iFabric Corp.

IFABRIC CORP.

CONSOLIDATED INTERIM
FINANCIAL STATEMENTS

JUNE 30, 2015

(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 Canadian Dollars)

As at	**June 30, 2015**	September 30, 2014
ASSETS		
Current assets		
Cash (note 4)	**871,026**	1,006,385
Accounts receivable (note 5)	**2,653,862**	2,042,179
Inventory (note 6)	**3,730,465**	4,412,215
Prepaid expenses and deposits (note 7)	**345,217**	283,533
Foreign exchange forward contracts (note 8)	**9,660**	59,828
Total current assets	**7,610,230**	7,804,140
Non-current assets		
Property, plant and equipment (note 9)	**2,497,663**	2,527,012
Deferred development costs (note 10)	**638,539**	759,637
Deferred income taxes (note 11)	**604,994**	453,594
Goodwill	**55,050**	55,050
Total non-current assets	**3,796,246**	3,795,293
Total assets	**11,406,476**	11,599,433
LIABILITIES		
Current liabilities		
Bank indebtedness (note 4)	**158,304**	251,904
Accounts payable and accrued liabilities (note 12)	**650,209**	1,470,510
Income taxes payable	**688,112**	330,451
Current portion of loans payable (note 14)	**120,000**	120,000
Total current liabilities	**1,616,625**	2,172,865
Non-current liabilties		
Due to related parties (note 13)	**795,186**	972,287
Loans payable (note 14)	**890,000**	980,000
Total non-current liabilities	**1,685,186**	1,952,287
Total liabilities	**3,301,811**	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)	**1,190,102**	757,308
Non-controlling interest	**16,230**	12,210
Retained earnings	**3,449,942**	3,277,708
Total shareholders' equity	**8,104,665**	7,474,281
Total liabilities and shareholders' equity	**11,406,476**	11,599,433

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

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

	Three months		Nine months	
Periods ended June 30,	**2015**	2014	**2015**	2014
REVENUE	**3,700,502**	3,881,993	**9,994,384**	9,799,051
COST OF SALES	**1,558,529**	1,950,712	**4,819,573**	4,666,870
GROSS PROFIT	**2,141,973**	1,931,281	**5,174,811**	5,132,181
EXPENSES				
General and administrative costs (note 19)	**728,997**	658,626	**2,334,344**	1,818,607
Selling and design costs	**723,606**	645,483	**1,988,740**	1,905,842
Interest on operating line	**4,009**	1,733	**16,187**	6,575
Interest on long-term debt	**10,529**	12,185	**33,049**	37,513
Amortization of property, plant and equipment	**9,783**	10,930	**29,349**	32,790
Amortization of deferred development costs	**40,366**	36,100	**121,097**	108,300
	1,517,290	1,365,057	**4,522,766**	3,909,627
EARNINGS FROM OPERATIONS	**624,683**	566,224	**652,045**	1,222,555
OTHER EXPENSES (INCOME)				
Share based compensation	**232,754**	123,150	**442,130**	206,414
Gain on foreign exchange	**11,476**	84,208	**(254,564)**	(117,891)
Unrealized loss on foreign exchange forward contracts (note 8)	**(4,320)**	(26,718)	**10,168**	11,544
Sundry income	**-**	4,409	**-**	(1,736)
	239,910	185,049	**197,734**	98,331
EARNINGS BEFORE INCOME TAXES	**384,773**	381,175	**454,311**	1,124,224
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 17)				
Current	**219,212**	166,619	**429,457**	365,979
Deferred	**(43,200)**	(30,532)	**(151,400)**	19,738
	176,012	136,087	**278,057**	385,717
NET EARNINGS	**208,761**	245,088	**176,254**	738,506
OTHER COMPREHENSIVE EARNINGS	**-**	-	**-**	-
TOTAL COMPREHENSIVE EARNINGS	**208,761**	245,088	**176,254**	738,506
EARNINGS PER SHARE (note 16)				
Basic	**0.008**	0.009	**0.007**	0.029
Diluted	**0.008**	0.009	**0.006**	0.027

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 Canadian 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	-	-	206,414	-	-	-	**206,414**
Exercise of options	17,780		(7,780)				**10,000**
Total comprehensive earnings	-	-	-	735,793	-	2,713	**738,506**
Balance at June 30, 2014	2,722,194	704,861	635,048	3,471,287	-	15,989	**7,549,379**
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	-	-	442,130	-	-	-	**442,130**
Total comprehensive earnings	-	-	-	172,234	-	4,020	**176,254**
Balance at June 30, 2015	**2,743,530**	**704,861**	**1,190,102**	**3,449,942**	**-**	**16,230**	**8,104,665**

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 Canadian Dollars)

Nine months ended June 30,	**2015**	2014
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings	**176,254**	738,506
Items not affecting cash		
Amortization of property, plant and equipment	**29,349**	32,790
Amortization of deferred development costs	**121,097**	108,300
Unrealized loss on foreign exchange forward contracts	**10,168**	11,544
Gain on sale of property, plant and equipment	**-**	(2,731)
Share based compensation	**442,130**	206,414
Deferred income tax recovery (provision)	**(151,400)**	19,738
	627,598	1,114,561
Change in non-cash operating working capital items		
Accounts receivable	**(611,682)**	(1,856,629)
Inventory	**681,749**	(51,759)
Prepaid expenses and deposits	**(61,684)**	(574,399)
Foreign exchange forward contracts	**40,000**	-
Investment tax credits recoverable	**-**	12,826
Accounts payable and accrued liabilities	**(820,300)**	(204,987)
Income taxes payable	**357,661**	244,456
	(414,256)	(2,430,492)
	213,342	(1,315,931)
FINANCING ACTIVITIES		
Bank operating line	**(93,600)**	(18,938)
Due to related parties	**(177,101)**	49,226
Repayment of loans	**(90,000)**	(103,893)
Share and warrant issuances (note 15)	**12,000**	1,639,000
Share and warrant issuance costs - cash (note 15)	**-**	(198,712)
	(348,701)	1,366,683
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**-**	(26,754)
Proceeds on disposal of property, plant and equipment	**-**	13,484
	-	(13,270)
CHANGE IN CASH POSITION	**(135,359)**	37,482
CASH, beginning of period (note 4)	**1,006,385**	457,131
CASH, end of period (note 4)	**871,026**	494,613

The accompanying notes are an integral part of these 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. 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 ("IAS") 34 - Interim Financial Reporting and were approved by iFabric's board of directors on August 14, 2015. They do not include all of the information required in annual financial statements.

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.

(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.

ii) IFRS 15, 'Revenue From Contracts With Customers' was issued in May 2014. The standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers except for those that fall within the scope of IAS 17, 'Leases' or other applicable IFRS. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. The adoption of IFRS 15 is not expected to have an impact on the Company's accounting for revenue and the Company is currently assessing when to adopt IFRS 15.

iii) 'Annual Improvements to IFRSs 2012-2014 Cycle' was approved by the IASB in September 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The revised rules are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company expects there to be no impact or adjustments necessary as a result of applying the revised rules.

(Unaudited, Expressed in Canadian Dollars)

4. CASH AND BANK INDEBTEDNESS

As at June 30, 2015, and September 30, 2014, cash consisted of bank balances held at various major financial institutions.

As at June 30, 2015, 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 $158,304 was outstanding as at June 30, 2015 (September 30, 2014 - $251,904). 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

	June 30, 2015	September 30, 2014
Trade receivables	**2,683,560**	2,248,479
Allowance for doubtful accounts	**(10,254)**	(8,817)
Accrued discounts	**(92,000)**	(237,970)
Other	**72,556**	40,487
	2,653,862	2,042,179

6. INVENTORY

During the nine month period ended June 30, 2015, the amount of inventory charged to earnings was $4,318,387 (2014 - $4,534,554) and the amount of inventory write-downs were $78,154 (2014 - nil). There were no reversals of prior periods write-downs of inventory.

	June 30, 2015	September 30, 2014
Raw materials	**300,748**	364,278
Finished goods	**3,429,717**	4,047,937
	3,730,465	4,412,215

7. PREPAID EXPENSES AND DEPOSITS

	June 30, 2015	September 30, 2014
Deposits paid to suppliers	**276,671**	283,533
Prepaid expenses	**68,546**	-
	345,217	283,533

(Unaudited, Expressed in Canadian Dollars)

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:

	June 30, 2015	September 30, 2014
Margin balance – cash deposit	**60,000**	100,000
Mark to market variance – unrealized loss on foreign exchange	**(50,340)**	(40,172)
	9,660	59,828

As at June 30, 2015, the Company had contracted to sell USD $850,000. As well, the Company had contracted to buy USD $700,000.

For the nine months ended June 30, 2015, there is an unrealized loss on foreign exchange of $10,168 (2014 - $11,544) included in the statement of earnings and comprehensive earnings.

9. PROPERTY, PLANT AND EQUIPMENT

June 30, 2015

	Cost	**Accumulated amortization**	**Net**
Land	**1,800,000**	**-**	**1,800,000**
Buildings	**900,813**	**239,206**	**661,607**
Computer and office equipment	**167,940**	**148,063**	**19,877**
Factory machinery	**561,512**	**545,333**	**16,179**
	3,430,265	**932,602**	**2,497,663**

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

(Unaudited, Expressed in Canadian Dollars)

10. DEFERRED DEVELOPMENT COSTS

			June 30, 2015
	Cost	**Accumulated amortization**	**Net**
Product development costs	**941,427**	**302,888**	**638,539**

			September 30, 2014
	Cost	Accumulated amortization	Net
Product development costs	941,427	181,790	759,637

11. DEFERRED INCOME TAXES

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

	June 30, 2015	September 30, 2014
Unutilized loss carry forward	**774,294**	614,494
Capital cost allowance claimed in excess of amortization	**(13,400)**	(14,400)
Unrealized foreign exchange losses	**13,300**	10,600
Share issue costs	**-**	44,200
Deferred development costs	**(169,200)**	(201,300)
	604,994	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	**48,000**
2028	**201,000**
2029	**125,000**
2030	**205,000**
2031	**345,000**
2032	**129,000**
2033	**774,000**
2034	**336,000**
2035	**747,000**
	2,910,000

(Unaudited, Expressed in Canadian Dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2015	September 30, 2014
Trade payables	**426,327**	1,152,679
Government remittances	**121,942**	136,491
Accrued liabilities (note 19)	**93,093**	172,493
Tenants deposits	**8,847**	8,847
	650,209	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.

	June 30, 2015	September 30, 2014
Due to shareholder	**259,853**	457,294
Due to minority shareholder of subsidiary co.	**535,333**	514,993
	795,186	972,287

14. LOANS PAYABLE

	June 30, 2015	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.	**1,010,000**	1,100,000
Less current portion	**120,000**	120,000
Due beyond one year	**890,000**	980,000

Estimated principal re-payments are as follows:

2015	30,000
2016	120,000
2017	120,000
2018	120,000
2019	120,000
Subsequent years	500,000
	1,010,000

(Unaudited, Expressed in Canadian Dollars)

15. CAPITAL STOCK

(a) Authorized, issued and outstanding

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
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)
Shares issued pursuant to excercise of stock options	25,000	10,000
Ascribed value credited to share capital on exercise of options	-	7,780
Balance June 30, 2014 and September 30, 2014	25,869,750	2,722,194
Shares issued pursuant to excercise of stock options	30,000	12,000
Ascribed value credited to share capital on exercise of options	-	9,336
Balance June 30, 2015	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

(Unaudited, Expressed in Canadian 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	1,525,000	0.52
Granted, during the period (i)	150,000	4.15
Exercised, during the period	(25,000)	0.40
Balance, June 30, 2014	1,650,000	0.85
Balance, September 30, 2014	1,650,000	0.85
Granted, during the period (ii)	100,000	2.70
Exercised, during the period	(30,000)	0.40
Balance, June 30, 2015	**1,720,000**	**0.97**

(i) 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

(ii) On May 6, 2015, 100,000 stock options were issued to a Director of the Company. Each option entitles the holder to acquire one common share of the Company at a price of $2.70 and is exercisable for a period of 10 years from the grant date. The options vest immediately. Share-based compensation expense based on the fair value of the options had been estimated at $180,980 as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	58%
Risk-free interest rate	1.73%
Expected maturity	10 years

(Unaudited, Expressed in Canadian Dollars)

15. CAPITAL STOCK, *continued*

(b) Stock option plan, *continued*

As of June 30, 2015, 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	3.21	2.90	50,000	2.90
January 16, 2023	1,395,000	7.55	0.40	1,270,000	0.40
April 1, 2024	150,000	8.75	4.15	50,000	4.15
May 6, 2025	100,000	9.85	2.70	100,000	2.70
	1,720,000	**7.60**	**0.97**	**1,470,000**	**0.77**

(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, June 30, 2014	232,133	5.10
Balance, September 30, 2014 and June 30, 2015	**232,133**	**5.10**

The following table summarizes the warrants outstanding as of June 30, 2015:

Expiry date	Number of warrants	Weighted average exercise price
December 13, 2016 (note 15(a)(i))	203,625	5.25
December 13, 2016 (note 15(a)(i))	28,508	4.00
	232,133	**5.10**

(Unaudited, Expressed in Canadian Dollars)

16. 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, 2015 of $206,806 and $172,234, respectively (2014 - earnings of $245,205 and $735,793, respectively). The number of shares used in the earnings per share calculation is as follows:

	Three Months		Nine Months	
Periods ended June 30,	**2015**	2014	**2015**	2014
Weighted average number of shares outstanding - basic	**25,899,750**	25,869,750	**25,895,025**	25,746,566
Dilutive effect of options	**1,182,175**	1,299,107	**1,225,532**	1,325,874
Dilutive effect of warrants	**-**	-	**-**	1,724
Weighted average number of shares outstanding - diluted	**27,081,925**	27,168,857	**27,120,557**	27,074,164

For the three months ended June 30, 2015, 325,000 options and 232,133 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive (2014 - 232,133 warrants were excluded). For the nine months ended June 30, 2015, 250,000 options and 232,133 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive (2014 - 150,000 options and 203,625 warrants were excluded).

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:

Nine months ended June 30,	**2015**	2014
Earnings for the period before income taxes	**454,311**	1,124,224
Tax on accounting earnings	**120,400**	297,920
Tax effect of the following:		
Non-deductible share-based compensation	**117,200**	54,698
Share issue costs	**(8,300)**	-
Items not deductible for tax purposes	**11,500**	33,099
Tax rate changes and other	**37,257**	-
Provision for income taxes	**278,057**	385,717

(Unaudited, Expressed in Canadian Dollars)

18. COMMITMENTS

(a) The Company's total commitments as of June 30 , 2015, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

2015	32,087
2016	129,099
2017	127,709
2018	75,725
	364,621

(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) Effective January 1, 2015, 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 license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range between 4% to 10%. Minimum annual royalties have been established for the contract periods ending December 31, 2015, 2016, 2017, and 2018 in the amounts of $131,000, $190,000, $288,000, and $368,000, respectively. In addition, the Company is required to pay an advertising fee of 1-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2018.

(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 quarterly 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.

(Unaudited, Expressed in Canadian Dollars)

19. RELATED PARTY TRANSACTIONS

(a) General and administrative costs for the nine months ended June 30, 2015 includes $18,000 (2014 - $23,000) 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:

Nine months ended June 30,	**2015**	2014
Salary and management fees included in general and administrative - CEO	**150,000**	164,400
Professional fees included in general and administrative - CFO	**107,500**	95,000
Salary and benefits included in general and administrative - Directors	**103,304**	144,238
Fees for technical services included in general and administrative - Director	**44,000**	36,000
Directors' fees paid	**5,252**	1,750
Share based compensation	**180,980**	35,756
	591,036	477,144

(c) As at June 30, 2015, accrued liabilities includes an amount of $15,000 (September 30, 2014 - $45,000) payable to Directors and key management personnel of the Company with respect to unpaid fees.

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 nine months ended June 30, 2015, approximately 33% of the Company's total sales are to two customers (2014 - 33% of sales were to two customers). At June 30, 2015, four customers accounted for 53% (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 June 30, 2015, no claims were pending under this policy.

The Company's maximum exposure to credit risk at June 30, 2015 is $2,653,862 (September 30, 2014 - $2,042,179). Included in general and administrative costs for the nine months ended June 30, 2015 are bad debts of $1,437 (2014 - nil).

The aging of trade accounts receivable is as follows:

	June 30, 2015	September 30, 2014
0 - 30 days	**1,240,555**	841,522
31 - 60 days	**965,641**	794,275
61 - 90 days	**124,531**	333,044
90 + days	**352,833**	279,638
	2,683,560	2,248,479

20. FINANCIAL INSTRUMENTS, *continued*

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities. The Company is exposed to this risk mainly with respect to its 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.

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:

United States dollars	**June 30, 2015**	September 30, 2014
Cash	**563,643**	731,134
Accounts receivable	**1,717,348**	1,605,269
Accounts payable and accrued liabilities	**(255,018)**	(921,642)
Prepaid expenses and deposits	**399,470**	189,973
Foreign exchange forward contract margin deposit	**60,000**	100,000
	2,485,443	1,704,734

British pounds	**June 30, 2015**	September 30, 2014
Cash	**69,855**	88,825
Accounts receivable	**196,265**	182,183
Accounts payable and accrued liabilities	**(29,510)**	(20,204)
	236,610	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.

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 $155,000, 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 $155,000. A 5% strengthening of the GBP would result in an increase in annual pre-tax revenue of approximately $23,000 and a 5% weakening of the GBP would result in a decrease in annual pre-tax revenue of approximately $23,000.

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 $9,500 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 $6,193,472 at June 30, 2015 (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 June 30, 2015, 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.

(Unaudited, Expressed in Canadian Dollars)

22. SEGMENTED INFORMATION, *continued*

Operating Segments - Nine months ended June 30, 2015

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
Revenues					
Third party	9,332,081	589,743	72,560	-	**9,994,384**
Inter-segment	27,000	-	123,296	(150,296)	**-**
Total Revenues	9,359,081	589,743	195,856	(150,296)	**9,994,384**
Earnings (loss) before income taxes	1,579,113	(871,375)	16,693	(270,120)	**454,311**

Operating Segments - Nine months ended June 30, 2014

	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

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

Nine months ended June 30,	**2015**	2014
External sales revenue		
Canada	**766,374**	597,374
United States	**7,862,488**	8,213,923
United Kingdom	**957,468**	987,754
Other	**408,054**	-
Total	**9,994,384**	9,799,051

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