



IFABRIC CORP.

**CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

DECEMBER 31, 2014

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE TO READER

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

IFABRIC CORP.**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****(Unaudited, Expressed in CDN Dollars)**

As at	December 31, 2014	September 30, 2014
ASSETS		
CURRENT		
Cash (note 4)	\$ 587,736	\$ 1,006,385
Accounts receivable (note 5)	2,275,720	2,042,179
Inventory (note 6)	4,220,994	4,412,215
Prepaid expenses and deposits (note 7)	269,867	283,533
Foreign exchange forward contracts (note 8)	59,494	59,828
	7,413,811	7,804,140
NON-CURRENT		
Property, plant and equipment (note 9)	2,517,229	2,527,012
Deferred development costs (note 10)	719,271	759,637
Deferred income taxes (note 11)	515,094	453,594
Goodwill	55,050	55,050
	3,806,644	3,795,293
	\$ 11,220,455	\$ 11,599,433

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

IFABRIC CORP.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited, Expressed in CDN Dollars)

As at	December 31, 2014	September 30, 2014
LIABILITIES		
CURRENT		
Bank indebtedness (note 4)	\$ 502,694	\$ 251,904
Accounts payable and accrued liabilities (note 12)	953,165	1,470,510
Income taxes payable	377,211	330,451
Current portion of loans payable (note 14)	120,000	120,000
	1,953,070	2,172,865
NON-CURRENT		
Due to related parties (note 13)	882,695	972,287
Loans payable (note 14)	950,000	980,000
	1,832,695	1,952,287
	3,785,765	4,125,152
COMMITMENTS (note 18)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 15)	2,743,530	2,722,194
WARRANTS (note 15)	704,861	704,861
OPTIONS (note 15)	856,601	757,308
NON-CONTROLLING INTEREST	12,895	12,210
RETAINED EARNINGS	3,116,803	3,277,708
	7,434,690	7,474,281
	\$ 11,220,455	\$ 11,599,433

APPROVED ON BEHALF OF THE BOARD:

'Hylton Karon' DIRECTOR

'Hilton Price' DIRECTOR

February 27, 2015

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

IFABRIC CORP.
CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (LOSS) AND
COMPREHENSIVE EARNINGS (LOSS)
(Unaudited, Expressed in CDN Dollars)

Three months ended December 31,	2014	2013
REVENUE	\$ 3,042,404	\$ 3,005,785
COST OF SALES	1,663,853	1,433,373
GROSS PROFIT	1,378,551	1,572,412
EXPENSES		
General and administrative costs (note 19)	800,630	571,138
Selling and design costs	642,301	622,421
Interest on operating line	5,520	4,838
Interest on secured loan	11,676	12,962
Amortization of property, plant and equipment	9,783	10,930
Amortization of deferred development costs	40,366	36,100
	1,510,276	1,258,389
EARNINGS (LOSS) FROM OPERATIONS	(131,725)	314,023
OTHER EXPENSES (INCOME)		
Share based compensation	108,629	47,671
Gain on foreign exchange	(65,728)	(70,506)
Unrealized loss on foreign exchange forward contracts (note 8)	334	21,579
Sundry income	-	(5,693)
	43,235	(6,949)
EARNINGS (LOSS) BEFORE INCOME TAXES	(174,960)	320,972
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 17)		
Current	46,760	112,962
Deferred	(61,500)	(5,320)
	(14,740)	107,642
NET EARNINGS (LOSS)	(160,220)	213,330
OTHER COMPREHENSIVE EARNINGS	-	-
TOTAL COMPREHENSIVE EARNINGS (LOSS)	\$ (160,220)	\$ 213,330
EARNINGS (LOSS) PER SHARE (note 16)		
Basic	\$ (0.006)	\$ 0.008
Diluted	(0.006)	0.008

The accompanying notes are an integral part of these 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, 2013	\$ 1,978,987	\$ -	\$ 436,414	\$ 2,735,494	\$ -	\$ 13,276	\$ 5,164,171
Private placement	1,629,000	-	-	-	-	-	1,629,000
Fair value of shareholder warrants issued on private placement	(579,293)	579,293	-	-	-	-	-
Share issue costs - cash	(198,712)	-	-	-	-	-	(198,712)
Share issue costs - fair value of agent warrants issued on private placement	(125,568)	125,568	-	-	-	-	-
Share based compensation	-	-	47,671	-	-	-	47,671
Total comprehensive earnings	-	-	-	212,157	-	1,173	213,330
Balance at December 31, 2013	2,704,414	704,861	484,085	2,947,651	-	14,449	6,855,460
Balance at September 30, 2014	2,722,194	704,861	757,308	3,277,708	-	12,210	7,474,281
Exercise of options	21,336	-	(9,336)	-	-	-	12,000
Share based compensation	-	-	108,629	-	-	-	108,629
Total comprehensive earnings (loss)	-	-	-	(160,905)	-	685	(160,220)
Balance at December 31, 2014	\$ 2,743,530	\$ 704,861	\$ 856,601	\$ 3,116,803	\$ -	\$ 12,895	\$ 7,434,690

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

IFABRIC CORP.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited, Expressed in CDN Dollars)

Three months ended December 31,	2014	2013
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	\$ (160,220)	\$ 213,330
Items not affecting cash		
Amortization of property, plant and equipment	9,783	10,930
Amortization of deferred development costs	40,366	36,100
Unrealized loss (gain) on foreign exchange forward contracts	334	21,579
Gain on sale of property, plant and equipment	-	(2,731)
Share based compensation	108,629	47,671
Deferred income tax recovery	(61,500)	(5,320)
	(62,608)	321,559
Change in non-cash operating working capital items		
Accounts receivable	(233,541)	(598,837)
Inventory	191,221	(167,246)
Prepaid expenses and deposits	13,666	33,673
Investment tax credits recoverable	-	12,826
Accounts payable and accrued liabilities	(517,344)	(234,909)
Income taxes payable	46,760	112,963
	(499,238)	(841,530)
	(561,846)	(519,971)
FINANCING ACTIVITIES		
Bank operating line	250,789	(375,107)
Due to related parties	(89,592)	31,557
Repayment of loans	(30,000)	(43,893)
Share and warrant issuances (note 15)	12,000	1,629,000
Share and warrant issuance costs - cash (note 15)	-	(198,712)
	143,197	1,042,845
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(26,755)
Proceeds on disposal of property, plant and equipment	-	13,484
	-	(13,271)
CHANGE IN CASH POSITION	(418,649)	509,603
CASH, beginning of period (note 4)	1,006,385	457,131
CASH, end of period (note 4)	\$ 587,736	\$ 966,734

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

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

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. 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 sleepwear, 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. 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 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, 2014, other than those set out in note 3(a). These unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended September 30, 2014, prepared in accordance with IFRS.

(b) Basis of consolidation

These unaudited 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 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, 2014.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

2. BASIS OF PREPARATION, *continued*

(e) Functional and presentation currency

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

3. 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, 2014. As of October 1, 2014, the Company has adopted the following standards:

- i) IAS 32, 'Financial Instruments: Presentation' was amended in December, 2011, clarifying the application of the offsetting requirements of financial assets and financial liabilities. The Company has assessed that the adoption of IAS 32 has no material impact on the financial statements.
- ii) 'Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycle' were approved by the IASB in December, 2013. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The Company has assessed that no adjustments are necessary as a result of applying the revised rules.

(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, 2015 or later periods. The standards impacted that are applicable to the Company are as follows:

- i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November, 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

4. CASH AND BANK INDEBTEDNESS

As at December 31, 2014, and September 30, 2014, cash consisted of bank balances held at various major financial institutions.

As at December 31, 2014, there were no cash equivalents on hand (September 30, 2014 - nil).

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 \$502,694 was outstanding as at December 31, 2014 (September 30, 2014 - \$247,204). 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.

5. ACCOUNTS RECEIVABLE

	December 31, 2014	September 30, 2014
Trade receivables	\$ 2,051,776	\$ 2,248,479
Allowance for doubtful accounts	(10,254)	(8,817)
Accrued discounts	(116,000)	(237,970)
Other	350,198	40,487
	\$ 2,275,720	\$ 2,042,179

6. INVENTORY

During the three month period ended December 31, 2014, the amount of inventory charged to earnings was \$1,623,191 (2013 - \$1,385,226) and the amount of inventory write-downs were nil (2013 - nil). There were no reversals of prior periods write-downs of inventory.

	December 31, 2014	September 30, 2014
Raw materials	\$ 425,023	\$ 364,278
Finished goods	3,795,971	4,047,937
	\$ 4,220,994	\$ 4,412,215

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(Unaudited, Expressed in CDN Dollars)****7. PREPAID EXPENSES AND DEPOSITS**

	December 31, 2014	September 30, 2014
Deposits paid to suppliers	\$ 242,333	\$ 283,533
Prepaid expenses	27,534	-
	\$ 269,867	\$ 283,533

8. FOREIGN EXCHANGE FORWARD CONTRACTS

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

	December 31, 2014	September 30, 2014
Margin balance – cash deposit	\$ 100,000	\$ 100,000
Mark to market variance – unrealized loss on foreign exchange	(40,506)	(40,172)
	\$ 59,494	\$ 59,828

As at December 31, 2014, the Company had contracted to sell GBP £65,000 and sell USD \$850,000. As well, the Company had contracted to buy USD \$700,000.

For the three months ended December 31, 2014, there is an unrealized loss on foreign exchange of \$334 (2013 - \$21,579) included in the statement of earnings (loss) and comprehensive earnings (loss).

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, Expressed in CDN Dollars)

9. PROPERTY, PLANT AND EQUIPMENTDecember 31,
2014

	Cost	Accumulated amortization	Net
Land	\$ 1,800,000	\$ -	\$ 1,800,000
Buildings	900,813	225,565	675,248
Computer and office equipment	167,940	144,042	23,898
Factory machinery	561,512	543,429	18,083
	\$ 3,430,265	\$ 913,036	\$ 2,517,229

September 30,
2014

	Cost	Accumulated amortization	Net
Land	\$ 1,800,000	\$ -	\$ 1,800,000
Buildings	900,813	218,744	682,069
Computer and office equipment	167,940	142,031	25,909
Factory machinery	561,512	542,478	19,034
	\$ 3,430,265	\$ 903,253	\$ 2,527,012

10. DEFERRED DEVELOPMENT COSTS

	Cost	Accumulated amortization	Net
Product development costs	\$ 941,427	\$ 222,156	\$ 719,271

September 30,
2014

	Cost	Accumulated amortization	Net
Product development costs	\$ 941,427	\$ 181,790	\$ 759,637

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

11. DEFERRED INCOME TAXES

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

	December 31, 2014	September 30, 2014
Unutilized loss carry forward	\$ 667,694	\$ 614,494
Capital cost allowance claimed in excess of amortization	(14,100)	(14,400)
Unrealized foreign exchange losses	10,700	10,600
Share issue costs	41,400	44,200
Deferred development costs	(190,600)	(201,300)
	\$ 515,094	\$ 453,594

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

2027	\$ 49,000
2028	201,000
2029	125,000
2030	208,000
2031	426,000
2032	129,000
2033	774,000
2034	336,000
2035	261,000
	\$ 2,509,000

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(Unaudited, Expressed in CDN Dollars)****12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2014	September 30, 2014
Trade payables	\$ 723,714	\$ 1,152,679
Government remittances	120,876	136,491
Accrued liabilities (note 19)	99,728	172,493
Tenants deposits	8,847	8,847
	\$ 953,165	\$ 1,470,510

13. 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 non-current.

	December 31, 2014	September 30, 2013
Due to shareholder	\$ 360,922	\$ 457,294
Due to minority shareholder of subsidiary co.	521,773	514,993
	\$ 882,695	\$ 972,287

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(Unaudited, Expressed in CDN Dollars)****14. LOANS PAYABLE**

	December 31, 2014	September 30, 2014
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 9, 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 4, and a general assignment of rents.	\$ 1,070,000	\$ 1,100,000
Less current portion	120,000	120,000
Due beyond one year	\$ 950,000	\$ 980,000

Estimated principal re-payments are as follows:

2015	\$ 90,000
2016	120,000
2017	120,000
2018	120,000
2019	120,000
Subsequent years	500,000
	\$ 1,070,000

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

15. CAPITAL STOCK

(a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

	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 issuance costs - fair value of agent warrants issued on private placement (i)	-	(125,568)
Balance December 31, 2013	25,844,750	\$ 2,704,414

	Number	Amount
Balance September 30, 2014	25,869,750	2,722,194
Options exercised	30,000	12,000
Ascribed value credited to share capital on exercise of options	-	9,336
Balance December 31, 2014	25,899,750	\$ 2,743,530

(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 shareholder 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 holder 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 \$84,682 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

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(Unaudited, Expressed in CDN Dollars)****15. 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, 2013 and December 31, 2013	1,525,000	\$	0.52
Balance, September 30, 2014	1,650,000		0.85
Exercised, during the period	(30,000)		0.40
Balance, December 31, 2014	1,620,000	\$	0.86

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

As of December 31, 2014, the following options were issued and outstanding:

Expiry date	Options Outstanding			Options Exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price	
September 17, 2018	75,000	3.71	\$ 2.90	50,000	\$ 2.90	
January 16, 2023	1,395,000	8.04	0.40	1,095,000	0.40	
April 1, 2024	150,000	9.25	4.15	-	-	
	1,620,000	7.95	\$ 0.86	1,145,000	\$ 0.51	

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(Unaudited, Expressed in CDN Dollars)****15. CAPITAL STOCK, *continued*****(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, 2013	-	\$	0.00
Issued, during the period (note 15(a)(i))	232,133		5.10
Balance, December 31, 2013	232,133	\$	-
Balance, September 30, 2014 and December 31, 2014	232,133	\$	5.10

The following table summarizes the warrants outstanding as of December 31, 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

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

16. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings (loss) per share is based on the loss charged to retained earnings for the three months ended December 31, 2014 of \$160,905 (2013 - earnings of \$212,157). The number of shares used in the earnings (loss) per share calculation is as follows:

Three months ended December 31,	2014	2013
Weighted average number of shares outstanding - basic	25,885,728	25,521,606
Dilutive effect of options	-	1,320,238
Dilutive effect of warrants	-	219
Weighted average number of shares outstanding - diluted	25,885,728	26,842,063

For the three months ended December 31, 2014, 1,620,000 options and 232,133 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive. For the three months ended December 31, 2013, 203,625 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive.

17. 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% (2014 - 26.5%) to the earnings for the period as follows:

Three months ended December 31,	2014	2013
Earnings (loss) for the period before income taxes	\$ (174,960)	\$ 320,972
Tax on accounting earnings (loss)	\$ (46,400)	\$ 85,000
Tax effect of the following:		
Non-deductible share-based compensation	28,800	12,720
Share issue costs	(2,800)	-
Items not deductible for tax purposes	2,900	11,750
Tax rate changes and other	2,760	(1,828)
Provision for (recovery of) income taxes	\$ (14,740)	\$ 107,642

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

18. COMMITMENTS

- (a) The Company's total commitments as of December 31, 2014, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

2015	48,828
2016	64,080
2017	41,920
2018	10,740
	<hr/>
	\$ 165,568

- (b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 8 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. As at the financial statements approval date, the Company is in the process of negotiating an extension of this agreement, including expanding the agreement to include additional apparel categories. Management anticipates that the new agreement will be executed in March 2015.
- (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.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

19. RELATED PARTY TRANSACTIONS

(a) General and administrative costs for the three months ended December 31, 2014 includes \$6,000 (2013 - \$7,000) paid 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:

Three months ended December 31,	2014	2013
Salary and management fees included in general and administrative - CEO	\$ 50,000	\$ 30,000
Professional fees included in general and administrative - CFO	35,500	35,000
Salary and benefits included in general and administrative - Directors	40,922	49,915
Fees for technical services included in general and administrative - Director	14,000	12,000
Share based compensation	46,914	23,859
	\$ 187,336	\$ 150,774

(c) As at December 31, 2014, accrued liabilities includes an amount of \$25,000 (September 30, 2014 - \$45,000) payable to Directors and key management personnel of the Company with respect to unpaid fees.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

20. 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 three months ended December 31, 2014, approximately 33% of the Company's total sales are to two customers (2013 - 34% of sales were to two customers). At December 31, 2014, four customers accounted for 47% (September 30, 2014 - four customers accounted for 52%) 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. As at December 31, 2014, no claims were pending under this policy.

The Company's maximum exposure to credit risk at December 31, 2014 is \$2,275,720 (September 30, 2014 - \$2,042,179). Included in general and administrative costs for the three months ended December 31, 2014 are bad debts of \$1,437 (2013 - nil).

The aging of trade accounts receivable is as follows:

	December 31, 2014	September 30, 2014
0 - 30 days	\$ 677,654	\$ 841,522
31 - 60 days	599,418	794,275
61 - 90 days	493,656	333,044
90 + days	281,048	279,638
	\$ 2,051,776	\$ 2,248,479

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, bank indebtedness, 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 pay trade creditors and repays long term debt interest and principal as it becomes due using cash generated from operations.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

20. 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 8). The following balances were included in the financial statements:

	December 31, 2014 USD	September 30, 2014 USD
Cash	\$ 406,765	\$ 731,134
Accounts receivable	1,418,392	1,605,269
Accounts payable and accrued liabilities	(518,129)	(921,642)
Prepaid expenses and deposits	187,297	189,973
Foreign exchange forward contract margin deposit	100,000	100,000
United States dollars	\$ 1,594,325	\$ 1,704,734

	December 31, 2014 GBP	September 30, 2014 GBP
Cash	£ 68,107	£ 88,825
Accounts receivable	177,430	182,183
Accounts payable and accrued liabilities	(12,986)	(20,204)
British pounds	£ 232,551	£ 250,804

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.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

20. 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 \$92,500, 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 \$92,500. A 5% strengthening of the GBP would result in an increase in annual pre-tax revenue of approximately \$21,000 and a 5% weakening of the GBP would result in a decrease in annual pre-tax revenue of approximately \$21,000.

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 \$10,100 and a 1% decrease in interest rates would result in interest savings of an equivalent amount.

21. 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 \$5,860,333 at December 31, 2014 (September 30, 2014 - \$5,999,902).

The Company is subject to externally imposed capital requirements on debt described in notes 4 and 14. As at December 31, 2014, the Company met these financial covenants requirements.

22. 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 loans payable 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.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, Expressed in CDN Dollars)

22. SEGMENTED INFORMATION, *continued*

Operating Segments - Three months ended December 31, 2014

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	\$ 2,892,071	\$ 127,031	\$ 23,302	\$ -	\$ 3,042,404
Inter-segment	309,000	-	38,835	(347,835)	-
Total Revenues	3,201,071	127,031	62,137	(347,835)	3,042,404
Earnings (loss) before income taxes	171,342	(302,727)	21,709	(67,284)	(176,960)

Operating Segments - Three months ended December 31, 2013

	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	419,960	(100,387)	4,895	(3,496)	320,972

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

Geographic segments - three months ended December 31,	2014	2013
External sales revenue		
Canada	\$ 167,911	\$ 172,197
United States	2,480,416	2,505,616
United Kingdom	322,102	327,972
Other	71,975	-
Total	\$ 3,042,404	\$ 3,005,785

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

23. 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.