interest on short-term debt

Interest costs of $4,837 were incurred in the quarter in respect of the use of a bank operating line to fund short-term working capital needs. This operating line was not utilized in Q1 of 2012 and there was accordingly no cost for this period.

Interest on long-term debt

This expense is composed primarily of the interest expense incurred on a secured loan which was utilized to finance the acquisition of the Company's premises located in Markham, Ontario.

The Company incurred interest costs for the quarter ended December 31, 2013 of $12,962 compared to $14,208 for the prior comparable quarter. The reduction in interest costs is attributable to a reduction in the amount of the related long-term debt.

Depreciation and amortization

Amortization of property, equipment and development costs increased from $12,245 in 2012 to $47,030 in 2013. This increase is mainly attributable to the amortization of deferred development expenses relating to available for sale antimicrobial products.

ASSET, LIABILITIES AND SHARE CAPITAL ACTIVITIES

UNAUDITED RESTATED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

ASSETS

		December 31, 2013 Restated		September 30, 2013
ASSETS				
CURRENT				
Cash and cash equivalents	**$**	**966,734**	$	457,131
Accounts receivable		**1,686,194**		1,087,357
Inventory		**3,686,836**		3,519,590
Prepaid expenses and deposits		**141,768**		175,441
Foreign exchange forward contracts		**33,291**		54,870
Investment tax credits recoverable		**-**		12,826
		6,514,823		5,307,215
NON-CURRENT				
Property, plant and equipment		**2,556,359**		2,551,288
Deferred development costs		**867,937**		904,036
Deferred income taxes		**342,442**		337,122
Goodwill		**55,050**		55,050
		3,821,788		3,847,496
TOTAL ASSETS	**$**	**10,336,611**	$	9,154,711

ASSET, LIABILITIES AND SHARE CAPITAL ACTIVITIES

UNAUDITED RESTATED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY

		December 31, 2013 Restated		September 30, 2013
LIABILITIES				
CURRENT				
Bank indebtedness	**$**	**32,494**	$	407,601
Accounts payable and accrued liabilities		**892,739**		1,127,648
Income taxes payable		**349,620**		236,657
Current portion of loans payable		**120,000**		133,893
		1,394,853		1,905,799
NON-CURRENT				
Due to related parties		**1,016,298**		984,741
Loans payable		**1,070,000**		1,100,000
		2,086,298		2,084,741
TOTAL LIABILITIES		**3,481,151**		3,990,540
SHAREHOLDERS' EQUITY				
CAPITAL STOCK		**2,704,414**		1,978,987
WARRANTS		**704,861**		-
OPTIONS		**484,085**		436,414
NON-CONTROLLING INTEREST		**14,449**		13,276
RETAINED EARNINGS		**2,947,651**		2,735,494
TOTAL SHAREHOLDERS' EQUITY		**6,855,460**		5,164,171
TOTAL LIABILITIES AND EQUITY	**$**	**10,336,611**	$	9,154,711

Summarized major financial statement balances:

		Dec. 31, 2013 (Unaudited)		Sept 30, 2013 (Audited)
Assets	$	10,336,611	$	9,154,711
Liabilities	$	3,481,151	$	3,990,540
Shareholders' Equity	$	6,855,460	$	5,164,171
Common shares outstanding		25,844,750		25,437,500
Options outstanding		1,525,000		1,525,000
Warrants outstanding		232,133		-

Assets

Total assets of the Company as at December 31, 2013 and September 30, 2013 were comprised primarily of cash, accounts receivable, investment tax credits receivable, inventories, deposits, prepaid expenses and other receivables, deferred development costs, deferred income taxes and property and equipment.

During the quarter ended December 31, 2013, the Company received net cash proceeds of $1,430,288 from the placement of shares. From these proceeds, an amount of $375,107 was applied to reduce short-term bank borrowings and the balance is to be utilized to fund future working capital requirements of the Company. This placement accounted for the increase in cash on hand from $457,131 at September 30, 2013 to $966,734 at December 31, 2013.

Accounts receivable increased from $1,087,357 at September 30, 2013 to $1,686,194 at December 31, 2013. This increase is attributable to the increase in sales for the quarter.

There was a nominal increase amount of inventories on hand, from $3,519,590 at September 30, 2013 to $3,686,836 as at December 31, 2013.

Changes in all other asset balances during the quarter were not significant.

Liabilities

As at December 31, 2013, the Company's liabilities totaled $3,481,151 of which current liabilities represented $1,394,853 and long term liabilities represented $2,086,298. As at September 30, 2013, the Company's liabilities totaled $3,990,540, of which current liabilities represented $1,905,799 and long term liabilities represented $2,084,741. The decrease in current liabilities is mainly attributable to the a reduction of $375,107 in the Company's bank operating line and a decrease of $164,409 in the amount of accounts payable.

Shareholders' equity

As at December 31, 2013, shareholders' equity amounted to $6,855,460 compared to $5,164,171 as at September 30, 2013, representing an increase of $1,691,289. The increase in shareholders' equity during the quarter resulted from net proceeds of $1,430,288 received pursuant to a private placement of 407,250 units, which closed on December 13, 2013, the fair value of options recognized during the quarter of $47,671, as well as the net income for the quarter of $213,330.

Outstanding share data

As at September 30, 2013, the Company had 25,844,750 common shares issued and outstanding,1,525,000 stock options outstanding, exercisable at a weighted average price of $0.52 per share and 232,133 warrants outstanding, exercisable at a weighted average price of $5.10 per share.

LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES

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

Working capital

Working capital represents current assets less current liabilities. As at December 31, 2013, the Company's working capital was $5,119,970 compared to working capital of $3,401,416 as at September 30, 2013 representing an increase of $1,718,544. The increase working capital resulted from net cash proceeds of $1,430,288 from the private placement in December 2013 as well as the net operating income for the quarter.

Cash used in operating activities

During the quarter ended December 31, 2013, the operating activities consumed cash of $519,971 as compared to a net inflow from operations of $537,844 for the quarter ended December 31, 2012. The increase in accounts receivable was the main component of cash consumption during the current quarter.

Cash used in investing activities

During the quarter ended December 31, 2013, investing activities consumed cash of $13,271 as opposed to cash of $27,724 consumed in the comparable quarter of 2012.

Cash provided by financing activities

Cash provided by financing activities for the quarter ended December 31, 2013 amounted to $1,402,845. This was mainly comprised of net private placement proceeds of $1,430,288 from which, $375,107 was applied in reduction of the balance owing on Company's bank operating line. This compares to $221,797 consumed in the comparable quarter of 2012 which resulted from the repayment of long-term debt.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that would require disclosure.

TRANSACTIONS WITH RELATED PARTIES

During the quarter ended December 31, 2013, the Company was involved in the following related party transactions in which all transactions have been measured at the exchange amount (the amount established and agreed to by the related parties):

1. The CEO and CFO of the Company provide certain management advisory and accounting services to the Company. For the quarter, the Company incurred expenses of $65,000 (2012 - $23,750) for services rendered. Of these amounts, paid and accrued amounts for the CEO amounted to $30,000 (2012 – NIL) and $35,000 (2012 - $23,750) was paid and accrued in respect of the CFO.

2. A director of the Company was paid $12,000 (2012 - $12,000) for the provision of technical services.

3. Salaries fees and benefits for other officers and directors of the company expensed through payroll amounted $49,915 for the current quarter (2012 - $65,886).

4. An amount of $23,859 was expensed in respect of share based compensation resultant from the prior issuance of stock options to directors and officers of the company (2012 – NIL

5. Included in accounts payable and accrued liabilities is an amount of $32,000 (September 30, 2013 - $102,500) due to Directors and key management personnel of the Company in respect of unpaid fees

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments comprise cash, accounts receivable, prepayments, other receivables, government assistance receivable, accounts payable and accrued liabilities and amounts due to related parties.

These instruments are initially recognized at fair value with the carrying amount being reduced by any impairment loss, with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

Financial instruments that potentially subject the Company to credit risk consist of accounts receivable and prepayments. The credit risk that exists in this regard has been largely mitigated as a result of credit insurance maintained in respect of trade receivables.

As at December 31, 2013, the Company's long-term debt consisted of:

- A bank loan of $1,190,000 secured by a first readvanceable mortgage over land and buildings and a General Security Agreement over the assets of a subsidiary company. The loan is repayable in monthly payments of $10,000 together with interest at the bank's prime rate plus 1.25% and full repayment is due May 31, 2023.
- Amounts due to related parties of $1,016,298. These amounts are currently unsecured, interest free and payable on demand. As the related parties have waived their right to demand repayment over the next 12 months, the loans have been classified as long-term liabilities.

SEGMENTED INFORMATION

The Company has three reportable segments, as described below, which are strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different marketing strategies and technologies. For each of the strategic divisions, the CEO (the chief operating decision maker) reviews 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, purchasing, and distribution of intimate apparel.
- Intelligent Fabrics: Includes the development, testing and distribution of specialty textiles as well as chemicals suitable for application to textiles.
- Other: Includes leasing of property to group companies and third parties.

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

Property, plant and equipment, deferred tax assets, and goodwill are managed on a group basis and are not allocated to operating segments. Amortization of property, plant and equipment, and interest expense on operating lines of credit and long-term debt are managed on a group basis and are not allocated to operating segments.

The following segmented information pertains to the strategic divisions for the quarters ended December 31, 2013 and 2012.

Operating Segments - Three months ended December 31, 2013 (restated)

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
Revenues					
Third party	$ 2,783,344	$ 195,389	$ 27,052	$ -	**$ 3,005,785**
Inter-segment	316,621	-	38,225	(354,846)	**-**
Total Revenues	3,099,965	195,389	65,277	(354,846)	**3,005,785**
Earnings (loss) before income taxes (restated)	419,960	(100,387)	4,895	(3,496)	**320,972**
Amortization of deferred development costs	-	(36,100)	-	-	**(36,100)**
Amortization of property, plant, and equipment	-	-	-	(10,930)	**(10,930)**
Interest on operating line	-	-	-	(4,837)	**(4,837)**
Interest on long-term debt	-	-	-	(12,962)	**(12,962)**
Segment assets	$ 5,071,168	$ 1,764,824	$ 6,512	$ 3,494,107	**$ 10,336,611**
Expenditures on property, plant, and equipment	-	-	-	26,755	**26,755**

Operating Segments - Three months ended December 31, 2012

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	$ 1,185,517	$ 234	$ 55,922	$ -	$ 1,241,673
Inter-segment	-	-	-	-	-
Total Revenues	1,185,517	234	55,922	-	1,241,673
Earnings (loss) before income taxes	50,722	(19,651)	15,737	(10,101)	36,707
Amortization of deferred development costs	-	-	-	-	-
Amortization of property, plant, and equipment	-	-	-	(12,245)	(12,245)
Interest on operating line	-	-	-	-	-
Interest on long-term debt	-	-	-	(14,208)	(14,208)
Segment assets	$ 3,917,978	$ 1,572,192	$ 3,410	$ 2,934,319	$ 8,427,899
Expenditures on property, plant, and equipment	-	-	-	-	-
Expenditures on development costs	-	25,723	-	-	25,723

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

	2013	2012
External sales revenue		
Canada	**$ 1,013,896**	$ 1,022,381
United States	**5,805,292**	3,528,287
United Kingdom	**1,346,795**	1,524,098
Total	**$ 8,165,983**	$ 6,074,766

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

COMMITMENTS

The following details the Company's commitments as at December 31, 2013:

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

2014	$	62,622
2015		30,699
2016		16,563
2017		5,309
2018		4,425
	$	119,618

(b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. As at December 31, 2013, the Company had contracted to sell GBP £425,000 and sell USD $850,000. As well, the Company had contracted to buy USD $700,000.

For the three months ended December 31, 2013, there is an unrealized loss on foreign exchange of $21,579 (2012 - $61,582 gain) included in the statement of earnings and comprehensive earnings.

(c) The Company is party to an exclusive worldwide license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the initial license term, the Company is required to pay a monthly royalty of 8.5% on its net sales as defined in the agreement, on all products sold under the licensed marks. In addition, the Company is required to pay an advertising fee of 2%, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The initial license term was in effect until December 31, 2012, and was renewed for an additional term of two years ending December 31, 2014, under the same terms as the prior agreement.

(d) Effective October 17, 2011, the Company entered into an exclusive worldwide license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the initial license term, the Company is required to pay a monthly royalty of 9.5% on its net sales as defined in the agreement, on all products sold under the licensed marks. The initial license term is in effect until December 31, 2015 and may be renewed for an additional term of four years on the condition that certain performance goals as defined in the agreement are attained.

(e) Effective January 16, 2012, the Company entered into an exclusive license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. The licensed territory includes certain worldwide areas as specified in the agreement. During the initial license term, the Company is required to pay a monthly royalty of 9% on its net sales as defined in the agreement, on all products sold under the licensed marks. Minimum annual royalties have been established for the contract periods ending December 31, 2013, 2014, and 2015 in the amounts of $144,000, $279,000 and $432,000 respectively. In addition, the Company is required to pay an advertising fee of 2%, payable semi-annually, on its net sales as defined in the agreement, for the promotion of the licensed products. The initial license term is in effect until December 31, 2015 and may be renewed for an additional term of three years on the condition that certain performance goals as defined in the agreement are attained.

(f) As at December 31, 2013, the Company had no open letters of credit for purchases of inventory (September 31, 2013 - $17,000).

SUBSEQUENT EVENTS

There were no material subsequent events that occurred between December 31, 2013 and the date of this MDA.

RISK FACTORS

Financial

iFabric will require additional financing to fund the expansion of iFabric. There can be no assurance that iFabric will be able to obtain adequate financing in the future, or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of development of certain of iFabric's business, and therefore affect its future cash flows, earnings, results of operations and financial condition.

Competition

iFabric faces significant competition in almost every aspect of its business, particularly from other companies that:
- Design, manufacture and distribute intimate apparel and accessories;

- Sell sprays, topical liquids and creams that repel biting insects when applied to the skin;
- Sell sprays, liquids, creams, chemicals and textiles which have the ability to kill bacteria;
- Sell sprays, topical liquids, creams and oral medication that assist with the healing of skin and the control of skin irritations; and
- Distribute chemicals that can be applied to textiles in order to kill bacteria.

Licensing Arrangements

iFabric will be reliant on a number of key licensing and distribution agreements and its future performance could be materially affected by a termination of one or more of such agreements. Termination could arise as a result of any of the following:
- Failure to pay royalties or advertising contributions;
- Failure to meet minimum purchase obligations;
- Failure to achieve minimum sales targets;
- The breach of a material covenant;
- Failure to ship licensed products to authorized customers;
- Failure to give notice of intention to renew within the stipulated time period

Key Personnel

The senior officers of the Company are critical to its success. In the event of the departure of a senior officer, the Company believes that it will be successful in attracting and retaining qualified successors but there can be no assurance of such success. Recruiting qualified personnel as the Company grows is critical to its success. As the Company's business activities grow, it will require additional key financial, administrative and technical personnel as well as additional operations staff. If the Company is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Technological Advancements

The chemical industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of the Company will depend on its ability to secure technological superiority in its products and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the Company will not be required in order to meet demands or to remain competitive.

Intellectual Property

The success of the Company will depend, in part, on its ability to maintain proprietary protection over its intellectual property and operate without infringing the proprietary rights of third parties. Despite precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's technologies without authorization. There can be no assurance that any steps taken by the Company will prevent misappropriation of its technologies.

Government Regulation and Regulatory Approvals

Future changes in government regulation could adversely affect the industries in jurisdictions in which the Company operates or intends to operate.

With regard to its intelligent textile technologies the Company is dependent on regulatory approvals or registrations and the legal systems in the markets in which it operates, such as the U.S. Environmental Protection Agency ("EPA") and Health Canada. The Company currently has certain EPA registrations and is in process of securing additional approvals from both the EPA and Health Canada. There is no certainty that such approvals will be granted and regulators could, even after granting such approvals, be stringent on non-compliance with regulatory requirements or change such requirements, which could have a material adverse effect on the Company's business and result in adverse publicity.

Customer Adoption

The Company's revenues in its Intelligent Textile Division are highly dependent on the willingness of consumers to purchase products based upon their awareness the benefits of such products. Different markets will require differing marketing strategies and the adoption of the Company's products may be slower than anticipated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of these 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 and that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

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

Recoverability of deferred development costs:
Management deems all such costs as recoverable based on the pending Health Canada and the EPA approval of items under development as well as contracts with buyers which are pending.

Benefits of deferred income tax assets:
Management bases this estimate on the estimated future tax rate at the time in which it is expected for the asset to be realized. Many of these rates are not final due to their future nature.

Estimated useful life of property, plant and equipment:
Management makes this estimate based on past experience with similar assets and future business plans.

Allowance for doubtful accounts:
Management provides for doubtful accounts based on its assessment of credit risk, past experience and payment history of a customer.

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.

Provision for margin guarantee rebates:
The company has guaranteed a minimum level of margins, to certain of its customers, as a condition of sale. Management provides for potential rebates based on its estimate of inventory that is likely to be discounted, by these certain customers, based on current sale-through levels.

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

ACCOUNTING POLICY DEVELOPMENTS

Initial application of standards, interpretations and amendments to standards and interpretations in the reporting period

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for annual periods beginning on or after January 1, 2013. As of October 1, 2013, the Company has adopted the following standards, and, unless otherwise indicated, these have no effect the Company's financial statements:

i) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and supersedes the consolidation requirements in SIC-12 'Consolidation - Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements'. IFRS l0 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.

ii) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement.

FUTURE ACCOUNTING CHANGES

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, 2014 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) IAS 32, 'Financial Instruments: Presentation' was amended in December, 2011, clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments in IAS 32 are effective for annual periods beginning on or after January 1, 2014, with earlier adoption permitted. The application of IAS 32 is not expected to have an impact on the Company's accounting for financial instruments.

iii) 'Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycle' were approved by the IASB in December, 2013 and are effective for annual periods beginning on or after July 1, 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The Company does not expect that any adjustments will be necessary as a result of applying the revised rules.

The Company has not yet adopted the above standards. However, the impact of these standards has been assessed by the Company and is not expected to have a material impact on the Company's future financial statements.