

IFABRIC CORP.

**CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (RESTATED)**

MARCH 31, 2014

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE TO READER

The accompanying restated unaudited consolidated interim financial statements of iFabric Corp. have been prepared by, and are the responsibility of, management. The restated unaudited 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	March 31, 2014 Restated (Note 2)	September 30, 2013
ASSETS		
CURRENT		
Cash (note 5)	\$ 633,413	\$ 457,131
Accounts receivable (note 6)	2,251,597	1,087,357
Inventory (note 7)	3,843,648	3,519,590
Prepaid expenses and deposits (note 8)	251,117	175,441
Foreign exchange forward contracts (note 9)	16,608	54,870
Investment tax credits recoverable (note 10)	-	12,826
	6,996,383	5,307,215
NON-CURRENT		
Property, plant and equipment (note 11)	2,545,429	2,551,288
Deferred development costs (note 12)	831,836	904,036
Deferred income taxes (note 13)	286,852	337,122
Goodwill	55,050	55,050
	3,719,167	3,847,496
	\$ 10,715,550	\$ 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	March 31, 2014 Restated (Note 2)	September 30, 2013
LIABILITIES		
CURRENT		
Bank indebtedness (note 5)	\$ -	\$ 407,601
Accounts payable and accrued liabilities (note 14)	941,694	1,127,648
Income taxes payable	436,017	236,657
Current portion of loans payable (note 16)	120,000	133,893
	1,497,711	1,905,799
NON-CURRENT		
Due to related parties (note 15)	996,698	984,741
Loans payable (note 16)	1,040,000	1,100,000
	2,036,698	2,084,741
	3,534,409	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)	511,898	436,414
NON-CONTROLLING INTEREST	16,106	13,276
RETAINED EARNINGS	3,226,082	2,735,494
	7,181,141	5,164,171
	\$ 10,715,550	\$ 9,154,711

APPROVED ON BEHALF OF THE BOARD:

'Hylton Karon' DIRECTOR

'Hilton Price' DIRECTOR

Originally approved May 15, 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 AND COMPREHENSIVE
EARNINGS (RESTATED)
(Unaudited, Expressed in CDN Dollars)

	Three months		Six months	
	2014	2013	2014	2013
Periods ended March 31			Restated	
			(Note 2)	
REVENUE	\$ 2,911,274	\$ 2,286,330	\$ 5,917,058	\$ 3,493,503
COST OF SALES	1,282,785	948,180	2,716,158	1,481,683
GROSS PROFIT	1,628,489	1,338,150	3,200,900	2,011,820
EXPENSES				
General and administrative costs (note 21)	588,847	450,163	1,159,981	848,805
Selling and design costs	637,938	481,578	1,260,359	776,791
Interest on operating line	-	3,881	4,841	4,190
Interest on long-term debt	12,366	13,623	25,328	27,831
Amortization of property, plant and equipment	10,930	12,717	21,860	24,962
Amortization of deferred development costs	36,100	-	72,200	-
	1,286,181	961,962	2,544,569	1,682,579
EARNINGS (LOSS) FROM OPERATIONS	342,308	376,188	656,331	329,241
OTHER EXPENSES (INCOME)				
Share based compensation	35,593	273,145	83,264	273,145
Loss (gain) on foreign exchange	(131,592)	4,931	(202,098)	(17,140)
Unrealized loss (gain) on foreign exchange forward contracts (note 9)	16,683	17,995	38,262	(43,587)
Sundry income	(452)	(56)	(6,145)	(56)
	(79,768)	296,015	(86,717)	212,362
EARNINGS BEFORE INCOME TAXES	422,076	80,173	743,048	116,879
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 19)				
Current	86,398	81,635	199,360	149,277
Deferred	55,590	(25,940)	50,270	(69,287)
	141,988	55,695	249,630	79,990
NET EARNINGS	280,088	24,478	493,418	36,889
OTHER COMPREHENSIVE EARNINGS	-	-	-	-
TOTAL COMPREHENSIVE EARNINGS	\$ 280,088	\$ 24,478	\$ 493,418	\$ 36,889
EARNINGS PER SHARE (note 18)				
Basic	\$ 0.011	\$ 0.001	\$ 0.019	\$ 0.001
Diluted	0.010	0.001	0.018	0.001

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 (RESTATED)****(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	-	-	-	19,988	-	16,901	36,889
Share based compensation (note 17)	-	-	273,145	-	-	-	273,145
Warrants exercised (note 17)	6,900	(1,900)	-	-	-	-	5,000
Balance at March 31, 2013	1,847,887	36,100	273,145	2,900,038	-	30,427	5,087,597
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)	-	-	83,264	-	-	-	83,264
Options exercised (note 17)	17,780	-	(7,780)	-	-	-	10,000
Total comprehensive earnings	-	-	-	490,588	-	2,830	493,418
Balance at March 31, 2014							
Restated (Note 2)	\$ 2,722,194	\$ 704,861	\$ 511,898	\$ 3,226,082	\$ -	\$ 16,106	\$ 7,181,141

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

IFABRIC CORP.**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (RESTATED)**

(Unaudited, Expressed in CDN Dollars)

Periods ended March 31	Six months	
	2014 Restated (Note 2)	2013
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings	\$ 493,418	\$ 36,889
Items not affecting cash		
Amortization of property, plant and equipment	21,860	24,962
Amortization of deferred development costs	72,200	-
Unrealized gain (loss) on foreign exchange forward contracts	38,262	(43,587)
Gain on sale of property, plant and equipment	(2,731)	-
Share based compensation	83,264	273,145
Deferred income tax recovery	50,270	(69,287)
	756,543	222,122
Change in non-cash operating working capital items		
Accounts receivable	(1,164,240)	2,199
Inventory	(324,058)	(137,185)
Prepaid expenses and deposits	(75,676)	(50,761)
Investment tax credits recoverable	12,826	21,988
Accounts payable and accrued liabilities	(185,954)	(115,019)
Income taxes payable	199,360	149,278
	(1,537,742)	(129,500)
	(781,199)	92,622
FINANCING ACTIVITIES		
Bank operating line	(407,601)	690,058
Due to related parties	11,957	(412,534)
Repayment of loans	(73,892)	(62,236)
Shares and warrants issued	1,639,000	5,000
Share issue costs - cash	(198,712)	-
	970,752	220,288
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(26,755)	-
Proceeds on disposal of property, plant and equipment	13,484	-
Deferred development costs	-	(73,145)
	(13,271)	(73,145)
CHANGE IN CASH POSITION	176,282	239,765
CASH AND CASH EQUIVALENTS, beginning of period (note 5)	457,131	142,044
CASH, end of period (note 5)	\$ 633,413	\$ 381,809

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

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(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. (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 March 31, 2014 and its consolidated interim statements of earnings and comprehensive earnings, changes in shareholders' equity, and cash flows for the six month period ended March 31, 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 six month period in the consolidated interim financial statements for the three and six months ended March 31, 2014 and originally approved by the Company's Board of Directors on May 15, 2015.

As a result of this adjustment, net earnings and total comprehensive earnings for the six months ended March 31, 2014 have been restated to reflect an amount of \$493,418 (\$0.019 earnings per share - basic, and \$0.018 earnings per share - diluted) as opposed to the previously reported net loss and total comprehensive loss of \$211,443 (\$0.008 loss per share - basic, and \$0.008 loss 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 \$2,521,221 to \$3,226,082.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

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 restated 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 restated 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, 2013, other than those set out in note 4(a). These restated unaudited 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 restated 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 restated 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, 2013.

(e) Functional and presentation currency

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

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

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 10 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.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

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, 2015, 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 have been assessed by the Company and are not expected to have a material impact on the Company's future financial statements.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

5. CASH AND BANK INDEBTEDNESS

As at March 31, 2014 and September 30, 2013, cash consisted of bank balances held at various major financial institutions.

As at March 31, 2014, there were no cash equivalents (September 30, 2013 - 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 no amount was outstanding as at March 31, 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

	March 31, 2014	September 30, 2013
Trade receivables	\$ 2,352,904	\$ 1,192,422
Allowance for doubtful accounts	(10,730)	(10,730)
Accrued discounts	(106,000)	(106,000)
Other	15,423	11,665
	\$ 2,251,597	\$ 1,087,357

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

7. INVENTORY

During the six month period ended March 31, 2014, the amount of inventory charged to earnings was \$2,628,448 (2013 - \$1,333,515) and the amount of inventory write-downs were nil (2013 - \$28,677). There were no reversals of prior periods write-downs of inventory.

	March 31, 2014	September 30, 2013
Raw materials	\$ 479,665	\$ 309,212
Finished goods	3,363,983	3,210,378
	\$ 3,843,648	\$ 3,519,590

8. PREPAID EXPENSES AND DEPOSITS

	March 31, 2014	September 30, 2013
Prepayments for chemical purchases	\$ -	\$ 300,253
Impairment provision (i)	-	(300,253)
Deposits paid to suppliers	174,452	164,941
Other deposits	76,665	10,500
	\$ 251,117	\$ 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.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

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:

	March 31, 2014	September 30, 2013
Margin balance – cash deposit	\$ 100,000	\$ 100,000
Mark to market variance – unrealized loss on foreign exchange	(83,392)	(45,130)
	\$ 16,608	\$ 54,870

As at March 31, 2014, the Company had contracted to sell GBP £360,000 and sell USD \$850,000. As well, the Company had contracted to buy USD \$700,000.

For the six months ended March 31, 2014, there is an unrealized loss on foreign exchange of \$38,262 (2013 - \$43,587 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 nil as of March 31, 2014 (September 30, 2013 - \$12,826) have been recorded as recoverable and as a reduction of deferred development costs (note 12).

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)**

(Unaudited, Expressed in CDN Dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2014			September 30, 2013	
	Cost	Accumulated amortization	Net	Net	
Land	\$ 1,800,000	\$ -	\$ 1,800,000	\$	1,800,000
Buildings	900,813	204,751	696,062		689,306
Automobiles	-	-	-		10,752
Computer and office equipment	166,340	138,387	27,953		27,437
Factory machinery	561,512	540,098	21,414		23,793
	\$ 3,428,665	\$ 883,236	\$ 2,545,429	\$	2,551,288

12. DEFERRED DEVELOPMENT COSTS

	March 31, 2014			September 30, 2013	
	Cost	Accumulated amortization	Net	Net	
Product development costs	\$ 941,427	\$ 109,591	\$ 831,836	\$	904,036

During the six months ended March 31, 2014, expenditures of nil (2013 - \$73,145) met the criteria for deferral and were capitalized, against which no (2013 - nil) 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.

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)****(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:

	March 31, 2014	September 30, 2013
Unutilized loss carry forward	\$ 491,650	\$ 571,122
Capital cost allowance claimed in excess of amortization	(6,398)	(6,400)
Unrealized foreign exchange losses	22,000	12,000
Deferred development costs	(220,400)	(239,600)
	\$ 286,852	\$ 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:

2028	\$ 120,000
2029	125,000
2030	274,000
2031	496,000
2032	114,000
2033	781,000
	\$ 1,910,000

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)****(Unaudited, Expressed in CDN Dollars)****14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2014	September 30, 2013
Trade payables	\$ 802,906	\$ 824,960
Government remittances	66,541	98,542
Accrued liabilities (note 21)	63,400	195,299
Tenants deposits	8,847	8,847
	\$ 941,694	\$ 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.

	March 31, 2014	September 30, 2013
Due to shareholder	\$ 499,785	\$ 504,778
Due to minority shareholder of subsidiary co.	496,913	479,963
	\$ 996,698	\$ 984,741

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)****(Unaudited, Expressed in CDN Dollars)****16. LOANS PAYABLE**

	March 31, 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.	\$ 1,160,000	\$ 1,220,000
Vehicle loan, matured November, 2013	-	13,893
	1,160,000	1,233,893
Less current portion	120,000	133,893
Due beyond one year	\$ 1,040,000	\$ 1,100,000
Estimated principal re-payments are as follows:		
2014	\$ 60,000	
2015	120,000	
2016	120,000	
2017	120,000	
2018	120,000	
Subsequent years	620,000	
	\$ 1,160,000	

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(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	10,000	5,000
Ascribed value credited to share capital on exercise of warrants	-	1,900
Balance, March 31, 2013	25,247,500	\$ 1,847,887
	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, March 31, 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 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 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 \$198,712 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 (RESTATED)**

(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, March 31, 2013	1,450,000	\$	0.40

	Number of stock options		Weighted average exercise price
Balance, September 30, 2013	1,525,000	\$	0.52
Exercised, during the period	(25,000)		0.40
Balance, March 31, 2014	1,500,000	\$	0.53

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

	Options Outsanding			Options Exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price	
Expiry date						
January 16, 2023	1,425,000	8.80	\$ 0.40	1,125,000	\$ 0.40	
September 17, 2018	75,000	4.46	2.90	25,000	2.90	
	1,500,000	8.58	\$ 0.53	1,150,000	\$ 0.45	

On April 1, 2014, 150,000 stock options were issued to employees of the Company (see note 26(a)).

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

17. 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, 2012	200,000	\$ 0.50
Exercised, during the period	(10,000)	0.50
Balance, March 31, 2013	190,000	\$ 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, March 31, 2014	232,133	\$ 5.10

The following table summarizes the warrants outstanding as of March 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 (RESTATED)

(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 six months ended March 31, 2014 of \$278,431 and \$490,588 respectively (2013 - earnings of \$11,443 and \$19,988 respectively). The number of shares used in the earnings per share calculation is as follows:

Periods ended March 31	Three Months		Six Months	
	2014	2013	2014	2013
Weighted average number of shares outstanding - basic and diluted	25,851,972	25,441,167	25,684,974	25,439,313
Dilutive effect of options	1,353,602	345,238	1,338,843	170,722
Dilutive effect of warrants	4,948	11,113	2,354	-
Weighted average number of shares outstanding - diluted	27,210,522	25,797,518	27,026,171	25,610,035

For the three and six months ended March 31, 2014, 203,625 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the six months ended March 31, 2013, 190,000 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive.

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:

Periods ended March 31	Six months	
	2014	2013
Earnings for the period before income taxes	\$ 743,048	\$ 116,879
Tax on accounting earnings	\$ 197,000	\$ 30,973
Tax effect of the following:		
Non-deductible share-based compensation	21,972	-
Items not deductible for tax purposes	30,658	49,017
Provision for income taxes	\$ 249,630	\$ 79,990

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

20. COMMITMENTS

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

2014	\$	44,847
2015		39,490
2016		25,354
2017		11,903
2018		4,425
	\$	126,020

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

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)****(Unaudited, Expressed in CDN Dollars)****21. RELATED PARTY TRANSACTIONS**

- (a) General and administrative costs for the six months ended March 31, 2014 includes \$15,000 (2013 - nil) 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:

Periods ended March 31	Six months	
	2014	2013
Salary and management fees included in general and administrative - CEO	\$ 87,600	\$ 57,740
Professional fees included in general and administrative - CFO	60,000	56,750
Salary and benefits included in general and administrative - Director	93,755	93,755
Fees for technical services included in general and administrative - Director	24,000	-
Fees for technical services included in deferred development costs - Director	-	24,000
Share based compensation	36,157	322,611
Directors' fees paid	1,750	2,750
	\$ 303,262	\$ 557,606

- (c) As at March 31, 2014, accrued liabilities includes \$32,000 (September 30, 2013 - \$102,500) payable to Directors and key management personnel of the Company with respect to unpaid fees.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(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 six months ended March 31, 2014, approximately 37% of the Company's total sales are to three customers (2013 - 48% of sales were to three customers). At March 31, 2014, four customers accounted for 51% (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 March 31, 2014, no claims were pending under this policy.

The Company's maximum exposure to credit risk at March 31, 2014 is \$2,251,597 (September 30, 2013 - \$1,087,357).

The aging of trade accounts receivable is as follows:

	March 31, 2014	September 30, 2013
0 - 30 days	\$ 1,167,658	\$ 447,166
31 - 60 days	987,373	366,555
61 - 90 days	76,075	267,260
90 + days	121,798	111,461
	\$ 2,352,904	\$ 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.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

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:

	March 31, 2014	September 30, 2013
	USD	USD
Cash	\$ 426,017	\$ 309,291
Accounts receivable	1,711,706	747,208
Accounts payable and accrued liabilities	(595,205)	(685,219)
Prepaid expenses and deposits	124,480	97,534
Foreign exchange forward contract margin deposit	100,000	100,000
United States dollars	\$ 1,766,998	\$ 568,814

	March 31, 2014	September 30, 2013
	GBP	GBP
Cash	£ 60,531	£ 74,613
Accounts receivable	215,167	186,457
Accounts payable and accrued liabilities	(45,356)	(55,802)
British pounds	£ 230,342	£ 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 price risk on its fixed rate vehicle loan since changes in market rates can affect the fair value of the debt. The Company is also exposed to interest rate cash flow risk on its secured bank loan which bears interest at a floating rate since changes in market rates can cause fluctuations in cash flows.

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

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 \$98,000, 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 \$98,000. 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 \$11,000 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 \$5,948,276 at March 31, 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 March 31, 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.

IFABRIC CORP.**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)**

(Unaudited, Expressed in CDN Dollars)

24. SEGMENTED INFORMATION, continued**Operating Segments - Six months ended March 31, 2014 - restated**

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Elimination	Consolidated
Revenues					
Third party	\$ 5,192,512	\$ 670,444	\$ 54,103	\$ -	\$ 5,917,059
Inter-segment	629,871	-	81,008	(710,879)	-
Total Revenues	5,822,383	670,444	135,111	(710,879)	5,917,059
Earnings (loss) before income taxes	697,793	56,872	11,435	(23,052)	743,048

Operating Segments - Six months ended March 31, 2013

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Elimination	Consolidated
Revenues					
Third party	\$ 3,407,530	\$ 32,334	\$ 53,639	\$ -	\$ 3,493,503
Inter-segment	-	-	78,884	(78,884)	-
Total Revenues	3,407,530	32,334	132,523	(78,884)	3,493,503
Earnings (loss) before income taxes	547,203	(27,166)	84,444	(487,602)	116,879

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

Geographic Segments - Six months ended March 31

	2014	2013
External sales revenue		
Canada	\$ 352,466	\$ 456,981
United States	4,932,431	2,300,178
United Kingdom	632,162	736,344
Total	\$ 5,917,059	\$ 3,493,503

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

IFABRIC CORP.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (RESTATED)

(Unaudited, Expressed in CDN Dollars)

25. COMPARATIVE FIGURES

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.

26. SUBSEQUENT EVENTS

(a) 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. All options vest over a period of 3 years. The fair value of the options has been estimated by management 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

Compensation expense will be recorded over the period that the options vest.