

IFABRIC CORP.

**CONSOLIDATED
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2014 AND 2013

(EXPRESSED IN CANADIAN DOLLARS)

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INDEPENDENT AUDITORS' REPORT

To: The Shareholders of
iFabric Corp.

We have audited the accompanying consolidated financial statements of iFabric Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2014 and 2013 and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years ended September 30, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT, continued*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of iFabric Corp. and its subsidiaries as at September 30, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Shimmerman Penn LLP**

Chartered Accountants

Licensed Public Accountants

Toronto, Canada

January 27, 2015

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

	September 30, 2014	September 30, 2013
ASSETS		
CURRENT		
Cash (note 4)	\$ 1,006,385	\$ 457,131
Accounts receivable (note 5)	2,042,179	1,087,357
Inventory (note 6)	4,412,215	3,519,590
Prepaid expenses and deposits (note 7)	283,533	175,441
Foreign exchange forward contracts (note 8)	59,828	54,870
Investment tax credits recoverable (note 9)	-	12,826
	7,804,140	5,307,215
NON-CURRENT		
Property, plant and equipment (note 10)	2,527,012	2,551,288
Deferred development costs (note 11)	759,637	904,036
Deferred income taxes (note 12)	453,594	337,122
Goodwill	55,050	55,050
	3,795,293	3,847,496
	\$ 11,599,433	\$ 9,154,711

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

	September 30, 2014	September 30, 2013
LIABILITIES		
CURRENT		
Bank indebtedness (note 4)	\$ 251,904	\$ 407,601
Accounts payable and accrued liabilities (note 13)	1,470,510	1,127,648
Income taxes payable	330,451	236,657
Current portion of loans payable (note 15)	120,000	133,893
	2,172,865	1,905,799
NON-CURRENT		
Due to related parties (note 14)	972,287	984,741
Loans payable (note 15)	980,000	1,100,000
	1,952,287	2,084,741
	4,125,152	3,990,540
COMMITMENTS (note 19)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 16)	2,722,194	1,978,987
WARRANTS (note 16)	704,861	-
OPTIONS (note 16)	757,308	436,414
NON-CONTROLLING INTEREST	12,210	13,276
RETAINED EARNINGS	3,277,708	2,735,494
	7,474,281	5,164,171
	\$ 11,599,433	\$ 9,154,711

APPROVED ON BEHALF OF THE BOARD:

"Hylton Karon"
Director

"Hilton Price"
Director

January 27, 2015

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
AND COMPREHENSIVE EARNINGS (LOSS)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

	2014	2013
REVENUE	\$ 13,021,482	\$ 8,165,983
COST OF SALES	6,475,235	3,635,494
GROSS PROFIT	6,546,247	4,530,489
EXPENSES		
General and administrative costs (note 20)	2,692,158	1,920,282
Selling and design costs	2,574,577	1,840,977
Interest on operating line	12,106	24,070
Interest on long-term debt	49,512	54,873
Amortization of property, plant and equipment	41,877	50,383
Amortization of deferred development costs	144,400	37,391
	5,514,630	3,927,976
EARNINGS FROM OPERATIONS	1,031,617	602,513
OTHER EXPENSES (INCOME)		
Share based compensation	328,674	436,414
Impairment loss (note 7(i))	-	300,253
Gain on foreign exchange	(82,455)	(48,703)
Unrealized gain on foreign exchange forward contracts (note 8)	(4,958)	(31,131)
Sundry income	(13,152)	(968)
	228,109	655,865
EARNINGS (LOSS) BEFORE INCOME TAXES	803,508	(53,352)
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 18)		
Current	378,832	250,412
Deferred	(116,472)	(158,958)
	262,360	91,454
NET EARNINGS (LOSS)	541,148	(144,806)
OTHER COMPREHENSIVE EARNINGS	-	-
TOTAL COMPREHENSIVE EARNINGS (LOSS)	\$ 541,148	\$ (144,806)
EARNINGS (LOSS) PER SHARE (note 17)		
Basic	\$ 0.021	\$ (0.006)
Diluted	0.020	(0.006)

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(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 loss	-	-	-	(144,556)	-	(250)	(144,806)
Share based compensation (note 16)	-	-	436,414	-	-	-	436,414
Exercise of warrants (note 16)	138,000	(38,000)	-	-	-	-	100,000
Balance at September 30, 2013	1,978,987	-	436,414	2,735,494	-	13,276	5,164,171
Total comprehensive earnings (loss)	-	-	-	542,214	-	(1,066)	541,148
Private placement (note 16)	1,629,000	-	-	-	-	-	1,629,000
Fair value of shareholder warrants issued on private placement (note 16)	(579,293)	579,293	-	-	-	-	-
Share issue costs - cash (note 16)	(198,712)	-	-	-	-	-	(198,712)
Share issue costs - fair value of agent warrants issued on private placement (note 16)	(125,568)	125,568	-	-	-	-	-
Share based compensation (note 16)	-	-	328,674	-	-	-	328,674
Exercise of options (note 16)	17,780	-	(7,780)	-	-	-	10,000
Balance at September 30, 2014	\$ 2,722,194	\$ 704,861	\$ 757,308	\$ 3,277,708	\$ -	\$ 12,210	\$ 7,474,281

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

	2014	2013
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	\$ 541,148	\$ (144,806)
Items not affecting cash		
Amortization of property, plant and equipment	41,877	50,383
Amortization of deferred development costs	144,400	37,391
Unrealized gain on foreign exchange forward contracts	(4,958)	(31,131)
Gain on sale of property, plant and equipment	(2,731)	-
Impairment loss	-	300,253
Share based compensation	328,674	436,414
Deferred income tax recovery	(116,472)	(158,958)
	931,938	489,546
Change in non-cash operating working capital items		
Accounts receivable	(954,823)	630,813
Inventory	(892,624)	(1,107,986)
Prepaid expenses and deposits	(108,092)	97,906
Investment tax credits recoverable	12,826	9,162
Accounts payable and accrued liabilities	342,861	455,336
Income taxes payable	93,794	154,269
	(1,506,058)	239,500
	(574,120)	729,046
FINANCING ACTIVITIES		
Bank operating line	(155,697)	407,601
Due to related parties	(12,454)	(583,690)
Repayment of loans	(133,893)	(124,471)
Share and warrant issuances (note 16)	1,639,000	100,000
Share and warrant issuance costs - cash (note 16)	(198,712)	-
	1,138,244	(200,560)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(28,354)	(3,048)
Proceeds on disposal of property, plant and equipment	13,484	-
Deferred development costs	-	(210,351)
	(14,870)	(213,399)
CHANGE IN CASH POSITION	549,254	315,087
CASH AND CASH EQUIVALENTS, beginning of year (note 4)	457,131	142,044
CASH, end of year (note 4)	\$ 1,006,385	\$ 457,131

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(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, 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. BASIS OF PREPARATION

(a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Chartered Professional Accountants - Canada ("CPA Canada Handbook").

(b) Basis of measurement

These consolidated 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 subsequent notes, using the significant accounting policies and measurement basis summarized below.

(c) Functional and presentation currency

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of consolidation

The consolidated 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., a US company. 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.

(b) Revenue recognition

Revenue is recognized when title is passed under the terms of the relevant customer purchase order which is generally when shipped from the warehouse. Price is determined based on the negotiated or market price at the time the order is accepted. Recognition of any revenue is subject to the provision that ultimate collection is reasonably assured.

Rental revenue is recognized on a straight line basis over the term of the lease.

(c) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and highly liquid investments, with a maturity less than three months, held with financial institutions.

(d) Inventory

Inventory is comprised of raw materials and finished goods and is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(e) Design costs

The Company expenses all design costs as incurred.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Buildings	4% Declining balance
Automobiles	30% Declining balance
Computer and office equipment	30% Declining balance
Factory machinery	20% Declining balance

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(g) Goodwill

Goodwill with an indefinite life is recorded at cost and not amortized. At least annually, the Company's assets are tested for impairment whereby the fair value of the assets is compared to their carrying amounts. Where the carrying amount exceeds fair value, an impairment loss is recognized in an amount equal to the excess.

(h) Deferred development costs

Deferred costs consist of costs incurred for new product development. During the development phase incremental costs are deferred until such time as the products in question become commercially available for sale, at which time, the costs are amortized on a straight-line basis over five years. If the Company determines that the deferred costs are not likely to be recovered through future revenue, such costs will be expensed at that time.

(i) Foreign exchange

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in operations.

(j) Leases

Leases are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and inherent risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under capital leases is amortized on the same basis as described above. Payments under operating leases are expensed as incurred.

(k) Investment tax credits

Investment tax credits generated through the expenditure of scientific research and experimental development costs are accounted for using the cost reduction approach whereby the investment tax credits are credited to the related expenses and/or capitalized items of the period that the credits become available and there is reasonable assurance that they will be realized.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(l) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of earnings and comprehensive earnings except to the extent it relates to items recognized in other comprehensive earnings or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Tax for current and prior periods is, to the extent unpaid, recognized as a tax payable in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as a tax recoverable in the statement of financial position.

Deferred tax

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable earnings will be available against which the difference can be utilized.

(m) Impairment of long-lived assets

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(n) Share-based payments

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, key employees and consultants. Terms and conditions of options granted under the Plan are determined by the Board of Directors.

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded over the vesting period as share-based compensation expense in the financial statements. The fair value determined by using the Black-Scholes option pricing model at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche separately based on the Company's estimate of shares that will eventually vest factoring in any forfeitures. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital.

Compensation expense on stock options or shares granted to non-employees is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, the value is measured by reference to the fair value of the equity instruments granted by use of a Black-Scholes option pricing model.

In order to determine the fair value using the Black-Scholes option pricing model, the expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(o) Financial instruments

Classification and measurement

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

On initial recognition, all financial instruments are measured at fair value, adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value through profit or loss, the amount of transaction costs directly attributable to the instrument.

After initial recognition, the measurement of financial instruments depends on their classification, which could include the following categories:

Assets: fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables, or available for sale financial assets.

Liabilities: FVTPL or other financial liabilities.

The Company classifies and measures its financial instruments as follows:

Financial Instrument	Category	Measurement
Cash and cash equivalents	Loan and receivables	Amortized cost
Accounts receivable	Loan and receivables	Amortized cost
Loan receivable	Loan and receivables	Amortized cost
Bank indebtedness	Financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost
Management fees and salaries payable	Financial liabilities	Amortized cost
Due to related parties	Financial liabilities	Amortized cost
Loans payable	Financial liabilities	Amortized cost
Forward exchange contracts	FVTPL	FVTPL

Financial instruments measured at amortized cost are done so using the effective interest method.

In accordance with its risk management policy, the Company uses forward exchange contracts to manage its foreign currency risk. These derivatives are not hedging items and are measured at fair value, with the changes in fair value recognized in profit or loss for the year.

Impairment of financial assets

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(o) Financial instruments, *continued*

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Forward foreign exchange contracts are measured at the fair value based on the mark-to-market variance calculated between the forward and spot rate. These derivative instruments are categorized as Level 2 in the fair value hierarchy.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(p) Comprehensive income

Comprehensive income is comprised of the Company's net earnings and other comprehensive income. Other comprehensive income is comprised of unrealized gains and losses on available for sale securities, net of taxes and financial contracts designated as hedges among other elements. The Company does not have any assets designated as available for sale and no derivatives designated as a hedge and therefore has no other comprehensive income.

(q) Management judgments and use of estimates

The preparation of these consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant judgments include the following:

Valuation of inventories:

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

Recoverability of deferred development costs:

Management deems all such costs as recoverable based on the pending Health Canada and the United States Environmental Protection Agency approval of items under development, as well as contracts with buyers which are pending.

Benefits of deferred income tax assets:

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

Estimated useful life of property, plant and equipment:

Management makes this estimate based on past experience with similar assets and future business plans.

Allowance for doubtful accounts:

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

Provision for margin guarantee rebates:

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(q) Management judgments and use of estimates, *continued*

Share-based payment transactions:

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate.

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

(r) Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method of calculating diluted per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

(s) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The company also reports on the external revenues received from different geographical regions.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in CDN Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(t) Changes in accounting policies

During the year ended September 30, 2014, the Company adopted accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on October 1, 2013. The standards adopted are as follows:

- 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. The Company has adopted this standard and determined there to be no material impact on the financial statements.
- ii) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. The Company has adopted this standard and determined there to be no material impact on the financial statements.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(u) Future changes in accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on January 1, 2014 or later periods. The standards impacted that are applicable to the company are as follows:

- i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November, 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.
- ii) IAS 32, 'Financial Instruments: Presentation' was amended in December, 2011, clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments in IAS 32 are effective for annual periods beginning on or after January 1, 2014, with earlier adoption permitted. The application of IAS 32 is not expected to have an impact on the Company's accounting for financial instruments.
- iii) 'Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycle' were approved by the IASB in December, 2013 and are effective for annual periods beginning on or after July 1, 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The Company does not expect that any adjustments will be necessary as a result of applying the revised rules.

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4. CASH AND BANK INDEBTEDNESS

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

As at September 30, 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 \$247,204 was outstanding as at September 30, 2014 (September 30, 2013 - \$407,601). The loan facility bears interest at the bank's prime lending rate plus 1.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventory. The facility is secured by General Security Agreements covering all the assets of two subsidiary companies, accounts receivable insurance, an assignment of fire insurance, and a guarantee in the amount of \$1,000,000 from a third subsidiary of the Company. In addition, the company has credit card facilities amounting to \$50,000 Canadian dollars and \$25,000 US dollars, which are subject to the same security arrangements.

5. ACCOUNTS RECEIVABLE

	September 30, 2014	September 30, 2013
Trade receivables	\$ 2,248,479	\$ 1,192,422
Allowance for doubtful accounts	(8,817)	(10,730)
Accrued discounts	(237,970)	(106,000)
Other	40,487	11,665
	\$ 2,042,179	\$ 1,087,357

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6. INVENTORY

During the year, the amount of inventory charged to earnings was \$6,141,903 (2013 - \$3,401,044) and the amount of inventory write-downs were \$154,525 (2013 - \$47,407). There were no reversals of prior years write-downs of inventory.

	September 30, 2014	September 30, 2013
Raw materials	\$ 364,278	\$ 309,212
Finished goods	4,047,937	3,210,378
	\$ 4,412,215	\$ 3,519,590

7. PREPAID EXPENSES AND DEPOSITS

	September 30, 2014	September 30, 2013
Prepayments for chemicals	-	300,253
Impairment provision (i)	-	(300,253)
Deposits paid to suppliers	283,533	164,941
Other deposits	-	10,500
	\$ 283,533	\$ 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 year as no recovery is anticipated.

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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:

	September 30, 2014	September 30, 2013
Margin balance – cash deposit	\$ 100,000	\$ 100,000
Mark to market variance – unrealized loss on foreign exchange	(40,172)	(45,130)
	\$ 59,828	\$ 54,870

As at September 30, 2014, the Company had contracted to sell GBP £90,000 and sell USD \$850,000. As well, the Company had contracted to buy USD \$700,000.

For the year ended September 30, 2014, there is an unrealized gain on foreign exchange of \$4,958 (September 30, 2013 - \$31,131) included in the statement of earnings and comprehensive earnings.

9. INVESTMENT TAX CREDITS RECOVERABLE

The Company makes claims for scientific research and experimental development expenditures incurred. Investment tax credits in the amount of nil (September 30, 2013 - \$12,826) have been recorded as recoverable and as a reduction of deferred development costs (note 11).

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10. PROPERTY, PLANT AND EQUIPMENT

	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

	September 30, 2013		
	Cost	Accumulated amortization	Net
Land	\$ 1,800,000	\$ -	\$ 1,800,000
Buildings	880,063	190,757	689,306
Automobiles	36,879	26,127	10,752
Computer and office equipment	160,336	132,899	27,437
Factory machinery	561,512	537,719	23,793
	\$ 3,438,790	\$ 887,502	\$ 2,551,288

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11. DEFERRED DEVELOPMENT COSTS

				September 30, 2014
	Cost	Accumulated amortization	Net	
Product development costs	\$ 941,427	\$ 181,790	\$	759,637
				September 30, 2013
	Cost	Accumulated amortization	Net	
Product development costs	\$ 941,427	\$ 37,391	\$	904,036

During the year, expenditures of nil (2013 - \$223,177) met the criteria for deferral and were capitalized, against which nil (2013 - \$12,826) of investment tax credits (note 9) have been applied to reduce these expenditures.

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12. DEFERRED INCOME TAXES

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

	September 30, 2014	September 30, 2013
Unutilized loss carry forward	\$ 614,494	\$ 571,122
Capital cost allowance claimed in excess of amortization	(14,400)	(6,400)
Unrealized foreign exchange losses	10,600	12,000
Share issue costs	44,200	-
Deferred development costs	(201,300)	(239,600)
	\$ 453,594	\$ 337,122

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	126,000
2030	208,000
2031	485,000
2032	129,000
2033	774,000
2034	336,000
	\$ 2,308,000

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13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2014	September 30, 2013
Trade payables	\$ 1,152,679	\$ 824,960
Government remittances	136,491	98,542
Accrued liabilities (note 20)	172,493	195,299
Tenants deposits	8,847	8,847
	\$ 1,470,510	\$ 1,127,648

14. 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.

	September 30, 2014	September 30, 2013
Due to shareholder	\$ 457,294	\$ 504,778
Due to minority shareholder of subsidiary co.	514,993	479,963
	\$ 972,287	\$ 984,741

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15. LOANS PAYABLE

	September 30, 2014	September 30, 2013
Bank loan, payable in monthly principal payments of \$10,000 plus interest, bearing interest at the bank's prime rate plus 1.25%, due May 31, 2023 and secured by a first readvanceable mortgage on the land and building described in note 10, 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.	\$ 1,100,000	\$ 1,220,000
Vehicle loan, matured in November, 2013	-	13,893
	1,100,000	1,233,893
Less current portion	120,000	133,893
Due beyond one year	\$ 980,000	\$ 1,100,000
Estimated principal re-payments are as follows:		
2015	\$ 120,000	
2016	120,000	
2017	120,000	
2018	120,000	
2019	120,000	
Subsequent years	500,000	
	\$ 1,100,000	

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16. 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	200,000	100,000
Ascribed value credited to share capital on exercise of warrants	-	38,000
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)
Options exercised at \$0.40 per share	25,000	10,000
Ascribed value credited to share capital on exercise of options	-	7,780
Balance September 30, 2014	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 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

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16. 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 year (i)(ii)	1,525,000	0.52
Balance, September 30, 2013	1,525,000	0.52
Granted, during the year (iii)	150,000	4.15
Exercised, during the year	(25,000)	0.40
Balance, September 30, 2014	1,650,000	\$ 0.85

As of September 30, 2014, the following options were outstanding and exercisable:

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	3.96	\$ 2.90	50,000	\$ 2.90	
January 16, 2023	1,425,000	8.29	0.40	1,125,000	0.40	
April 1, 2024	150,000	9.50	4.15	-	-	
	1,650,000	8.21	\$ 0.85	1,175,000	\$ 0.51	

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16. CAPITAL STOCK, *continued*

(b) Stock option plan, *continued*

(i) On January 16, 2013, 1,450,000 stock options were granted to Directors and employees. Each option entitles the holder to acquire one common share of the Company at a price of \$0.40, and is exercisable for a period of 10 years from the grant date. As at September 30, 2014, 1,150,000 options had vested and the remainder vest over periods of 1 - 2 years. Share-based compensation expenses based on the fair value of the options had been estimated by management at \$451,240 as of the date of grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	100%
Risk-free interest rate	1.89%
Expected maturity	10 years

(ii) On September 17, 2013, the Company issued 75,000 stock options to Tekkfund Capital Corp. as consideration for investor relation services to be provided. Each option entitles the holder to acquire one common share of the Company at a price of \$2.90, and is exercisable for a period of 5 years from the grant date. As at September 30, 2014, 50,000 options had vested and the remainder vest over a 1 year period. Share-based compensation expenses based on the fair value of the options had been estimated by management at \$188,940 as of the date of grant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	133%
Risk-free interest rate	1.89%
Expected maturity	5 years

(iii) On April 1, 2014, the Company issued 150,000 stock options 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 will vest in equal tranches after 1, 2, and 3 years from the date of the issue. Share-based compensation expenses based on the fair value of the options had been estimated by management at \$588,240 as of the date of 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

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16. CAPITAL STOCK, *continued*

(c) Warrants

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

	Number of warrants		Weighted average exercise price
Balance, September 30, 2012	200,000	\$	0.50
Exercised, during the year	(200,000)		0.50
Balance, September 30, 2013	-	\$	-
Issued, during the year (note 16(a)(i))	232,133		5.10
Balance, September 30, 2014	232,133	\$	5.10

The following table summarizes the warrants outstanding at September 30, 2014:

Expiry date	Number of warrants		Weighted average exercise price
December 13, 2016 (note 16(a)(i))	203,625	\$	5.25
December 13, 2016 (note 16(a)(i))	28,508		4.00
	232,133	\$	5.10

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17. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year. 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 net earnings charged to retained earnings for the year ended September 30, 2014 of \$542,214 (net loss of \$144,556 for the year ended September 30, 2013). The number of shares used in the earnings (loss) per share calculation is as follows:

	2014	2013
Weighted average number of shares outstanding - basic	25,777,821	25,317,067
Dilutive effect of options	1,316,719	-
Dilutive effect of warrants	822	-
Weighted average number of shares outstanding - diluted	27,095,362	25,317,067

For the year ended September 30, 2014, 150,000 options and 203,625 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the year ended September 30, 2013, 1,525,000 options were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive.

18. 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 (loss) for the year as follows:

	2014		2013	
Earnings (loss) for the year before income taxes	\$	803,508	\$	(53,352)
Tax on accounting earnings (loss)	\$	212,900	\$	(14,100)
Tax effect of the following:				
Non-deductible share-based compensation		87,100		115,650
Share issue costs		(52,700)		-
Items not deductible for tax purposes		11,900		11,750
Tax rate changes and other		3,160		(21,846)
Provision for income taxes	\$	262,360	\$	91,454

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19. COMMITMENTS

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

2015	78,217
2016	64,080
2017	41,920
2018	10,740
\$	194,957

- (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. The Company is required to pay a quarterly 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 license term is in effect until December 31, 2014. 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 February 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.
- (f) As at September 30, 2014, the Company had no open letters of credit for purchases of inventory (September 30, 2013 - \$17,000).

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20. RELATED PARTY TRANSACTIONS

- (a) Included in general and administrative costs is an amount of \$31,000 (2013 - \$26,400) 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:

	2014	2013
Salary and management fees included in general and administrative - CEO	\$ 220,400	\$ 154,701
Professional fees included in general and administrative - CFO	152,500	118,900
Salary and benefits included in general and administrative - Director	187,509	187,509
Fees for technical services included in general and administrative - Director	48,000	12,000
Fees for technical services included in deferred development costs - Director	-	36,000
Share based compensation	43,927	370,069
Directors' fees paid	1,750	2,750
	\$ 654,086	\$ 881,929

- (c) Included in accounts payable and accrued liabilities is an amount of \$45,000 (September 30, 2013 - \$102,500) due to Directors and key management personnel of the Company in respect of unpaid fees.

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21. 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. Approximately 28% of the Company's total sales are to two customers (2013 - 33% of sales were to two customers). At September 30, 2014, four customers accounted for 52% (September 30, 2013 - four customers accounted for 49%) of the Company's accounts receivable.

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

The Company's maximum exposure to credit risk is \$2,042,179 (2013 - \$1,087,357). Included in general and administrative costs are bad debts of \$516 (2013 - \$26,950) expensed during the year.

The aging of trade accounts receivable is as follows:

	September 30, 2014	September 30, 2013
0 - 30 days	\$ 841,522	\$ 447,166
31 - 60 days	794,275	366,555
61 - 90 days	333,044	267,260
90 + days	279,638	111,461
	\$ 2,248,479	\$ 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, 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.

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21. 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:

	September 30, 2014 USD	September 30, 2013 USD
Cash	\$ 731,134	\$ 309,291
Accounts receivable	1,605,269	747,208
Accounts payable and accrued liabilities	(921,642)	(685,219)
Prepaid expenses and deposits	189,973	97,534
Foreign exchange forward contract margin deposit	100,000	100,000
United States dollars	\$ 1,704,734	\$ 568,814

	September 30, 2014 GBP	September 30, 2013 GBP
Cash	£ 88,825	£ 74,613
Accounts receivable	182,183	186,457
Accounts payable and accrued liabilities	(20,204)	(55,802)
British pounds	£ 250,804	£ 205,268

Interest rate risk

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

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21. 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 \$95,000, 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 \$95,000. 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 financial year, would result in an increased interest expense of approximately \$10,400 and a 1% decrease in interest rates would result in interest savings of an equivalent amount.

22. 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 \$5,999,902 (2013 - \$4,714,481).

The Company is subject to externally imposed capital requirements on debt described in notes 4 and 15. As at September 30, 2014, the Company met these financial covenants requirements.

23. 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.

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23. SEGMENTED INFORMATION, *continued*

Operating Segments 2014

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	\$ 12,076,631	\$ 846,645	\$ 98,206	\$ -	\$ 13,021,482
Inter-segment	1,266,120	-	158,492	(1,424,612)	-
Total Revenues	13,342,751	846,645	256,698	(1,424,612)	13,021,482
Earnings (loss) before income taxes	1,443,558	(482,983)	78,234	(235,301)	803,508
Amortization of deferred development costs	-	(144,400)	-	-	(144,400)
Amortization of property, plant, and equipment	-	-	-	(41,877)	(41,877)
Interest on operating line	-	-	-	(12,106)	(12,106)
Interest on long-term debt	-	-	-	(49,512)	(49,512)
Segment assets	\$ 6,929,661	\$ 1,615,169	\$ 1,413	\$ 3,053,190	\$ 11,599,433
Expenditures on property, plant, and equipment	-	-	-	28,354	28,354

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23. SEGMENTED INFORMATION, *continued*

Operating Segments 2013

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	\$ 7,990,164	\$ 68,077	\$ 107,742	\$ -	\$ 8,165,983
Inter-segment	833,477	-	154,939	(988,416)	-
Total Revenues	8,823,641	68,077	262,681	(988,416)	8,165,983
Earnings (loss) before income taxes	970,505	(603,981)	96,738	(516,614)	(53,352)
Amortization of deferred development costs	-	(37,391)	-	-	(37,391)
Amortization of property, plant, and equipment	-	-	-	(50,383)	(50,383)
Interest on operating line	-	-	-	(24,070)	(24,070)
Interest on long-term debt	-	-	-	(54,873)	(54,873)
Segment assets	\$ 4,635,717	\$ 1,561,360	\$ 11,307	\$ 2,946,327	\$ 9,154,711
Expenditures on property, plant, and equipment	-	-	-	3,048	3,048
Expenditures on development costs	-	223,177	-	-	223,177

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23. SEGMENTED INFORMATION, *continued*

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

	2014	2013
External sales revenue		
Canada	\$ 792,831	\$ 1,013,896
United States	10,601,893	5,805,292
United Kingdom	1,474,883	1,346,795
Other	151,875	-
Total	\$ 13,021,482	\$ 8,165,983

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

24. SUBSEQUENT EVENTS

- (a) On October 1, 2014, the Company entered into an agreement with a former Director and manager of the Company, which provides for \$93,755 of severance payments, payable over a period of 26 weeks.
- (b) On December 8, 2014, the Company's wholly-owned subsidiary, Intelligent Fabric Technologies (North America) Inc. ("IFTNA"), executed a strategic production, sales, and marketing agreement, which provides exclusive use of unique combinations of IFTNA's products and technologies, for distribution in the home and hospitality markets.

25. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. Specifically, prior amounts of \$29,150 recognized as management and directors' fees, have been reclassified as general and administrative costs, and prior amounts of \$102,500 recognized as management fees and salaries payable, have been reclassified as accounts payable and accrued liabilities. These changes do not affect prior year earnings.