



IFABRIC CORP.

**CONSOLIDATED
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2015 AND 2014

(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, 2015 and 2014 and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years ended September 30, 2015 and 2014, 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, 2015 and 2014 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

December 23, 2015

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	September 30, 2015	September 30, 2014
ASSETS		
Current assets		
Cash	852,016	1,006,385
Accounts receivable (note 4)	2,143,066	2,042,179
Inventories (note 5)	4,706,426	4,412,215
Prepaid expenses and deposits (note 6)	327,781	283,533
Foreign exchange forward contracts (note 7)	37,686	59,828
Total current assets	8,066,975	7,804,140
Non-current assets		
Property, plant and equipment (note 8)	2,487,880	2,527,012
Deferred development costs (note 9)	598,171	759,637
Deferred income taxes (note 10)	720,283	453,594
Goodwill	55,050	55,050
Total non-current assets	3,861,384	3,795,293
Total assets	11,928,359	11,599,433
LIABILITIES		
Current liabilities		
Bank indebtedness (note 11)	-	251,904
Accounts payable and accrued liabilities (note 12)	1,846,835	1,470,510
Income taxes payable	429,367	330,451
Current portion due to related parties (note 13)	250,839	-
Current portion of loan payable (note 14)	120,000	120,000
Total current liabilities	2,647,041	2,630,159
Non-current liabilities		
Due to related parties (note 13)	548,893	972,287
Loan payable (note 14)	860,000	980,000
Total non-current liabilities	1,408,893	1,952,287
Total liabilities	4,055,934	4,125,152
Commitments (note 21)		
EQUITY		
Equity attributable to iFabric Corp. shareholders		
Capital stock (note 20)	2,743,530	2,722,194
Warrants (note 20)	704,861	704,861
Options (note 20)	1,241,323	757,308
Retained earnings	3,167,871	3,277,708
Total equity attributable to iFabric Corp. shareholders	7,857,585	7,462,071
Non-controlling interest	14,840	12,210
Total equity	7,872,425	7,474,281
Total liabilities and equity	11,928,359	11,599,433

Approved on behalf of the Board of Directors on December 23, 2015:

"Hylton Karon"
 Director

"Hilton Price"
 Director

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

IFABRIC CORP.**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)****(Expressed in Canadian Dollars)**

For the year ended September 30,	2015	2014
REVENUE	13,074,848	13,021,482
COST OF SALES	6,604,018	6,313,902
GROSS PROFIT	6,470,830	6,707,580
EXPENSES		
Selling, general and administrative costs (note 16)	6,042,353	5,428,068
Interest on operating line	16,451	12,106
Interest on long-term debt	43,077	49,512
Amortization of property, plant and equipment	39,133	41,877
Amortization of deferred development costs	161,465	144,400
	6,302,479	5,675,963
EARNINGS FROM OPERATIONS	168,351	1,031,617
OTHER EXPENSES (INCOME)		
Share-based compensation	493,351	328,674
Gain on foreign exchange	(397,243)	(87,413)
Sundry income	(9,546)	(13,152)
	86,562	228,109
EARNINGS BEFORE INCOME TAXES	81,789	803,508
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 18)		
Current	455,685	378,832
Deferred	(266,689)	(116,472)
	188,996	262,360
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)	(107,207)	541,148
NET EARNINGS (LOSS) ATTRIBUTABLE TO:		
iFabric Corp. shareholders	(109,837)	542,214
Non-controlling interest	2,630	(1,066)
	(107,207)	541,148
EARNINGS (LOSS) PER SHARE (note 19)		
Basic	(0.004)	0.021
Diluted	(0.004)	0.020

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Attributable to iFabric Corp. shareholders					Total	Non-controlling interest	Total equity
	Capital stock	Warrants	Options	Retained earnings	Accumulated other comprehensive income			
Balance at September 30, 2013	1,978,987	-	436,414	2,735,494	-	5,150,895	13,276	5,164,171
Total comprehensive earnings (loss)	-	-	-	542,214	-	542,214	(1,066)	541,148
Private placement	1,629,000	-	-	-	-	1,629,000	-	1,629,000
Fair value of shareholder warrants issued on private placement	(579,293)	579,293	-	-	-	-	-	-
Share issue costs - cash	(198,712)	-	-	-	-	(198,712)	-	(198,712)
Share issue costs - fair value of agent warrants issued on private placement	(125,568)	125,568	-	-	-	-	-	-
Share-based compensation	-	-	328,674	-	-	328,674	-	328,674
Exercise of options	17,780	-	(7,780)	-	-	10,000	-	10,000
Balance at September 30, 2014	2,722,194	704,861	757,308	3,277,708	-	7,462,071	12,210	7,474,281
Total comprehensive earnings (loss)	-	-	-	(109,837)	-	(109,837)	2,630	(107,207)
Exercise of options	21,336	-	(9,336)	-	-	12,000	-	12,000
Share-based compensation	-	-	493,351	-	-	493,351	-	493,351
Balance at September 30, 2015	2,743,530	704,861	1,241,323	3,167,871	-	7,857,585	14,840	7,872,425

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

IFABRIC CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

For the year ended September 30,	2015	2014
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	(107,207)	541,148
Items not affecting cash		
Amortization of property, plant and equipment	39,133	41,877
Amortization of deferred development costs	161,465	144,400
Gain on sale of property, plant and equipment	-	(2,731)
Fair value adjustment on foreign exchange forward contracts	2,212	(4,958)
Share-based compensation	493,351	328,674
Deferred income tax recovery	(266,689)	(116,472)
	322,265	931,938
Change in non-cash operating working capital items		
Accounts receivable	(100,888)	(954,823)
Inventories	(294,211)	(892,624)
Prepaid expenses and deposits	(44,247)	(108,092)
Foreign exchange forward contracts	19,930	-
Investment tax credits recoverable	-	12,826
Accounts payable and accrued liabilities	376,326	342,861
Income taxes payable	98,916	93,794
	55,826	(1,506,058)
	378,091	(574,120)
FINANCING ACTIVITIES		
Bank operating line	(251,904)	(155,697)
Due to related parties	(172,556)	(12,454)
Repayment of loan	(120,000)	(133,893)
Share and warrant issuances (note 20)	12,000	1,639,000
Share and warrant issuance costs - cash (note 20)	-	(198,712)
	(532,460)	1,138,244
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(28,354)
Proceeds on disposal of property, plant and equipment	-	13,484
	-	(14,870)
CHANGE IN CASH POSITION	(154,369)	549,254
CASH, beginning of year	1,006,385	457,131
CASH, end of year	852,016	1,006,385

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

iFabric Corp. ("iFabric or the Company") is a Canadian public company, incorporated under the Alberta Business Corporations Act and is domiciled in Canada. iFabric is listed on the Toronto Stock Exchange ("TSX") under the trading symbol "IFA". The head office is located at 525 Denison Street, Unit 1, Markham, Ontario, Canada.

The Company's principle activities relate to the business of designing and manufacturing women's intimate apparel and sleepwear, as well as a range of complimenting accessories. The Company is also in the business of distributing a range of specialty textiles as well as a number of chemical products that are suitable for application to textiles.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(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.

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 subsidiaries:

(i) 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 U.S. company. It also includes the accounts of 2074160 Ontario Inc., which is a 60% owned subsidiary.

(ii) Protx (Shanghai) Trading Co., Ltd., a company incorporated in China.

All inter-corporate balances and transactions have been eliminated on consolidation.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts and rebates, which have been provided to certain of the Company's customers as a condition of sale. An allowance for the discounts and rebates is netted against total accounts receivable outstanding.

Revenue is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(c) Cash

Cash consists of cash on hand and bank balances held at various major financial institutions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued***(d) Inventories**

Inventories are comprised of merchandise for resale and are valued at the lower of cost, using the first-in first-out method, and net realizable value.

Cost includes the cost of purchase, duty, brokerage and transportation costs that are directly incurred to bring inventories to their present location and condition.

The Company estimates net realizable value as the amount at which inventories are expected to be sold less any costs to complete the sale. Inventories are written down to net realizable value when it is determined that the cost of inventories is not recoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(e) 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
Computer and office equipment	30% Declining balance
Factory machinery	20% Declining balance

Amortization methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

(f) Goodwill

Goodwill is measured at cost less accumulated impairment loss.

(g) Finite-life intangible assets**Research and development costs**

Costs related to research are expensed as incurred.

Development costs of new products for sale, net of government assistance, are capitalized as deferred development costs if they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the product. Otherwise, development costs are expensed as incurred.

Deferred development costs are amortized, commencing when the product in question is commercially available for sale, over the estimated product life of five years using the straight-line method.

Subsequent to initial measurement, deferred development costs are stated at cost less accumulated amortization and accumulated impairment losses.

(h) Impairment of non-financial assets

The Company reviews the carrying value of its non-financial assets, which include property, plant and equipment, and deferred development costs at each reporting date to determine whether events or changed circumstances indicate that the carrying value may not be recoverable. For goodwill, the recoverability is estimated annually, on September 30 or more often when there are indicators of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued***(h) Impairment of non-financial assets, *continued***

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying value of a non-financial asset exceeds the recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(i) Foreign currency translation

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 recognized in net earnings (loss).

(j) Leases**The Company as the lessee**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed as part of financing cost. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownerships are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Company as the lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(k) **Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of earnings (loss) and comprehensive earnings (loss) except to the extent it relates to items recognized in other comprehensive income 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.

(l) **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
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(m) 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:

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

Financial liabilities: financial liabilities at FVTPL or other financial liabilities.

The Company classifies and measures its financial instruments as follows:

Financial Instrument	Category	Measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Foreign exchange forward contracts	Financial assets (liabilities) at 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 foreign exchange forward 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.

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.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(m) Financial instruments, *continued*

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.

(n) Management judgments and use of estimates

The preparation of these consolidated financial statements in conformity with IFRS 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 expectation of realizing future economic benefits through the profitable commercialization of the relevant products under development.

Benefits of deferred income tax assets

The recognition of deferred income tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which the deferred income tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve based on its internal projections. The estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credit. Deferred income tax assets are recognized to the extent it is probable that estimated taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized.

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.

Allowance for discounts and 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 inventories sold, that is likely to be discounted by these customers, based on current sale-through levels.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(n) 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.

(o) Earnings (loss) per share

Basic and diluted earnings (loss) per share is calculated by dividing the net earnings (loss) attributable to the Company's shareholders by 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.

(p) 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 the chief operating decision makers 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.

(q) Adoption of new or amended accounting standards

During the year ended September 30, 2015, 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, 2014. The standards adopted are as follows:

- i) IAS 32, 'Financial Instruments: Presentation' was amended in December, 2011, clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments in IAS 32 were effective for annual periods beginning on or after January 1, 2014. The application of IAS 32 did not have an impact on the Company's accounting for financial instruments.
- ii) '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 adopted these changes and no adjustments were necessary as a result of applying the revised rules.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

(r) Future changes to accounting standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on January 1, 2015 or later periods. The standards implemented or impacted that are applicable to the company are as follows:

- i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.
- ii) IFRS 15, 'Revenue From Contracts With Customers' was issued in May 2014. The standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers except for those that fall within the scope of IAS 17, 'Leases' or other applicable IFRS. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The adoption of IFRS 15 is not expected to have an impact on the Company's accounting for revenue and the Company is currently assessing when to adopt IFRS 15.
- iii) 'Annual Improvements to IFRSs 2012-2014 Cycle' was approved by the IASB in September 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The revised rules are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company expects there to be no impact or adjustments necessary as a result of applying the revised rules.

4. ACCOUNTS RECEIVABLE

	September 30, 2015	September 30, 2014
Trade receivables	2,220,276	2,248,479
Allowance for doubtful accounts	(9,791)	(8,817)
Allowance for discounts and rebates	(92,000)	(237,970)
Other	24,581	40,487
	2,143,066	2,042,179

5. INVENTORIES

Inventories represent the carrying amount of merchandise for resale. During the year, the amount of inventories charged to net earnings (loss) was \$5,053,134 (2014 - \$4,915,485) and the amount of inventory write-downs were \$172,111 (2014 - \$154,525). There were no reversals of prior years write-downs of inventory.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2015	September 30, 2014
Prepaid expenses and other assets	52,245	46,364
Deposits paid to suppliers	275,536	237,169
	327,781	283,533

7. 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, 2015	September 30, 2014
Margin balance – cash deposit	80,070	100,000
Mark to market variance – loss on foreign exchange	(42,384)	(40,172)
	37,686	59,828

As at September 30, 2015, the Company had contracted to sell 60,000 British Pounds Sterling (“GBP”) and sell 1,200,000 U.S Dollars (“USD”) . As well, the Company had contracted to buy 700,000 USD.

For the year ended September 30, 2015, there is a loss on foreign exchange of \$2,212 (September 30, 2014 - \$4,958 gain) recognized in net earnings (loss), with respect to changes in fair value of the Company’s foreign exchange forward contracts.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2015		
	Cost	Accumulated amortization	Net
Land	1,800,000	-	1,800,000
Buildings	900,813	246,027	654,786
Computer and office equipment	167,940	150,074	17,866
Factory machinery	561,512	546,284	15,228
	3,430,265	942,385	2,487,880

	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

9. DEFERRED DEVELOPMENT COSTS

	September 30, 2015		
	Cost	Accumulated amortization	Net
Product development costs	941,427	343,256	598,171

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

10. DEFERRED INCOME TAXES

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

	September 30, 2015	September 30, 2014
Unutilized loss carry forward	880,683	614,494
Capital cost allowance claimed in excess of amortization	(13,100)	(14,400)
Unrealized foreign exchange losses	11,200	10,600
Share issue costs	-	44,200
Deferred development costs	(158,500)	(201,300)
	720,283	453,594

11. CREDIT FACILITIES

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 September 30, 2015 (September 30, 2014 - \$247,204). The loan facility bears interest at the bank's prime lending rate plus 1.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventories. The facility is secured by General Security Agreements covering all the assets of two subsidiary companies, their accounts receivable insurance, an assignment of their 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 U.S. dollars, which are subject to the same security arrangements.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2015	September 30, 2014
Trade payables	1,604,001	1,152,679
Government remittances	76,643	136,491
Accrued liabilities	157,344	172,493
Tenants deposits	8,847	8,847
	1,846,835	1,470,510

13. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, non-interest bearing and due on demand.

	September 30, 2015	September 30, 2014
Due to shareholder (i)	250,839	457,294
Due to director of subsidiary co. (ii)	548,893	514,993
	799,732	972,287
Less current portion	250,839	-
Due beyond one year	548,893	972,287

(i) As at September 30, 2015, this loan has been classified as a current liability. As at September 30, 2014, this creditor had waived their right to call for payment over the subsequent year, and accordingly, this loan was classified as non-current.

(ii) This creditor has waived their right to call for payment over the next year, and accordingly, this loan has been classified as non-current.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. LOAN PAYABLE

	September 30, 2015	September 30, 2014
Bank loan (i)	980,000	1,100,000
Less current portion	120,000	120,000
Due beyond one year	860,000	980,000

(i) 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 8, a general security agreement over all assets of Coconut Grove Pads Inc. subject to priority on inventories and accounts receivable to the lender described in note 11, and a general assignment of rents.

Estimated principal repayments are as follows:

2016	120,000
2017	120,000
2018	120,000
2019	120,000
2020	120,000
Subsequent years	380,000
	980,000

15. SEGMENTED INFORMATION

The Company has three reportable operating segments, as described below. The reportable segments offer different products and services, and are managed separately because they require different marketing strategies, technologies, and resource allocations. For each of the operating segments, the CEO and CFO (the chief operating decision makers) review 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 and distribution of women's intimate apparel, sleepwear and accessories.
- Intelligent Fabrics: Includes the development and distribution of innovative products and treatments that are suitable for application to textiles, plastics, liquids, and hard surfaces. These products are designed to provide added benefits to the user.
- Other: Includes leasing of property to group companies, related parties and third parties.

Inter-segment transactions are made at prices that approximate market rates.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

15. SEGMENTED INFORMATION, *continued*

Operating Segments 2015	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	12,298,361	679,298	97,189	-	13,074,848
Inter-segment	45,000	-	161,842	(206,842)	-
Total Revenues	12,343,361	679,298	259,031	(206,842)	13,074,848
Earnings (loss) before income taxes	1,670,582	(1,292,029)	12,881	(309,645)	81,789
Amortization of deferred development costs	-	161,465	-	-	161,465
Amortization of property, plant and equipment	10,049	1,801	27,283	-	39,133
Interest on operating line	16,451	-	-	-	16,451
Interest on long-term debt	-	-	43,077	-	43,077
Segment assets	7,469,421	1,926,141	2,459,634	73,163	11,928,359

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	46,500	-	158,492	(204,992)	-
Total Revenues	12,123,131	846,645	256,698	(204,992)	13,021,482
Earnings (loss) before income taxes	1,418,462	(483,884)	735	(131,805)	803,508
Amortization of deferred development costs	-	144,400	-	-	144,400
Amortization of property, plant and equipment	12,989	901	27,987	-	41,877
Interest on operating line	12,106	-	-	-	12,106
Interest on long-term debt	-	-	49,512	-	49,512
Segment assets	7,023,545	1,951,073	2,483,481	141,334	11,599,433
Expenditures on property, plant and equipment	1,600	6,004	20,750	-	28,354

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

	2015	2014
External sales revenue		
Canada	999,844	792,831
United States	10,241,948	10,601,893
United Kingdom	1,419,565	1,474,883
Other	413,491	151,875
Total	13,074,848	13,021,482

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

16. SELLING, GENERAL AND ADMINISTRATIVE COSTS

	2015	2014
General and administrative costs	4,196,094	3,386,905
Selling costs	1,846,259	2,041,162
	6,042,353	5,428,068

General and administrative costs are primarily comprised of employee wages and short-term benefits, product design costs, office costs, regulatory costs, professional fees, and management and executive functions.

Selling costs are primarily comprised of commissions, royalties, advertising and promotional costs, distribution costs, and travel costs.

17. PERSONNEL EXPENSES

	2015	2014
Wages, salaries and short-term benefits	2,247,295	1,837,712
Management, professional, and directors' fees	436,252	336,250
Share-based compensation	462,982	236,447
	3,146,529	2,410,409
Included in cost of sales	137,404	147,431
Included in selling, general and administrative costs	2,546,143	2,026,531
Included in share-based compensation	462,982	236,447
	3,146,529	2,410,409

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% (2014 - 26.5%) to the earnings for the year as follows:

	2015	2014
Earnings for the year before income taxes	81,789	803,508
Tax expense on accounting earnings	21,700	212,900
Tax effect of the following:		
Non-deductible share-based compensation	130,700	87,100
Amortization of share issue costs	(11,100)	(52,700)
Items not deductible for tax purposes	15,000	11,900
Tax rate changes and other	32,696	3,160
Provision for income taxes	188,996	262,360

IFABRIC CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in Canadian Dollars)**

19. 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 loss charged to retained earnings for the year ended September 30, 2015 of \$109,837 (earnings of \$542,214 for the year ended September 30, 2014). The number of shares used in the earnings (loss) per share calculation is as follows:

	2015	2014
Weighted average number of shares outstanding - basic	25,896,216	25,777,821
Dilutive effect of options	-	1,316,719
Dilutive effect of warrants	-	822
Weighted average number of shares outstanding - diluted	25,896,216	27,095,362

For the year ended September 30, 2015, 1,720,000 options and 232,133 warrants were excluded from the calculation of diluted loss per share as these instruments were deemed to be anti-dilutive. For the 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.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

20. CAPITAL STOCK

(a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

	Number of common shares	Common share capital
Balance at September 30, 2013	25,437,500	1,978,987
Private placement (i)	407,250	1,629,000
Fair value of shareholder warrants issued on private placement (i)	-	(579,293)
Share issuance costs - cash (i)	-	(198,712)
Share issuance costs - fair value of agent warrants issued on private placement (i)	-	(125,568)
Shares issued pursuant to exercise of stock options	25,000	10,000
Ascribed value credited to share capital on exercise of options	-	7,780
Balance at September 30, 2014	25,869,750	2,722,194
Shares issued pursuant to exercise of stock options	30,000	12,000
Ascribed value credited to share capital on exercise of options	-	9,336
Balance at September 30, 2015	25,899,750	2,743,530

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

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

The Company incurred \$84,682 in legal costs and disbursements in connection with the issue.

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

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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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20. CAPITAL STOCK, *continued*

(b) Stock option plan

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

	Number of stock options	Weighted average exercise price
Balance, September 30, 2013	1,525,000	0.52
Granted, during the year (i)	150,000	4.15
Exercised, during the year	(25,000)	0.40
Balance at September 30, 2014	1,650,000	0.85
Granted, during the year (ii)	100,000	2.70
Exercised, during the year	(30,000)	0.40
Balance at September 30, 2015	1,720,000	0.97

As of September 30, 2015, 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	2.96	2.90	75,000	2.90
January 16, 2023	1,395,000	7.29	0.40	1,270,000	0.40
April 1, 2024	150,000	8.50	4.15	50,000	4.15
May 6, 2025	100,000	9.60	2.70	100,000	2.70
	1,720,000	7.34	0.97	1,495,000	0.80

- (i) 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

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

20. CAPITAL STOCK, continued

(b) Stock option plan, continued

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

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

(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, 2013	-	-
Issued, during fiscal 2014 (note 20(a)(i))	232,133	5.10
Balance, September 30, 2014 and September 30, 2015	232,133	5.10

The following table summarizes the warrants outstanding at September 30, 2015:

Expiry date	Number of warrants	Weighted average exercise price
December 13, 2016 (note 20(a)(i))	203,625	5.25
December 13, 2016 (note 20(a)(i))	28,508	4.00
	232,133	5.10

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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21. COMMITMENTS

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

2016	138,749
2017	137,359
2018	84,901
2019	4,351
	<hr/>
	365,360

- (b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 7 for more information.
- (c) 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. As of the date of approval of these financial statements, the Company is in the process of negotiating terms for renewing this agreement. It is anticipated that a new agreement will be signed in January 2016.
- (d) 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 U.S. dollar 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. As of the date of approval of these financial statements, the Company is in the process of negotiating terms for renewing this agreement. It is anticipated that a new agreement will be signed in January 2016.
- (e) Effective January 1, 2015, the Company entered into a worldwide license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the license term, the Company is required to pay a quarterly royalty on its net sales as defined in the agreement, on all products sold under the licensed marks. The effective royalty rates vary depending on the distribution channel and range from 4-10%. Minimum annual royalties have been established for the contract periods ending December 31, 2015, 2016, 2017, and 2018 in U.S. dollar amounts of \$131,000, \$190,000, \$288,000, and \$368,000, respectively. In addition, the Company is required to pay an advertising fee of 1-2%, depending on the distribution channel, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The license term is in effect until December 31, 2018.

22. RELATED PARTY TRANSACTIONS

- (a) Key management personnel of the Company are those individuals having authority and responsibility for planning, directing, and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Company's Board of Directors, which includes three executive officers of the Company.

Remuneration of key management personnel of the Company was as follows:

	2015	2014
Salaries, management and professional fees, directors' fees, and short-term benefits	581,951	610,159
Share-based compensation	180,980	43,927
	762,931	654,086

- (b) Included in selling, general and administrative costs are management fees in the amount of \$30,000 (2014 - \$31,000) paid to a company controlled by a director of one of the Company's subsidiaries.
- (c) Included in revenue is rental income earned in the amount of \$35,841 (2014 - \$31,858) from a company controlled by a director of one of the Company's subsidiaries.
- (d) Included in accounts payable and accrued liabilities is an amount of \$15,000 (September 30, 2014 - \$45,000) due to directors and key management personnel of the Company in respect of unpaid fees.

23. FINANCIAL RISK MANAGEMENT**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 36% of the Company's total sales are to two customers (2014 - 28% of sales were to two customers). At September 30, 2015, four customers accounted for 49% (September 30, 2014 - four customers accounted for 52%) of the Company's accounts receivable.

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

The Company's maximum exposure to credit risk is \$2,143,066 (2014 - \$2,042,179). Included in selling, general and administrative costs are bad debts of \$14,507 (2014 - \$516) expensed during the year.

The aging of trade accounts receivable is as follows:

	September 30, 2015	September 30, 2014
0 - 30 days	1,130,465	841,522
31 - 60 days	772,148	794,275
61 - 90 days	166,060	333,044
90 + days	151,603	279,638
	2,220,276	2,248,479

IFABRIC CORP.
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23. FINANCIAL RISK MANAGEMENT, *continued*

Liquidity risk

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

Market risk

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

Currency risk

The Company conducts certain of its operations in USD and GBP. The Company manages its currency risk with foreign exchange forward contracts (see note 7). The following balances were included in the financial statements:

USD	September 30, 2015	September 30, 2014
Cash	452,183	731,134
Accounts receivable	1,202,225	1,605,269
Accounts payable and accrued liabilities	(921,758)	(921,642)
Prepaid expenses and deposits	201,700	189,973
Foreign exchange forward contract margin deposit	60,000	100,000
	994,350	1,704,734

GBP	September 30, 2015	September 30, 2014
Cash	58,699	88,825
Accounts receivable	216,976	182,183
Accounts payable and accrued liabilities	(89,424)	(20,204)
	186,251	250,804

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. The effect of a 5% strengthening (weakening) of the USD as at September 30, 2015, in relation to the net amount of USD-denominated currency balances, would have resulted in a gain (loss) of approximately \$24,000 recognized in net earnings (loss) for 2015, all other variables held constant. The effect of a 5% strengthening (weakening) of the GBP as at September 30, 2015, in relation to the net amount of GBP-denominated currency balances, would result in a gain (loss) of approximately \$9,000 recognized in net earnings (loss) for 2015, all other variables held constant.

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.

The Company has performed a sensitivity analysis on its interest rate risk. The effect of a 1% decrease (increase) in the average interest rate paid during the year, would have resulted in a gain (loss) of approximately \$10,000 recognized in net earnings (loss) for 2015, all other variables held constant.

IFABRIC CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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24. 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 Company is composed of bank indebtedness, long-term debt, including the current portion, and equity attributable to iFabric Corp.'s shareholders.

The Company's primary uses of capital are to finance working capital and capital expenditures.

The Company is subject to externally imposed capital requirements on debt described in notes 11 and 14. As at September 30, 2015, the Company met these financial covenants requirements.

25. COMPARATIVE FIGURES

Certain comparative figures in the financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. These reclassifications have been made in order to provide users of the financial statements with more relevant and reliable information. These changes have no impact on prior year net earnings or cash flows. Comparative figures for specific areas of the financial statements and notes thereto are discussed below:

Consolidated statements of earnings (loss) and comprehensive earnings (loss)

- An amount of \$161,333 previously classified as cost of sales has been reclassified as selling, general and administrative costs.
- An amount of \$4,958 previously classified as unrealized gain on foreign exchange forward contracts has been reclassified as gain on foreign exchange.
- Amounts of \$2,692,158 previously classified as general and administrative costs, and \$2,574,577 previously classified as selling and design costs, have been aggregated and reclassified as selling, general and administrative costs.

Segmented Information (note 15)

- An amount of \$1,221,120 previously classified as inter-segment revenues within the Intimate Apparel operating segment and offset within Corporate Items and Eliminations has been reclassified and is no longer included in either the Intimate Apparel operating segment or Corporate Items and Eliminations.
- An amount of \$41,877, with respect to amortization of property, plant and equipment previously classified under Corporate Items and Eliminations has been reallocated to operating segments as follows: Intimate Apparel (\$12,989), Intelligent Fabrics (\$901), and Other Segments (\$27,987). These changes are also reflected in the earnings (loss) before income tax for each operating segment.
- An amount of \$12,106, with respect to interest on the Company's operating line, previously classified under Corporate Items and Eliminations has been reallocated to Intimate Apparel. This change is also reflected in the earnings (loss) before income tax for the Intimate Apparel operating segment and Corporate Items and Eliminations.
- An amount of \$49,512 with respect to interest on the Company's long-term debt previously classified under Corporate Items and Eliminations has been reallocated to Other Segments. This change is also reflected in the earnings (loss) before income tax for the Other Segments operating segment and Corporate Items and Eliminations.
- An amount of \$2,911,856, with respect to operating segment assets, previously classified under Corporate Items and Eliminations has been reallocated to operating segments as follows: Intimate Apparel (\$93,884), Intelligent Fabrics (\$335,904), and Other Segments (\$2,482,468).
- An amount of \$28,354, with respect to expenditures on property, plant and equipment, previously classified under Corporate Items and Eliminations has been reallocated to operating segments as follows: Intimate Apparel (\$1,600), Intelligent Fabrics (\$6,004), and Other Segments (\$20,750).

Selling, general and administrative costs (note 16)

- An amount of \$694,747 previously recognized as selling and design costs has been reclassified as general and administrative costs.