# IFABRIC CORP.

## CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

**JUNE 30, 2014**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED)**

NOTICE TO READER

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

# IFABRIC CORP.

## CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (RESTATED)

**(Unaudited, Expressed in CDN Dollars)**

| As at | | June 30, 2014 Restated (Note 2) | | September 30, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT** | | | | |
| Cash and cash equivalents (note 5) | **$** | **494,613** | $ | 457,131 |
| Accounts receivable (note 6) | | **2,943,986** | | 1,087,357 |
| Inventory (note 7) | | **3,571,349** | | 3,519,590 |
| Prepaid expenses and deposits (note 8) | | **749,840** | | 175,441 |
| Foreign exchange forward contracts (note 9) | | **43,326** | | 54,870 |
| Investment tax credits recoverable (note 10) | | **-** | | 12,826 |
| | | **7,803,114** | | 5,307,215 |
| **NON-CURRENT** | | | | |
| Property, plant and equipment (note 11) | | **2,534,499** | | 2,551,288 |
| Deferred development costs (note 12) | | **795,737** | | 904,036 |
| Deferred income taxes (note 13) | | **317,384** | | 337,122 |
| Goodwill | | **55,050** | | 55,050 |
| | | **3,702,670** | | 3,847,496 |
| | **$** | **11,505,784** | $ | 9,154,711 |

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

# IFABRIC CORP.

## CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (RESTATED)

**(Unaudited, Expressed in CDN Dollars)**

| As at | | June 30, 2014 Restated (Note 2) | | September 30, 2013 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **CURRENT** | | | | |
| Bank indebtedness (note 5) | **$** | **388,663** | $ | 407,601 |
| Accounts payable and accrued liabilities (note 14) | | **922,662** | | 1,127,648 |
| Income taxes payable | | **481,113** | | 236,657 |
| Current portion of loans payable (note 16) | | **120,000** | | 133,893 |
| | | **1,912,438** | | 1,905,799 |
| **NON-CURRENT** | | | | |
| Due to related parties (note 15) | | **1,033,967** | | 984,741 |
| Loans payable (note 16) | | **1,010,000** | | 1,100,000 |
| | | **2,043,967** | | 2,084,741 |
| | | **3,956,405** | | 3,990,540 |
| **COMMITMENTS (note 20)** | | | | |
| **SHAREHOLDERS' EQUITY** | | | | |
| **CAPITAL STOCK (note 17)** | | **2,722,194** | | 1,978,987 |
| **WARRANTS (note 17)** | | **704,861** | | - |
| **OPTIONS (note 17)** | | **635,048** | | 436,414 |
| **NON-CONTROLLING INTEREST** | | **15,989** | | 13,276 |
| **RETAINED EARNINGS** | | **3,471,287** | | 2,735,494 |
| | | **7,549,379** | | 5,164,171 |
| | **$** | **11,505,784** | $ | 9,154,711 |

*APPROVED ON BEHALF OF THE BOARD:*

*'Hylton Karon'* DIRECTOR

*'Hilton Price'* DIRECTOR

Originally approved August 20, 2014, and approved for restatement on January 27, 2015

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

# IFABRIC CORP.

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

**(Unaudited, Expressed in CDN Dollars)**

| Periods ended June 30 | Three months 2014 | Three months 2013 | Nine months 2014 Restated (Note 2) | Nine months 2013 |
|---|---|---|---|---|
| **REVENUE** | **$ 3,881,993** | $ 2,741,232 | **$ 9,799,051** | $ 6,229,569 |
| **COST OF SALES** | **1,950,712** | 1,204,905 | **4,666,870** | 2,686,588 |
| **GROSS PROFIT** | **1,931,281** | 1,536,327 | **5,132,181** | 3,542,981 |
| **EXPENSES** | | | | |
| General and administrative costs (note 21) | **658,626** | 474,373 | **1,818,607** | 1,323,178 |
| Selling and design costs | **645,483** | 659,202 | **1,905,842** | 1,435,993 |
| Interest on operating line | **1,733** | 6,973 | **6,575** | 11,162 |
| Interest on long-term debt | **12,185** | 13,457 | **37,513** | 41,288 |
| Amortization of property, plant and equipment | **10,930** | 12,710 | **32,790** | 37,672 |
| Amortization of deferred development costs | **36,100** | - | **108,300** | - |
| | **1,365,057** | 1,166,715 | **3,909,627** | 2,849,293 |
| **EARNINGS FROM OPERATIONS** | **566,224** | 369,612 | **1,222,555** | 693,688 |
| **OTHER EXPENSES (INCOME)** | | | | |
| Share based compensation | **123,150** | 73,065 | **206,414** | 346,210 |
| Loss (gain) on foreign exchange | **84,208** | (59,223) | **(117,891)** | (76,363) |
| Unrealized loss (gain) on foreign exchange forward contracts (note 9) | **(26,718)** | 18,525 | **11,544** | (25,062) |
| Sundry income | **4,409** | (71) | **(1,736)** | (127) |
| | **185,049** | 32,296 | **98,331** | 244,658 |
| **EARNINGS BEFORE INCOME TAXES** | **381,175** | 337,316 | **1,124,224** | 449,030 |
| **PROVISION FOR (RECOVERY OF) INCOME TAXES (note 19)** | | | | |
| Current | **166,619** | 128,533 | **365,979** | 277,810 |
| Deferred | **(30,532)** | 9,068 | **19,738** | (60,219) |
| | **136,087** | 137,601 | **385,717** | 217,591 |
| **NET EARNINGS** | **245,088** | 199,715 | **738,506** | 231,439 |
| **OTHER COMPREHENSIVE EARNINGS** | **-** | - | **-** | - |
| **TOTAL COMPREHENSIVE EARNINGS** | **$ 245,088** | $ 199,715 | **$ 738,506** | $ 231,439 |
| **EARNINGS PER SHARE (note 18)** | | | | |
| Basic | **$ 0.009** | $ 0.008 | **$ 0.029** | $ 0.009 |
| Diluted | **0.009** | 0.008 | **0.027** | 0.009 |

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

# IFABRIC CORP.

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

**(Unaudited, Expressed in CDN Dollars)**

| | Capital stock | Warrants | Options | Retained earnings | Accumulated other comprehensive earnings | Non-controlling interest | **Total** |
|---|---|---|---|---|---|---|---|
| Balance at September 30, 2012 | $ 1,840,987 | $ 38,000 | $ - | $ 2,880,050 | $ - | $ 13,526 | **$ 4,772,563** |
| Total comprehensive earnings | - | - | - | 219,740 | - | 11,699 | **231,439** |
| Share based compensation (note 17) | - | - | 346,210 | - | - | - | **346,210** |
| Warrants exercised (note 17) | 110,400 | (30,400) | - | - | - | - | **80,000** |
| Balance at June 30, 2013 | 1,951,387 | 7,600 | 346,210 | 3,099,790 | - | 25,225 | **5,430,212** |
| | | | | | | | |
| Balance at September 30, 2013 | 1,978,987 | - | 436,414 | 2,735,494 | - | 13,276 | **5,164,171** |
| Private placement (note 17) | 1,629,000 | - | - | - | - | - | **1,629,000** |
| Fair value of shareholder warrants issued on private placement (note 17) | (579,293) | 579,293 | - | - | - | - | **-** |
| Share issue costs - cash (note 17) | (198,712) | - | - | - | - | - | **(198,712)** |
| Share issue costs - fair value of agent warrants issued on private placement (note 17) | (125,568) | 125,568 | - | - | - | - | **-** |
| Share based compensation (note 17) | - | - | 206,414 | - | - | - | **206,414** |
| Options exercised (note 17) | 17,780 | | (7,780) | | | | **10,000** |
| Total comprehensive earnings | - | - | - | 735,793 | - | 2,713 | **738,506** |
| **Balance at June 30, 2014 Restated (Note 2)** | **$ 2,722,194** | **$ 704,861** | **$ 635,048** | **$ 3,471,287** | **$ -** | **$ 15,989** | **$ 7,549,379** |

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

# IFABRIC CORP.

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

**(Unaudited, Expressed in CDN Dollars)**

| Periods ended June 30 | Nine months **2014 Restated (Note 2)** | Nine months 2013 |
|---|---|---|
| **CASH WAS PROVIDED BY (USED IN)** | | |
| **OPERATING ACTIVITIES** | | |
| Total comprehensive earnings | **$ 738,506** | $ 231,439 |
| Items not affecting cash | | |
| Amortization of property, plant and equipment | **32,790** | 37,672 |
| Amortization of deferred development costs | **108,300** | - |
| Unrealized gain (loss) on foreign exchange forward contracts | **11,544** | (25,062) |
| Gain on sale of property, plant and equipment | **(2,731)** | - |
| Share based compensation | **206,414** | 346,210 |
| Deferred income tax recovery | **19,738** | (60,219) |
| | **1,114,561** | 530,040 |
| Change in non-cash operating working capital items | | |
| Accounts receivable | **(1,856,629)** | (426,118) |
| Inventory | **(51,759)** | (634,381) |
| Prepaid expenses and deposits | **(574,399)** | 47,523 |
| Investment tax credits recoverable | **12,826** | 21,988 |
| Accounts payable and accrued liabilities | **(204,987)** | 467,006 |
| Income taxes payable | **244,456** | 232,162 |
| | **(2,430,492)** | (291,820) |
| | **(1,315,931)** | 238,220 |
| **FINANCING ACTIVITIES** | | |
| Bank operating line | **(18,938)** | 659,983 |
| Due to related parties | **49,226** | (555,603) |
| Repayment of loans | **(103,893)** | (93,354) |
| Share and warrant issuances (note 17) | **1,639,000** | 80,000 |
| Share issue costs - cash (note 17) | **(198,712)** | - |
| | **1,366,683** | 91,026 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(26,754)** | (3,049) |
| Proceeds on disposal of property, plant and equipment | **13,484** | - |
| Deferred development costs | **-** | (129,115) |
| | **(13,270)** | (132,164) |
| **CHANGE IN CASH POSITION** | **37,482** | 197,082 |
| **CASH AND CASH EQUIVALENTS, beginning of period (note 5)** | **457,131** | 142,044 |
| **CASH, end of period (note 5)** | **$ 494,613** | $ 339,126 |

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

### 1. NATURE OF OPERATIONS

iFabric Corp. ("iFabric or the Company") was incorporated under the Alberta Business Corporations Act on April 9, 2007 as a capital pool company as defined in Policy 2.4 of the TSX Venture Exchange. On June 4, 2012, the Company closed its Qualifying Transaction with Coconut Grove Textiles Inc. (note 2) and its shares began trading on the TSX Venture Exchange ("TSX-V") under the trading symbol "IFA". With effect from this date the Company is no longer considered a capital pool company and is now classified as an industrial Tier 2 issuer on the TSX-V.

The Company's principle activities relate to the business of designing and manufacturing women's intimate apparel and, in particular, a range of specialty bras including the Company's patented backless, strapless underwire bra, as well as a range of complimenting accessories. The Company is also in the business of distributing a range of specialty textiles as well as a number of chemical products that are suitable for application to textiles. The head office is located at 525 Denison Street, Unit 1, Markham Ontario.

### 2. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Company has restated its consolidated interim statement of financial position as of June 30, 2014 and its consolidated interim statements of earnings and comprehensive earnings, changes in shareholders' equity, and cash flows for the nine month period ended June 30, 2014.

As a result of the annual audit in respect of the year ended September 30, 2014, management revisited the accounting treatment of an amount of $704,861 expensed as share based compensation in relation to the fair value of shareholder and agent warrants issued on the Company's private placement, which closed on December 13, 2013.

Upon review of IFRS 2, share-based payment, and IAS 39, financial instruments: recognition and measurement, management has determined that the fair value of shareholder and agent warrants should have been reflected as a reduction in the amount of capital stock as opposed to being charged to earnings, as was originally reflected in the nine month period in the consolidated interim financial statements for the three and nine months ended June 30, 2014, originally approved by the Company's Board of Directors on August 20, 2014.

As a result of this adjustment, net earnings and total comprehensive earnings for the nine months ended June 30, 2014 have been restated to reflect an amount of $738,506 ($0.029 earnings per share - basic, and $0.027 earnings per share - diluted) as opposed to the previously reported net earnings and total comprehensive earnings of $33,645 ($0.001 earnings per share - basic, and $0.001 earnings per share - diluted). In addition, capital stock has been reduced from $3,427,055 to $2,722,194 and retained earnings have been increased from $2,766,426 to $3,471,287.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB.

The same accounting policies were followed in the preparation of these unaudited restated consolidated interim financial statements as those used in the preparation of the most recent audited annual consolidated financial statements for the year ended September 30, 2013, other than those set out in note 4(a). These unaudited restated consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended September 30, 2013, prepared in accordance with IFRS.

### (b) Basis of consolidation

These unaudited restated consolidated interim financial statements include the accounts of iFabric Corp., and its wholly-owned subsidiary, Coconut Grove Textiles Inc., which includes the consolidated accounts of its wholly-owned subsidiaries Coconut Grove Pads Inc., Intelligent Fabric Technologies (North America) Inc. and CG Intimates Inc. They also include the accounts of 2074160 Ontario Inc., which is a 60% owned subsidiary of Coconut Grove Textiles Inc. All inter-corporate balances and transactions have been eliminated.

### (c) Seasonal fluctuations

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

### (d) Basis of measurement

These unaudited restated consolidated interim financial statements were prepared on a historical cost basis except for certain items which may be accounted for at fair value, as further discussed in the significant accounting policies of the most recent audited annual financial statements for the year ended September 30, 2013.

### (e) Functional and presentation currency

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

### 4. ACCOUNTING POLICY DEVELOPMENTS

**(a) 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 11, 'Joint Arrangements' was issued in May 2011 and supersedes existing IAS 31, 'Joint Ventures'. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.

iii) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

iv) 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.

### 4. ACCOUNTING POLICY DEVELOPMENTS, continued

#### (b) Future changes in accounting policies

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 intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.

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 application permitted.

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

**(Unaudited, Expressed in CDN Dollars)**

## 5. CASH, CASH EQUIVALENTS, AND BANK INDEBTEDNESS

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 $388,663 was outstanding as at June 30, 2014 (September 30, 2013 - $407,601). 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 inventory. The facility is secured by General Security Agreements covering all the assets of two subsidiary companies, accounts receivable insurance, an assignment of 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 US dollars, which are subject to the same security arrangements.

## 6. ACCOUNTS RECEIVABLE

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Trade receivables | **$** | **3,048,184** | $ | 1,192,422 |
| Allowance for doubtful accounts | | **(10,730)** | | (10,730) |
| Accrued discounts | | **(106,000)** | | (106,000) |
| Other | | **12,532** | | 11,665 |
| | **$** | **2,943,986** | $ | 1,087,357 |

## 7. INVENTORY

During the nine month period ended June 30, 2014, the amount of inventory charged to earnings was $4,534,554 (2013 - $2,686,588) and the amount of inventory write-downs were $0 (2013 - $28,677). There were no reversals of prior periods write-downs of inventory.

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Raw materials | **$** | **496,937** | $ | 309,212 |
| Finished goods | | **3,074,412** | | 3,210,378 |
| | **$** | **3,571,349** | $ | 3,519,590 |

**(Unaudited, Expressed in CDN Dollars)**

## 8. PREPAID EXPENSES AND DEPOSITS

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Prepayments for chemical purchases | **$** | **300,253** | $ | 300,253 |
| Impairment provision (i) | | **(300,253)** | | (300,253) |
| Deposits paid to suppliers | | **602,170** | | 164,941 |
| Other deposits | | **147,670** | | 10,500 |
| | **$** | **749,840** | $ | 175,441 |

(i) On December 10, 2013, the Company issued a press release advising that the Company's wholly-owned subsidiary, Intelligent Fabric Technologies (North America) Inc. ("IFTNA"), would be terminating its joint venture agreement with Intelligent Fabric Technologies PLC ("IFTPLC"), for reason of material breaches of the agreement. An official notice of termination was forwarded to IFTPLC by the Company's legal counsel on December 27, 2013. In consequence of the termination, no further payments were made by IFTNA to IFTPLC for advance payment for chemicals as was required under the agreement and an impairment provision of $300,253 was made in the financial statements in respect of the outstanding chemical prepayment balance as at September 30, 2013. This amount has been written off in the current six month period ended March 31, 2014, as no recovery is anticipated.

## 9. FOREIGN EXCHANGE FORWARD CONTRACTS

The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. The balance is comprised of the following:

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Margin balance – cash deposit | **$** | **100,000** | $ | 100,000 |
| Mark to market variance – unrealized loss on foreign exchange | | **(56,674)** | | (45,130) |
| | **$** | **43,326** | $ | 54,870 |

As at June 30, 2014, the Company had contracted to sell GBP £230,000 and sell USD $850,000. As well, the Company had contracted to buy USD $700,000.

For the nine months ended June 30, 2014, there is an unrealized loss on foreign exchange of $11,544 (2013 - $25,062 gain) included in the statement of earnings and comprehensive earnings.

## 10. INVESTMENT TAX CREDITS RECOVERABLE

The Company makes claims for scientific research and experimental development expenditures incurred. Investment tax credits in the amount of $0 as of June 30, 2014 (September 30, 2013 - $12,826) have been recorded as recoverable and as a reduction of deferred development costs (note 12).

**(Unaudited, Expressed in CDN Dollars)**

## 11. PROPERTY, PLANT AND EQUIPMENT

| | | | | | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| | | **Cost** | | **Accumulated amortization** | | **Net** | | Net |
| Land | **$** | **1,800,000** | **$** | **-** | **$** | **1,800,000** | $ | 1,800,000 |
| Buildings | | **900,813** | | **211,748** | | **689,065** | | 689,306 |
| Automobiles | | **-** | | **-** | | **-** | | 10,752 |
| Computer and office equipment | | **166,340** | | **141,130** | | **25,210** | | 27,437 |
| Factory machinery | | **561,512** | | **541,288** | | **20,224** | | 23,793 |
| | **$** | **3,428,665** | **$** | **894,166** | **$** | **2,534,499** | $ | 2,551,288 |

## 12. DEFERRED DEVELOPMENT COSTS

| | | | | | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| | | **Cost** | | **Accumulated amortization** | | **Net** | | Net |
| Product development costs | **$** | **941,427** | **$** | **145,690** | **$** | **795,737** | $ | 904,036 |

During the nine months ended June 30, 2014, expenditures of $0 (2013 - $145,549) met the criteria for deferral and were capitalized, against which $0 (2013 - $16,434) of investment tax credits (note 10) have been applied to reduce these expenditures. One of the products, previously under development, became commercially available for sale in the fourth quarter of fiscal 2013, and the deferred costs relating to this product are now being amortized in accordance with the Company's accounting policies.

**(Unaudited, Expressed in CDN Dollars)**

## 13. DEFERRED INCOME TAXES

Temporary differences between accounting and taxable income which result in deferred income taxes are as follows:

| | | June 30, 2014 | | September 30, 2013 |
|---|---|---|---|---|
| Unutilized loss carry forward | $ | **530,530** | $ | 571,122 |
| Capital cost allowance claimed in excess of amortization | | **(17,295)** | | (6,400) |
| Unrealized foreign exchange losses | | **15,019** | | 12,000 |
| Deferred development costs | | **(210,870)** | | (239,600) |
| | $ | **317,384** | $ | 337,122 |

The Company and its subsidiaries has non-capital losses that may be carried forward and applied to reduce taxable income of future years. These losses expire as follows:

| | | |
|---|---|---|
| 2027 | $ | **24,000** |
| 2028 | | **201,000** |
| 2029 | | **125,000** |
| 2030 | | **261,000** |
| 2031 | | **496,000** |
| 2032 | | **114,000** |
| 2033 | | **781,000** |
| | $ | **2,002,000** |

(Unaudited, Expressed in CDN Dollars)

## 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Trade payables | **$** | **823,684** | $ | 824,960 |
| Government remittances | | **48,731** | | 98,542 |
| Accrued liabilities (note 21) | | **41,400** | | 195,299 |
| Tenants deposits | | **8,847** | | 8,847 |
| | **$** | **922,662** | $ | 1,127,648 |

## 15. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, non-interest bearing and due on demand. The creditors have waived their right to call for payment over the next year, and accordingly, the loans have been classified as long-term.

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Due to shareholder | **$** | **528,014** | $ | 504,778 |
| Due to minority shareholder of subsidiary co. | | **505,953** | | 479,963 |
| | **$** | **1,033,967** | $ | 984,741 |

**(Unaudited, Expressed in CDN Dollars)**

## 16. LOANS PAYABLE

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| Bank loan, payable in monthly principal payments of $10,000 plus interest, bearing interest at the bank's prime rate plus 1.25%, due May 31, 2023 and secured by a first readvanceable mortgage on the land and building described in note 11, a general security agreement over all assets of Coconut Grove Pads Inc. subject to priority on inventory and accounts receivable to the lender described in note 5, and a general assignment of rents. | **$** | **1,130,000** | $ | 1,220,000 |
| Vehicle loan, matured November, 2013 | | **-** | | 13,893 |
| | | **1,130,000** | | 1,233,893 |
| Less current portion | | **120,000** | | 133,893 |
| Due beyond one year | **$** | **1,010,000** | $ | 1,100,000 |

Estimated principal re-payments are as follows:

| | | |
|---|---|---|
| 2014 | $ | 30,000 |
| 2015 | | 120,000 |
| 2016 | | 120,000 |
| 2017 | | 120,000 |
| 2018 | | 120,000 |
| Subsequent years | | 620,000 |
| | $ | 1,130,000 |

(Unaudited, Expressed in CDN Dollars)

## 17. CAPITAL STOCK

### (a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

| | Number | | Amount |
|---|---|---|---|
| Balance, September 30, 2012 | 25,237,500 | $ | 1,840,987 |
| Warrants exercised at $0.50 per share | 160,000 | | 80,000 |
| Ascribed value credited to share capital on exercise of warrants | - | | 30,400 |
| Balance, June 30, 2013 | 25,397,500 | $ | 1,951,387 |

| | Number | | Amount |
|---|---|---|---|
| Balance, September 30, 2013 | 25,437,500 | $ | 1,978,987 |
| Private placement (i) | 407,250 | | 1,629,000 |
| Fair value of shareholder warrants issued on private placement (i) | - | | (579,293) |
| Share issuance costs - cash (i) | - | | (198,712) |
| Share issue costs - fair value of agent warrants issued on private placement (i) | - | | (125,568) |
| Options exercised at $0.40 per share | 25,000 | | 10,000 |
| Ascribed value credited to share capital on exercise of options | - | | 7,780 |
| Balance, June 30, 2014 - restated | 25,869,750 | $ | 2,722,194 |

(i) On December 13, 2013, the Company closed an offering of equity comprising 407,250 units at a price per unit of $4.00 for gross proceeds of $1,629,000. Each unit consists of one common share and one half of one common share shareholder warrant. Each whole warrant entitles the holder to acquire one common share of iFabric, at an exercise price of $5.25, and is exercisable for a period of 3 years from December 13, 2013.

As compensation for the issue, the agent, received a cash fee of 7% of the gross proceeds, totaling $114,030, as well as 28,508 agent warrants. Each agent warrant entitles the agent to acquire one unit at an exercise price per unit of $4.00. Each unit consists of one common share, and one half of one common share secondary agent warrant. Each whole secondary agent warrant entitles the holder to acquire one common share of iFabric, at an exercise price of $5.25, and is exercisable for a period of 3 years from December 13, 2013. The Company incurred $84,862 in legal costs and disbursements in connection with the issue

The fair value of the shareholder warrants has been estimated by management at $579,293 and the fair value of the agent warrants has been estimated by management at $125,568 as of the date of the grant using the black-scholes pricing model with the following assumptions:

| | |
|---|---|
| Dividend yield | 0.00% |
| Expected volatility | 133% |
| Risk-free interest rate | 1.19% |
| Expected maturity | 3 years |

**(Unaudited, Expressed in CDN Dollars)**

## 17. CAPITAL STOCK, continued

### (b) Stock option plan

The Company has reserved 10% of the issued and outstanding common shares for issuance under its stock option plan. The status of the Company's stock option plan is summarized as follows:

| | Number of stock options | | Weighted average exercise price |
|---|---|---|---|
| Balance, September 30, 2012 | - | $ | - |
| Granted, during the period | 1,450,000 | | 0.40 |
| Balance, June 30, 2013 | 1,450,000 | $ | 0.40 |

| | Number of stock options | | Weighted average exercise price |
|---|---|---|---|
| Balance, September 30, 2013 | 1,525,000 | $ | 0.52 |
| Granted, during the period | 150,000 | | 4.15 |
| Exercised, during the period | (25,000) | | 0.40 |
| Balance, June 30, 2014 | 1,650,000 | $ | 0.85 |

On April 1, 2014, 150,000 stock options were issued to employees. Each option entitles the holder to acquire one common share of the Company at a price of $4.15 and is exercisable for a period of 10 years from the grant date. The options vest over periods of 1-3 years. Share-based compensation expense based on the fair value of the options had been estimated at $588,240 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

| | |
|---|---|
| Dividend yield | 0.00% |
| Expected volatility | 118% |
| Risk-free interest rate | 2.45% |
| Expected maturity | 10 years |

**(Unaudited, Expressed in CDN Dollars)**

## 17. CAPITAL STOCK, continued

### (b) Stock option plan, continued

As of June 30, 2014, the following options were issued and outstanding:

| | Options Outsanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| Expiry date | Number of stock options | Weighted average remaining contractual life (years) | | Weighted average exercise price | Number of stock options | | Weighted average exercise price |
| September 17, 2018 | 75,000 | 4.21 | | 2.90 | 25,000 | | 2.90 |
| January 16, 2023 | 1,425,000 | 8.55 | $ | 0.40 | 1,125,000 | $ | 0.40 |
| April 1, 2024 | 150,000 | 9.75 | | 4.15 | - | | - |
| | **1,650,000** | **8.46** | **$** | **0.85** | **1,150,000** | **$** | **0.45** |

### (c) Warrants

The following table summarizes warrants that have been issued, exercised, or expired during the periods presented:

| | Number of warrants | | Weighted average exercise price |
|---|---|---|---|
| Balance, September 30, 2012 | 200,000 | $ | 0.50 |
| Exercised, during the period | (160,000) | | 0.50 |
| Balance, June 30, 2013 | 40,000 | $ | 0.50 |

| | Number of warrants | | Weighted average exercise price |
|---|---|---|---|
| Balance, September 30, 2013 | - | $ | - |
| Issued, during the period (note 17(a)(i)) | 232,133 | | 5.10 |
| Balance, June 30, 2014 | 232,133 | $ | 5.10 |

(Unaudited, Expressed in CDN Dollars)

## 17. CAPITAL STOCK, continued

### (c) Warrants, continued

The following table summarizes the warrants outstanding as of June 30, 2014:

| Expiry date | Number of warrants | | Weighted average exercise price |
|---|---|---|---|
| December 13, 2016 | 203,625 | $ | 5.25 |
| December 13, 2016 | 28,508 | | 4.00 |
| | **232,133** | **$** | **5.10** |

**(Unaudited, Expressed in CDN Dollars)**

## 18. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings per share is based on the earnings charged to retained earnings for the three and nine months ended June 30, 2014 of $245,205 and $735,793 respectively (2013 - earnings of $199,752 and $219,740, respectively). The number of shares used in the earnings per share calculation is as follows:

| | Three Months | | Nine Months | |
|---|---|---|---|---|
| Periods ended June 30 | **2014** | 2013 | **2014** | 2013 |
| Weighted average number of shares outstanding - basic | **25,869,750** | 25,372,577 | **25,746,566** | 25,283,734 |
| Dilutive effect of options | **1,299,107** | 644,444 | **1,325,874** | 251,910 |
| Dilutive effect of warrants | **-** | 19,838 | **1,724** | 8,704 |
| Weighted average number of shares outstanding - diluted | **27,168,857** | 26,036,859 | **27,074,164** | 25,544,348 |

For the three months ended June 30, 2014, 232,133 warrants and 150,000 options were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the nine months ended June 30, 2014, 203,625 warrants and 150,000 options were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive For the three and nine months ended June 30, 2013, all outstanding options and warrants were included in the calculation of diluted earnings per share.

## 19. INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2013 - 26.5%) to the earnings for the period as follows:

| | Nine months | |
|---|---|---|
| Periods ended June 30 | **2014** | 2013 |
| Earnings for the period before income taxes | **$ 1,124,224** | $ 449,030 |
| Tax on accounting earnings | **$ 297,920** | $ 118,993 |
| Tax effect of the following: | | |
| Non-deductible share-based compensation | **54,698** | 91,745 |
| Items not deductible for tax purposes | **33,099** | 6,853 |
| Provision for income taxes | **$ 385,717** | $ 217,591 |

**(Unaudited, Expressed in CDN Dollars)**

### 20. COMMITMENTS

(a) The Company's total commitments as of June 30, 2014, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

| | | |
|---|---|---|
| 2014 | $ | 25,819 |
| 2015 | | 65,462 |
| 2016 | | 51,325 |
| 2017 | | 30,631 |
| 2018 | | 8,002 |
| | $ | 181,239 |

(b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 9 for more information.

(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 initial 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 June 30, 2014, the Company had no open letters of credit for purchases of inventory (September 31, 2013 - $17,000).

**(Unaudited, Expressed in CDN Dollars)**

## 21. RELATED PARTY TRANSACTIONS

(a) General and administrative costs for the nine months ended June 30, 2014 includes $23,000 (2013 - $0) to a company controlled by the non-controlling shareholder of a subsidiary.

(b) Remuneration of Directors and key management personnel of the Company was as follows:

| | Nine months | | | |
|---|---|---|---|---|
| Periods ended June 30 | | **2014** | | 2013 |
| Management fees paid and accrued - CEO | **$** | **78,000** | $ | - |
| Directors' fees paid | | **1,750** | | 2,750 |
| Fees for technical services paid to a director included in general and administrative | | **36,000** | | - |
| Fees for technical services paid to a director included in deferred development costs | | **-** | | 36,000 |
| Professional fees included in general and administrative - CFO | | **95,000** | | 69,000 |
| Salaries and benefits included in general and administrative - CEO & Other management | | **230,638** | | 269,716 |
| Share based compensation | | **35,756** | | 322,611 |
| | **$** | **477,144** | $ | 700,077 |

(c) As at June 30, 2014, accrued liabilities includes an amount of nil (September 30, 2013 - $102,500) payable to Directors and key management personnel of the Company with respect to unpaid fees.

**(Unaudited, Expressed in CDN Dollars)**

### 22. FINANCIAL INSTRUMENTS

**Credit risk**

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company routinely assesses the financial strength of its customers to mitigate its exposure to credit risk. For the nine months ended June 30, 2014, approximately 33% of the Company's total sales are to two customers (2013 - 35% of sales were to two customers). At June 30, 2014, four customers accounted for 52% (September 30, 2013 - four customers accounted for 49%) of the Company’s accounts receivable.

In order to mitigate its credit risk, the Company insures its trade accounts receivable with Chartis Insurance Company of Canada based on specific or discretionary credit limits, dependant on the level of amounts outstanding from individual customers at that time. At June 30, 2014, no claims were pending under this policy.

The Company's maximum exposure to credit risk at June 30, 2014 is $2,943,986 (September 30, 2013 - $1,087,357).

The aging of trade accounts receivable is as follows:

| | | **June 30, 2014** | | September 30, 2013 |
|---|---|---|---|---|
| 0 - 30 days | **$** | **1,120,797** | $ | 447,166 |
| 31 - 60 days | | **1,169,776** | | 366,555 |
| 61 - 90 days | | **534,076** | | 267,260 |
| 90 + days | | **223,535** | | 111,461 |
| | **$** | **3,048,184** | $ | 1,192,442 |

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities. The Company is exposed to this risk mainly with respect to its related party loans, long term loans payable and accounts payable and accrued liabilities. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as it becomes due using cash generated from operations.

## 22. FINANCIAL INSTRUMENTS, continued

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to currency risk and interest rate risk.

### Currency risk

The Company conducts certain of its operations in United States dollars and British pounds. The Company manages its risk with forward foreign exchange contracts (see note 9). The following balances were included in the financial statements:

| | | June 30, 2014 USD | | September 30, 2013 USD |
|---|---|---|---|---|
| Cash | **$** | **370,407** | $ | 309,291 |
| Accounts receivable | | **2,323,665** | | 747,208 |
| Accounts payable and accrued liabilities | | **(643,682)** | | (685,219) |
| Prepaid expenses and deposits | | **355,711** | | 97,534 |
| Foreign exchange forward contract margin deposit | | **100,000** | | 100,000 |
| United States dollars | **$** | **2,506,101** | $ | 568,814 |

| | | June 30, 2014 GBP | | September 30, 2013 GBP |
|---|---|---|---|---|
| Cash | **£** | **67,409** | £ | 74,613 |
| Accounts receivable | | **161,830** | | 186,457 |
| Accounts payable and accrued liabilities | | **(72,860)** | | (55,802) |
| British pounds | **£** | **156,379** | £ | 205,268 |

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its secured bank loan and its bank operating line, which bear interest at floating rates, since changes in market rates can cause fluctuations in cash flows.

## 22. FINANCIAL INSTRUMENTS, continued

**Sensitivity analysis**

The effect of a 5% strengthening of the USD at the reporting date in relation to the net amount of USD denominated currency balances would result in an increase in annual pre-tax revenue of approximately $133,700, assuming all other variables remain constant, and a 5% weakening of the USD would result in a decrease in annual pre-tax revenue of approximately $133,700. A 5% strengthening of the GBP would result in an increase in annual pre-tax revenue of approximately $14,300 and a 5% weakening of the GBP would result in a decrease in annual pre-tax revenue of approximately $14,300.

A 1% increase in future interest rates, based on the projected average balance of the secured loan for the ensuing 12 months, would result in an increased interest expense of approximately $10,700 and a 1% decrease in interest rates would result in interest savings of an equivalent amount.

## 23. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while providing a return to its stakeholders.

The capital structure of the business consists of equity attributable to common shareholders, comprised of issued capital stock and accumulated retained earnings, which totaled $6,193,481 at June 30, 2014 (September 30, 2013 - $4,714,481).

The Company is subject to externally imposed capital requirements on debt described in notes 5 and 16. As at June 30, 2014, the Company met these financial covenants requirements.

## 24. 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.

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

**(Unaudited, Expressed in CDN Dollars)**

## 24. SEGMENTED INFORMATION, continued

**Operating Segments - Nine months ended June 30, 2014 - restated**

| | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Third party | $ 8,975,078 | $ 744,068 | $ 79,905 | $ - | **$ 9,799,051** |
| Inter-segment | 894,069 | - | 120,312 | (1,014,381) | **-** |
| Total Revenues | 9,869,147 | 744,068 | 200,217 | (1,014,381) | **9,799,051** |
| Earnings (loss) before income taxes | 1,365,457 | (132,167) | 11,942 | (121,008) | **1,124,224** |

**Operating Segments - Nine months ended June 30, 2013**

| | Intimate Apparel | Intelligent Fabrics | Other Segments | Corporate Items and Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Third party | $ 6,115,045 | $ 33,834 | $ 80,690 | $ - | $ 6,229,569 |
| Inter-segment | - | - | 117,392 | (117,392) | - |
| Total Revenues | 6,115,045 | 33,834 | 198,082 | (117,392) | 6,229,569 |
| Earnings (loss) before income taxes | 498,633 | (78,851) | 29,248 | - | 449,030 |

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

**Geographic Segments - Nine months ended June 30**

| | **2014** | 2013 |
|---|---|---|
| External sales revenue | | |
| Canada | **$ 597,374** | $ 719,492 |
| United States | **8,213,923** | 4,425,102 |
| United Kingdom | **987,754** | 1,084,975 |
| Total | **$ 9,799,051** | $ 6,229,569 |

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

## 25. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current period. These changes do not affect prior period earnings.