IFABRIC CORP.

CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (RESTATED)

DECEMBER 31, 2013

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE TO READER

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

IFABRIC CORP.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (RESTATED)

AS AT DECEMBER 31 AND SEPTEMBER 30, 2013

(Unaudited, Expressed in CDN Dollars)

		December 31, 2013 Restated (Note 2)		September 30, 2013
ASSETS				
CURRENT				
Cash and cash equivalents (note 5)	**$**	**966,734**	$	457,131
Accounts receivable (note 6)		**1,686,194**		1,087,357
Inventory (note 7)		**3,686,836**		3,519,590
Prepaid expenses and deposits (note 8)		**141,768**		175,441
Foreign exchange forward contracts (note 9)		**33,291**		54,870
Investment tax credits recoverable (note 10)		**-**		12,826
		6,514,823		5,307,215
NON-CURRENT				
Property, plant and equipment (note 11)		**2,556,359**		2,551,288
Deferred development costs (note 12)		**867,937**		904,036
Deferred income taxes (note 13)		**342,442**		337,122
Goodwill		**55,050**		55,050
		3,821,788		3,847,496
	$	**10,336,611**	$	9,154,711

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

IFABRIC CORP.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (RESTATED)
AS AT DECEMBER 31 AND SEPTEMBER 30, 2013
(Unaudited, Expressed in CDN Dollars)

		December 31, 2013 Restated (Note 2)		September 30, 2013
LIABILITIES				
CURRENT				
Bank indebtedness (note 5)	**$**	**32,494**	$	407,601
Accounts payable and accrued liabilities (note 14)		**892,739**		1,127,648
Income taxes payable		**349,620**		236,657
Current portion of loans payable (note 16)		**120,000**		133,893
		1,394,853		1,905,799
NON-CURRENT				
Due to related parties (note 15)		**1,016,298**		984,741
Loans payable (note 16)		**1,070,000**		1,100,000
		2,086,298		2,084,741
		3,481,151		3,990,540
COMMITMENTS (note 20)				
SHAREHOLDERS' EQUITY				
CAPITAL STOCK (note 17)		**2,704,414**		1,978,987
WARRANTS (note 17)		**704,861**		-
OPTIONS (note 17)		**484,085**		436,414
NON-CONTROLLING INTEREST		**14,449**		13,276
RETAINED EARNINGS		**2,947,651**		2,735,494
		6,855,460		5,164,171
	$	**10,336,611**	$	9,154,711

APPROVED ON BEHALF OF THE BOARD:

'Hylton Karon' DIRECTOR

'Hilton Price' DIRECTOR

Originally approved on behalf of the board on February 27, 2014 and approved for restatement on January 27, 2015.

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

IFABRIC CORP.

CONSOLIDATED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS (RESTATED)

FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

(Unaudited, Expressed in CDN Dollars)

		2013 Restated (Note 2)		2012
REVENUE	$	**3,005,785**	$	1,241,673
COST OF SALES		**1,433,373**		533,503
GROSS PROFIT		**1,572,412**		708,170
EXPENSES				
General and administrative costs (note 21)		**571,138**		433,450
Selling and design costs		**622,421**		295,213
Interest on operating line		**4,838**		-
Interest on long-term debt		**12,962**		14,208
Amortization of property, plant and equipment		**10,930**		12,245
Amortization of deferred development costs		**36,100**		-
		1,258,389		755,116
EARNINGS (LOSS) FROM OPERATIONS		**314,023**		(46,946)
OTHER EXPENSES (INCOME)				
Share based compensation (note 17)		**47,671**		-
Gain on foreign exchange		**(70,506)**		(22,071)
Unrealized loss (gain) on foreign exchange forward contracts (note 9)		**21,579**		(61,582)
Sundry income		**(5,693)**		-
		(6,949)		(83,653)
EARNINGS BEFORE INCOME TAXES		**320,972**		36,707
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 19)				
Current		**112,962**		67,643
Deferred		**(5,320)**		(43,347)
		107,642		24,296
NET EARNINGS		**213,330**		12,411
OTHER COMPREHENSIVE EARNINGS		**-**		-
TOTAL COMPREHENSIVE EARNINGS	**$**	**213,330**	$	12,411
EARNINGS PER SHARE (note 18)				
Basic	**$**	**0.008**	$	0.001
Diluted		**0.008**		0.001

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

IFABRIC CORP.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (RESTATED)
FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012
(Unaudited, Expressed in CDN Dollars)

	Capital stock	Warrants	Options	Retained earnings	Accumulated other comprehensive earnings	Non-controlling interest	**Total**
Balance at September 30, 2012	$ 1,840,987	$ 38,000	$ -	$ 2,880,050	$ -	$ 13,526	**$ 4,772,563**
Total comprehensive earnings	-	-	-	8,545	-	3,866	**12,411**
Balance at December 31, 2012	1,840,987	38,000	-	2,888,595	-	17,392	**4,784,974**
Balance at September 30, 2013	1,978,987	-	436,414	2,735,494	-	13,276	**5,164,171**
Private placement (note 17)	1,629,000	-	-	-	-	-	**1,629,000**
Fair value of shareholder warrants issued on private placement (note 17)	(579,293)	579,293	-	-	-	-	-
Share issue costs - cash (note 17)	(198,712)	-	-	-	-	-	**(198,712)**
Share issue costs - fair value of agent warrants issued on private placement (note 17)	(125,568)	125,568	-	-	-	-	-
Share based compensation (note 17)	-	-	47,671	-	-	-	**47,671**
Total comprehensive earnings	-	-	-	212,157	-	1,173	**213,330**
Balance at December 31, 2013 Restated (Note 2)	**$ 2,704,414**	**$ 704,861**	**$ 484,085**	**$ 2,947,651**	**$ -**	**$ 14,449**	**$ 6,855,460**

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

IFABRIC CORP.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (RESTATED)
FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012
(Unaudited, Expressed in CDN Dollars)

	2013 Restated (Note 2)	2012
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Total comprehensive earnings (loss)	$ 213,330	$ 12,411
Items not affecting cash		
Amortization of property, plant and equipment	10,930	12,245
Amortization of deferred development costs	36,100	-
Unrealized gain (loss) on foreign exchange forward contracts	21,579	(16,582)
Gain on sale of property, plant and equipment	(2,731)	-
Share based compensation	47,671	-
Deferred income tax recovery	(5,320)	(43,347)
	321,559	(35,273)
Change in non-cash operating working capital items		
Accounts receivable	(598,837)	809,772
Inventory	(167,246)	(447,605)
Prepaid expenses and deposits	33,673	50,735
Foreign exchange forward contracts	-	(45,000)
Investment tax credits recoverable	12,826	21,988
Accounts payable and accrued liabilities	(234,909)	115,584
Income taxes payable	112,963	67,643
	(841,530)	573,117
	(519,971)	537,844
FINANCING ACTIVITIES		
Bank operating line	(375,107)	-
Due to related parties	31,557	(190,679)
Repayment of loans	(43,893)	(31,118)
Share and warrant issuances (note 17)	1,629,000	-
Share issue costs - cash (note 17)	(198,712)	-
	1,042,845	(221,797)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(26,755)	-
Proceeds on disposal of property, plant and equipment	13,484	-
Deferred development costs	-	(25,724)
	(13,271)	(25,724)
CHANGE IN CASH POSITION	509,603	290,323
CASH AND CASH EQUIVALENTS, beginning of period (note 5)	457,131	142,044
CASH, end of period (note 5)	$ 966,734	$ 432,367

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. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Company has restated its consolidated interim statement of financial position as of December 31, 2013 and its consolidated interim statement of earnings and comprehensive earnings, changes in shareholders' equity, and cash flows for the three month period ended December 31, 2013.

As a result of the annual audit in respect of the year ended September 30, 2014, management revisited the accounting treatment of an amount of $704,861 expensed as share based compensation in relation to the fair value of shareholder and agent warrants issued on the Company's private placement, which closed on December 13, 2013.

Upon review of IFRS 2, share-based payment, and IAS 39, financial instruments: recognition and measurement, management has determined that the fair value of shareholder and agent warrants should have been reflected as a reduction in the amount of capital stock as opposed to being charged to earnings, as was originally reflected in the in the consolidated interim financial statements for the three month period ended December 31, 2013 and originally approved by the Company's Board of Directors on February 27, 2014.

As a result of this adjustment, net earnings and total comprehensive earnings for the three month period ended December 31, 2013 have been restated to reflect an amount of $213,330 ($0.008 earnings per share, basic and diluted) as opposed to the previously reported net loss and total comprehensive loss of $491,531 ($0.019 loss per share, basic and diluted). In addition, capital stock has been reduced from $3,409,275 to $2,704,414 and retained earnings have been increased from $2,242,790 to 2,947,651.

3. BASIS OF PREPARATION

(a) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB.

The same accounting policies were followed in the preparation of these restated unaudited consolidated interim financial statements as those used in the preparation of the most recent audited annual consolidated financial statements for the year ended September 30, 2013, other than those set out in note 4(a). These restated unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended September 30, 2013, prepared in accordance with IFRS.

(b) Basis of consolidation

These restated unaudited consolidated interim financial statements include the accounts of iFabric Corp., and its wholly-owned subsidiary, Coconut Grove Textiles Inc., which includes the consolidated accounts of its wholly-owned subsidiaries Coconut Grove Pads Inc., Intelligent Fabric Technologies (North America) Inc. and CG Intimates Inc. They also include the accounts of 2074160 Ontario Inc., which is a 60% owned subsidiary of Coconut Grove Textiles Inc. All inter-corporate balances and transactions have been eliminated.

(c) Seasonal fluctuations

The interim period results of operations do not necessarily reflect results for the full fiscal year because of seasonal fluctuations that characterize the apparel and textiles industries.

(d) Basis of measurement

These restated unaudited consolidated interim financial statements were prepared on a historical cost basis except for certain items which may be accounted for at fair value, as further discussed in the significant accounting policies of the most recent audited annual financial statements for the year ended September 30, 2013.

(e) Functional and presentation currency

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

4. ACCOUNTING POLICY DEVELOPMENTS

(a) Initial application of standards, interpretations and amendments to standards and interpretations in the reporting period

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for annual periods beginning on or after January 1, 2013. As of October 1, 2013, the Company has adopted the following standards, and, unless otherwise indicated, these have no effect the Company's financial statements:

i) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and supersedes the consolidation requirements in SIC-12 'Consolidation - Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements'. IFRS l0 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.

ii) IFRS 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.

(b) Future changes in accounting policies

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

i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 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.

(Unaudited, Expressed in CDN Dollars)

5. CASH, CASH EQUIVALENTS, AND BANK INDEBTEDNESS

		December 31, 2013		September 30, 2013
Cash	**$**	**566,734**	$	457,131
Guaranteed investment certificate		**400,000**		-
	$	**966,734**	$	457,131

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 $32,494 was outstanding as at December 31, 2013 (September 30, 2013 - $407,601). The loan facility bears interest at the bank's prime lending rate plus 1.75%. The purpose of the credit facility is to provide for ongoing operating requirements including the financing of accounts receivable and inventory. The facility is secured by General Security Agreements covering all the assets of two subsidiary companies, accounts receivable insurance, an assignment of fire insurance, and a guarantee in the amount of $1,000,000 from a third subsidiary of the Company. In addition, the company has credit card facilities amounting to $50,000 Canadian dollars and $25,000 US dollars, which are subject to the same security arrangements.

6. ACCOUNTS RECEIVABLE

		December 31, 2013		September 30, 2013
Trade receivables	**$**	**1,779,693**	$	1,192,422
Allowance for doubtful accounts		**(10,730)**		(10,730)
Accrued discounts		**(106,000)**		(106,000)
Other		**23,231**		11,665
	$	**1,686,194**	$	1,087,357

(Unaudited, Expressed in CDN Dollars)

7. INVENTORY

During the three months ended December 31, 2013, the amount of inventory charged to earnings was $1,385,226 (2012 - $382,478) and the amount of inventory write-downs were $0 (2012 - $28,677). There were no reversals of prior periods write-downs of inventory.

		December 31, 2013		September 30, 2013
Raw materials	**$**	**408,838**	$	309,212
Finished goods		**3,277,998**		3,210,378
	$	**3,686,836**	$	3,519,590

8. PREPAID EXPENSES AND DEPOSITS

		December 31, 2013		September 30, 2013
Prepayments for chemical purchases	**$**	**-**	$	300,253
Impairment provision (i)		**-**		(300,253)
Deposits paid to suppliers		**91,250**		164,941
Other deposits		**50,518**		10,500
	$	**141,768**	$	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 period as no recovery is anticipated.

(Unaudited, Expressed in CDN Dollars)

9. FOREIGN EXCHANGE FORWARD CONTRACTS

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

		December 31, 2013		September 30, 2013
Margin balance – cash deposit	**$**	**100,000**	$	100,000
Mark to market variance – unrealized loss on foreign exchange		**(66,709)**		(45,130)
	$	**33,291**	$	54,870

As at December 31, 2013, the Company had contracted to sell GBP £425,000 and sell USD $850,000. As well, the Company had contracted to buy USD $700,000.

For the three months ended December 31, 2013, there is an unrealized loss on foreign exchange of $21,579 (2012 - $61,582 gain) included in the statement of earnings and comprehensive earnings.

10. INVESTMENT TAX CREDITS RECOVERABLE

The Company makes claims for scientific research and experimental development expenditures incurred. Investment tax credits in the amount of $0 as of December 31, 2013 (September 30, 2013 - $12,826) have been recorded as recoverable and as a reduction of deferred development costs (note 12).

(Unaudited, Expressed in CDN Dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	December 31, 2013 Net	September 30, 2013 Net
Land	**$ 1,800,000**	**$ -**	**$ 1,800,000**	$ 1,800,000
Buildings	**900,813**	**197,754**	**703,059**	689,306
Automobiles	**-**	**-**	**-**	10,752
Computer and office equipment	**166,340**	**135,643**	**30,697**	27,437
Factory machinery	**561,512**	**538,909**	**22,603**	23,793
	$ 3,428,665	**$ 872,306**	**$ 2,556,359**	$ 2,551,288

12. DEFERRED DEVELOPMENT COSTS

	Cost	Accumulated amortization	December 31, 2013 Net	September 30, 2013 Net
Product development costs	**$ 941,427**	**$ 73,490**	**$ 867,937**	$ 904,036

During the three months ended December 31, 2013, expenditures of $0 (2012 - $25,724) met the criteria for deferral and were capitalized, against which $0 (2012 - $0) of investment tax credits (note 10) have been applied to reduce these expenditures. One of the products, previously under development, became commercially available for sale in the fourth quarter of fiscal 2013, and the deferred costs relating to this product are now being amortized in accordance with the Company's accounting policies.

(Unaudited, Expressed in CDN Dollars)

13. DEFERRED INCOME TAXES

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

		December 31, 2013		September 30, 2013
Unutilized loss carry forward	**$**	**561,100**	$	571,122
Capital cost allowance claimed in excess of amortization		**(6,658)**		(6,400)
Unrealized foreign exchange losses		**18,000**		12,000
Deferred development costs		**(230,000)**		(239,600)
	$	**342,442**	$	337,122

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

2027	**$**	**48,000**
2028		**201,000**
2029		**186,000**
2030		**274,000**
2031		**496,000**
2032		**114,000**
2033		**781,000**
2034		**17,000**
	$	**2,117,000**

(Unaudited, Expressed in CDN Dollars)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2013		September 30, 2013
Trade payables	**$**	**686,007**	$	824,960
Government remittances		**123,086**		98,542
Accrued liabilities (note 21)		**74,799**		195,299
Tenants deposits		**8,847**		8,847
	$	**892,739**	$	1,127,648

15. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, non-interest bearing and due on demand. The creditors have waived their right to call for payment over the next year, and accordingly, the loans have been classified as long-term.

		December 31, 2013		September 30, 2013
Due to shareholder	**$**	**528,425**	$	504,778
Due to minority shareholder of subsidiary co.		**487,873**		479,963
	$	**1,016,298**	$	984,741

(Unaudited, Expressed in CDN Dollars)

16. LOANS PAYABLE

		December 31, 2013		September 30, 2013
Bank loan, payable in monthly principal payments of $10,000 plus interest, bearing interest at the bank's prime rate plus 1.25%, due May 31, 2023 and secured by a first readvanceable mortgage on the land and building described in note 11, a general security agreement over all assets of Coconut Grove Pads Inc. subject to priority on inventory and accounts receivable to the lender described in note 5, and a general assignment of rents.	**$**	**1,190,000**	$	1,220,000
Vehicle loan, matured November, 2013		**-**		13,893
		1,190,000		1,233,893
Less current portion		**120,000**		133,893
Due beyond one year	**$**	**1,070,000**	$	1,100,000

Estimated principal re-payments are as follows:

2014	$	90,000
2015		120,000
2016		120,000
2017		120,000
2018		120,000
Subsequent years		620,000
	$	1,190,000

(Unaudited, Expressed in CDN Dollars)

17. CAPITAL STOCK

(a) Authorized, Issued and Outstanding

Authorized: Unlimited number of common shares

	Number		Amount
Balance, September 30, 2012 and December 31, 2012	25,237,500	$	1,840,987

	Number		Amount
Balance, September 30, 2013	25,437,500	$	1,978,987
Private placement (i)	407,250		1,629,000
Fair value of shareholder warrants issued on private placement (i)	-		(579,293)
Share issuance costs - cash (i)	-		(198,712)
Share issue costs - fair value of agent warrants issued on private placement (i)	-		(125,568)
Balance, December 31, 2013 (restated)	25,844,750	$	2,704,414

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

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

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

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

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

(Unaudited, Expressed in CDN Dollars)

17. CAPITAL STOCK, continued

(b) Stock option plan

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

	Number of stock options		Weighted average exercise price
Balance, September 30, 2012 and December 31, 2012	-	$	-

	Number of stock options		Weighted average exercise price
Balance, September 30, 2013 and December 31, 2013	1,525,000	$	0.52

As of December 31, 2013, the following options were issued and outstanding:

	Options Outsanding				Options Exercisable		
Expiry date	Number of stock options	Weighted average remaining contractual life (years)		Weighted average exercise price	Number of stock options		Weighted average exercise price
January 16, 2023	1,450,000	9.04	$	0.40	975,000	$	0.40
September 17, 2018	75,000	4.71		2.90	25,000		2.90
	1,525,000	**8.83**	**$**	**0.52**	**1,000,000**	**$**	**0.46**

(Unaudited, Expressed in CDN Dollars)

17. CAPITAL STOCK, continued

(c) Warrants

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

	Number of warrants		Weighted average exercise price
Balance, September 30, 2012 and December 31, 2012	200,000	$	0.50

	Number of warrants		Weighted average exercise price
Balance, September 30, 2013	-	$	-
Issued, during the period (note 17(a)(i))	232,133		5.10
Balance, December 31, 2013	232,133		5.10

The following table summarizes the warrants outstanding as of December 31, 2013:

Expiry date	Number of warrants		Weighted average exercise price
December 13, 2016	203,625	$	5.25
December 13, 2016	28,508		4.00
	232,133	**$**	**5.10**

(Unaudited, Expressed in CDN Dollars)

18. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of warrants and stock options outstanding. The calculation of basic and diluted earnings per share is based on net earnings charged to retained earnings for the three months ended December 31, 2013 of $212,157 (2012 - earnings of $8,545). The number of shares used in the earnings per share calculation is as follows:

	Three Months ended December 31	
	2013 Restated	2012
Weighted average number of shares outstanding - basic	**25,521,606**	25,237,500
Dilutive effect of options	**1,320,238**	-
Dilutive effect of warrants	**219**	-
Weighted average number of shares outstanding - diluted	**26,842,063**	25,237,500

For the three months ended December 31, 2013, 203,625 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive. For the three months ended December 31, 2012, 200,000 warrants were excluded from the calculation of diluted earnings per share as these instruments were deemed to be anti-dilutive.

19. INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2012 - 26.5%) to the earnings (loss) for the period as follows:

	Three months ended December 31			
		2013 Restated		2012
Earnings for the period before income taxes	**$**	**320,972**	$	36,707
Tax on accounting earnings	**$**	**85,000**	$	9,727
Tax effect of the following:				
Tax rate changes and other		**(1,828)**		9,569
Non-deductible share-based compensation		**12,720**		-
Items not deductible for tax purposes		**11,750**		5,000
Provision for income taxes	**$**	**107,642**	$	24,296

(Unaudited, Expressed in CDN Dollars)

20. COMMITMENTS

(a) The Company's total commitments as of December 31, 2013, under various operating leases and a property lease agreement exclusive of occupancy costs are as follows:

2014	$	62,622
2015		30,699
2016		16,563
2017		5,309
2018		4,425
	$	119,618

(b) The Company enters into foreign exchange forward contracts to manage the risks associated with exchange rate fluctuations. See note 9 for more information.

(c) The Company is party to an exclusive worldwide license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the initial license term, the Company is required to pay a monthly royalty of 8.5% on its net sales as defined in the agreement, on all products sold under the licensed marks. In addition, the Company is required to pay an advertising fee of 2%, payable quarterly, on its net sales as defined in the agreement, for promotion of the licensed products. The initial license term was in effect until December 31, 2012, and was renewed for an additional term of two years ending December 31, 2014, under the same terms as the initial agreement.

(d) Effective October 17, 2011, the Company entered into an exclusive worldwide license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. During the initial license term, the Company is required to pay a monthly royalty of 9.5% on its net sales as defined in the agreement, on all products sold under the licensed marks. The initial license term is in effect until December 31, 2015 and may be renewed for an additional term of four years on the condition that certain performance goals as defined in the agreement are attained.

(e) Effective January 16, 2012, the Company entered into an exclusive license agreement for the right to use trademarks in connection with the manufacture, marketing, sale and distribution of certain licensed products. The licensed territory includes certain worldwide areas as specified in the agreement. During the initial license term, the Company is required to pay a monthly royalty of 9% on its net sales as defined in the agreement, on all products sold under the licensed marks. Minimum annual royalties have been established for the contract periods ending December 31, 2013, 2014, and 2015 in the amounts of $144,000, $279,000 and $432,000 respectively. In addition, the Company is required to pay an advertising fee of 2%, payable semi-annually, on its net sales as defined in the agreement, for the promotion of the licensed products. The initial license term is in effect until December 31, 2015 and may be renewed for an additional term of three years on the condition that certain performance goals as defined in the agreement are attained.

(f) As at December 31, 2013, the Company had no open letters of credit for purchases of inventory (September 30, 2013 - $17,000).

(Unaudited, Expressed in CDN Dollars)

21. RELATED PARTY TRANSACTIONS

(a) General and administrative costs for the three months ended December 31, 2013 includes $7,000 (December 31, 2012 - $0) to a company controlled by the non-controlling shareholder of a subsidiary.

(b) Remuneration of Directors and key management personnel of the Company was as follows:

	Three months ended December 31			
		2013		2012
Salary included in general and administrative - CEO	**$**	**30,000**	$	-
Professional fees included in general and administrative - CFO		**35,000**		23,750
Salary and benefits included in general and administrative - Director		**49,915**		65,886
Fees for technical services included in general and administrative - Director		**12,000**		-
Fees for technical services included in deferred development costs - Director		**-**		12,000
Share based compensation		**23,859**		-
	$	**150,774**	$	101,636

(c) Included in accounts payable and accrued liabilities is an amount of $32,000 (September 30, 2013 - $102,500) due to Directors and key management personnel of the Company in respect of unpaid fees.

(Unaudited, Expressed in CDN Dollars)

22. FINANCIAL INSTRUMENTS

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company routinely assesses the financial strength of its customers to mitigate its exposure to credit risk. For the three months ended December 31, 2013, approximately 34% of the Company's total sales are to two customers (2012 - 45% of sales were to two customers). At December 31, 2013, 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 December 31, 2013, no claims were pending under this policy.

The Company's maximum exposure to credit risk at December 31, 2013 is $1,686,194 (September 30, 2013 - $1,087,357).

The aging of trade accounts receivable is as follows:

		December 31, 2013		September 30, 2013
0 - 30 days	**$**	**801,009**	$	447,166
31 - 60 days		**574,356**		366,555
61 - 90 days		**290,928**		267,260
90 + days		**113,400**		111,461
	$	**1,779,693**	$	1,192,442

Liquidity risk

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

22. FINANCIAL INSTRUMENTS, continued

Market risk

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

Currency risk

The Company conducts certain of its operations in United States dollars and British pounds. The Company manages its risk with forward foreign exchange contracts (see note 9). The following balances were included in the financial statements:

		December 31, 2013 USD		September 30, 2013 USD
Cash	**$**	**303,719**	$	309,291
Accounts receivable		**1,201,330**		747,208
Accounts payable and accrued liabilities		**(510,625)**		(685,219)
Prepaid expenses and deposits		**85,794**		97,534
Foreign exchange forward contract margin deposit		**100,000**		100,000
United States dollars	**$**	**1,180,218**	$	568,814

		December 31, 2013 GBP		September 30, 2013 GBP
Cash	**£**	**42,239**	£	74,613
Accounts receivable		**242,402**		186,457
Accounts payable and accrued liabilities		**(45,772)**		(55,802)
British pounds	**£**	**238,869**	£	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.

22. FINANCIAL INSTRUMENTS, continued

Sensitivity analysis

The effect of a 5% strengthening of the USD at the reporting date in relation to the net amount of USD denominated currency balances would result in an increase in annual pre-tax revenue of approximately $63,000, 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 $63,000. A 5% strengthening of the GBP would result in an increase in annual pre-tax revenue of approximately $21,000 and a 5% weakening of the GBP would result in a decrease in annual pre-tax revenue of approximately $21,000.

A 1% increase in future interest rates, based on the projected average balance of the secured loan for the ensuing 12 months, would result in an increased interest expense of approximately $11,300 and a 1% decrease in interest rates would result in interest savings of an equivalent amount.

23. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while providing a return to its stakeholders.

The capital structure of the business consists of equity attributable to common shareholders, comprised of issued capital stock and accumulated retained earnings, which totaled $5,652,065 at December 31, 2013 (September 30, 2013 - $4,714,481).

The Company is subject to externally imposed capital requirements on debt described in notes 5 and 16. As at December 31, 2013, the Company met these financial covenants requirements.

24. SEGMENTED INFORMATION

The Company has three reportable segments, as described below, which are strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different marketing strategies and technologies. For each of the strategic divisions, the CEO (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. The following describes the operations in each of the reportable segments:

- Intimate Apparel: Includes the design, purchasing, and distribution of intimate apparel.
- Intelligent Fabrics: Includes the development, testing and distribution of specialty textiles as well as chemicals suitable for application to textiles.
- Other: Includes leasing of property to group companies and third parties.

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

Property, plant and equipment, deferred tax assets, and goodwill are managed on a group basis and are not allocated to operating segments. Amortization of property, plant and equipment, and interest expense on operating lines of credit and long-term debt are managed on a group basis and are not allocated to operating segments.

(Unaudited, Expressed in CDN Dollars)

24. SEGMENTED INFORMATION, continued

Operating Segments - Three months ended December 31, 2013 (restated)

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
Revenues					
Third party	$ 2,783,344	$ 195,389	$ 27,052	$ -	**$ 3,005,785**
Inter-segment	316,621	-	38,225	(354,846)	**-**
Total Revenues	3,099,965	195,389	65,277	(354,846)	**3,005,785**
Earnings (loss) before income taxes (restated)	419,960	(100,387)	4,895	(3,496)	**320,972**
Amortization of deferred development costs	-	(36,100)	-	-	**(36,100)**
Amortization of property, plant, and equipment	-	-	-	(10,930)	**(10,930)**
Interest on operating line	-	-	-	(4,837)	**(4,837)**
Interest on long-term debt	-	-	-	(12,962)	**(12,962)**
Segment assets	$ 5,071,168	$ 1,764,824	$ 6,512	$ 3,494,107	**$ 10,336,611**
Expenditures on property, plant, and equipment	-	-	-	26,755	**26,755**

(Unaudited, Expressed in CDN Dollars)

24. SEGMENTED INFORMATION, continued

Operating Segments - Three months ended December 31, 2012

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	Consolidated
Revenues					
Third party	$ 1,185,517	$ 234	$ 55,922	$ -	$ 1,241,673
Inter-segment	-	-	-	-	-
Total Revenues	1,185,517	234	55,922	-	1,241,673
Earnings (loss) before income taxes	50,722	(19,651)	15,737	(10,101)	36,707
Amortization of deferred development costs	-	-	-	-	-
Amortization of property, plant, and equipment	-	-	-	(12,245)	(12,245)
Interest on operating line	-	-	-	-	-
Interest on long-term debt	-	-	-	(14,208)	(14,208)
Segment assets	$ 3,917,978	$ 1,572,192	$ 3,410	$ 2,934,319	$ 8,427,899
Expenditures on property, plant, and equipment	-	-	-	-	-
Expenditures on development costs	-	25,723	-	-	25,723

(Unaudited, Expressed in CDN Dollars)

24. SEGMENTED INFORMATION, continued

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

	Three months ended December 31	
	2013	2012
External sales revenue		
Canada	**$ 172,197**	$ 262,262
United States	**2,505,616**	579,045
United Kingdom	**327,972**	400,366
Total	**$ 3,005,785**	$ 1,241,673

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

25. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current period. These changes do not affect prior period earnings.