iFABRIC CORP.
MANAGEMENTS' DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Three Months ended December 31, 2014

February 27, 2015

The following Management Discussion and Analysis ("MD&A") of iFabric Corp. ("iFabric" or the "Company") should be read together with the unaudited consolidated interim financial statements for the three months ended December 31, 2014 and the related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS") including IAS 34 "Interim Financial Reporting".

Continuous disclosure documents, including the Company's press releases and quarterly reports, are available through its filings with the securities regulatory authorities in Canada at www.sedar.com and on the Company's website at www.ifabriccorp.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results that "may", "could", "would", "might" or "will" be taken, to occur or to be achieved. Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

BUSINESS OVERVIEW

General

The purpose of this MD&A of the financial position and operating results is to provide the reader with an overview of the changes in the financial position of iFabric between October 1, 2014 and December 31, 2014. It also compares the operating results and cash flows for the three months ended December 31, 2014 to those of the comparative three months of 2013.

iFabric has two strategic divisions, which offer different products and services, and are managed separately because they require different marketing strategies. The following summarizes the operations of each division:

- Intimate Apparel: Includes the design, purchasing, and distribution of intimate apparel, sleepwear and accessories.
- Intelligent Fabrics: Includes the development, testing and distribution of specialty textiles as well as chemicals suitable for application to textiles.

Nature of Operations

a) Intimate Apparel

The intimate apparel division commenced operations in 1992 as a manufacturer and distributor of foam shoulder pads. Operations were subsequently expanded to include the design and manufacture of women's intimate apparel and in particular a range of specialty bras including the division's patented backless, strapless underwire bra. The division also distributes a range of complimenting accessories as well as sleepwear. Worldwide consumer demand for these products has contributed to the division's success to date. The division's customer base includes a number of major retailers as well as specialty boutiques situated in its main market regions, being the UK, USA and Canada. International sales outside these regions comprise less than 5% of total sales.

Initially all products were manufactured and distributed from manufacturing facilities situated in Ontario, Canada. However, in 2005, management took a decision to wind down the Canadian manufacturing operations in favour of outsourcing manufacture to major mills located in China. The benefits of this decision were twofold:

1) Lower and stable direct product costs resulting in improved margins.
2) Significant savings in overheads especially in lower sales months.

As a further consequence of this decision, manufacturing space in Company owned premises located in Markham, Ontario were converted to warehouse and office space and currently serves as the Company's head office as well as the product distribution centre for the Canadian market. In order to service its customers in the US and UK, the division currently utilizes contract warehouse facilities located in Los Angeles (US) and London (UK) respectively. Surplus space in its Canadian facility has been rented to third party tenants, which has reduced the carrying cost of this facility.

In early 2010, the management took a strategic decision to focus its future product sales of intimate apparel and accessories towards well known international branded products. The main perceived benefit in adopting this strategy, is the fact that major brand holders have substantial marketing budgets for promoting their brands as opposed to the more modest budget that the division is able to apply to the promotion of its own brands. Accordingly, management was of the opinion that royalties payable to brand holders would be more than offset by the margins realized on increased sales attributable to wider market awareness and acceptance of well-established branded products.

In September, 2010, the division signed its first exclusive worldwide license and distribution agreement with Maidenform Brands, Inc. ("Maidenform") to manufacture and market products in its market segment under various Maidenform brands. Maidenform is a global intimate apparel company with a portfolio of established, well-known brands. During its 90-year history, Maidenform has built strong equity for its brands and has established a platform for growth through a combination of innovative, first-to-market designs and creative advertising campaigns focused on increasing brand awareness with generations of women. Products are sold under some of the most recognized brands in the intimate apparel industry, including Maidenform®, Control It!®, Fat Free Dressing®, Flexees®, Lilyette®, Maidenform's Charmed®, Bodymates®, Inspirations®, Self Expressions® and Sweet Nothings®.

In January 2012 the division signed a second license and distribution agreement with Mo Industries, LLC (a subsidiary of VF Corporation) to manufacture and distribute intimate apparel under its Splendid and Ella Moss brands. In terms of this agreement, licensed territories include Australia, Canada, China, the European Union, Mexico, the Russian Federation, Singapore, the UAE, and the USA.

The *Splendid*® brand is known for its use of luxurious fabrics in a wide range of contemporary knit products incorporating modern fit and styling. The *Ella Moss*® brand is an ultra-feminine collection of casual knit tops and dresses featuring bold colors, whimsical styling and fashion silhouettes. *Splendid*® and *Ella Moss*® products are currently marketed internationally by a number of high-end retail and online chains, specialty boutiques, as well as its own stores.

The agreement with Mo Industries necessitated the establishment of new premises located in New York which is being used to house the division's product design team. The New York premises also includes showroom space utilized to hold market appointments with major retail buyers for all brands/lines during New York intimate apparel market weeks throughout the year.

b) Intelligent Fabrics

A second strategic division was added in 2010 when the Company obtained exclusive North American distribution rights for a new generation of intelligent textiles which have the ability to kill bacteria, repel insects and help encourage a healthy skin environment amongst others. Management anticipates that the intelligent fabrics division will be the main driving force of the Company's future growth and expansion.

On December 10, 2013 iFabric announced the execution of an agreement that secures global distribution and marketing rights of antimicrobial, antiviral and other textile technologies.

The execution of the agreement provided several significant benefits to iFabric:

- Expansion of distribution and marketing rights from North American rights to Worldwide rights;
- A direct, and more secure, relationship with the manufacturer of the technologies, including access to future product advancements and developments;
- Increased product margins as a result of the direct relationship with the manufacturer; and
- The elimination of a previous profit share arrangement.

This new agreement clearly demonstrates the confidence the manufacturer has in the Company to execute on the future growth plans for these products. The agreement provides iFabric with not only worldwide distribution rights at increased margins, but also a direct contractual relationship with the manufacturer and a more efficient supply of products to customers. In addition, iFabric also has the ability to now supply technical assistance and advice on product development in a wide variety of market areas on a global basis.

The intelligent fabrics division currently focuses its regulatory, product development and marketing efforts on three key technologies, namely:

1. Enguard® Insect Repellent Fabric

Applying Enguard® to fabrics results in a highly effective and durable insect repellent. A major strength of Enguard is that it is safe for children. Testing carried out by the London School of Hygiene and Tropical

Medicine show Enguard® to have repelling power comparable to high-concentration DEET and significantly greater than any other natural insect repellents.

2. Protx2® Anti Microbial Technologies

Protx2® formulations impart anti-microbial and/or anti-viral powers to fibers, plastic, paint and paper treated with these formulations. Numerous laboratory tests have shown that treated products inhibit the growth of a wide variety of infectious agents associated with Hospital Acquired Infections ("HAI"), including MRSA, C-Difficile, VRE, and H1N1, and by their application may assist in preventing the spread of such infections.

3. Dreamskin®

Dreamskin® textile technology helps encourage a healthy skin environment.

Dreamskin is effective during both summer and winter months as high and low moisture environments both offer discomfort and irritation. In particular, athletic apparel has two key areas that can cause skin irritation, namely friction and excessive moisture. Dreamskin targets both of these to help prevent irritation.

SELECTED QUARTERLY INFORMATION

The following is a summary of selected financial information for the eight most recent quarters:

	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
	$	$	$	$	$	$	$	$
Total assets	11,220,455	11,559,443	11,505,874	10,715,550	10,336,611	9,154,711	9,821,901	8,781,054
Total non-current liabilities	1,832,695	1,952,287	2,043,967	2,036,698	2,086,298	2,084,741	2,142,828	2,327,121
Working capital	5,460,741	5,631,275	5,890,676	5,498,672	5,119,970	3,401,416	3,855,417	3,734,335
Retained earnings	3,116,803	3,277,708	3,471,287	3,226,082	2,947,651	2,735,494	3,099,790	2,900,038
Product sales	3,024,103	3,204,129	3,856,192	2,884,222	2,978,733	1,909,362	2,709,015	2,254,113
Rental revenue	18,301	18,301	25,801	27,052	27,052	27,052	32,217	32,217
Earnings (loss) from operations	(131,725)	(190,938)	566,224	342,308	314,023	(96,341)	369,612	376,188
Share based compensation	(108,629)	(122,260)	(123,150)	(35,593)	(47,671)	(90,204)	(73,065)	(273,145)
Impairment loss	-	-	-	-	-	(300,253)	-	-
Earnings (loss) before income taxes	(174,960)	(320,715)	381,175	422,076	320,972	(507,548)	337,316	80,173
Income tax (recovery)	(14,740)	(123,357)	136,087	141,988	107,642	(126,138)	137,601	55,695
Net earnings (loss)	(160,220)	(197,358)	245,088	280,088	213,330	(381,410)	199,715	24,478
Earnings (loss) per share - basic	(0.006)	(0.008)	0.009	0.011	0.008	(0.016)	0.008	0.001
Earnings (loss) per share - diluted	(0.006)	(0.008)	0.009	0.010	0.008	(0.016)	0.008	0.001
Dividends declared	-	-	-	-	-	-	-	-

SELECTED ANNUAL INFORMATION

The following is a summary of selected financial information for the five most recent financial years:

	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2010
	Audited	*Audited*	*Audited*	*Audited*	*Audited*
	$	$	$	$	$
Total assets	11,559,443	9,154,711	8,454,058	8,292,672	6,871,155
Total long-term financial liabilities	1,952,287	2,084,741	2,801,891	3,485,694	2,328,184
Working capital	5,631,275	3,401,416	4,011,541	4,140,525	1,751,640
Retained earnings	3,277,708	2,735,494	2,880,050	3,098,730	2,614,499
Revenues	13,021,482	8,165,983	6,074,766	5,660,288	5,435,382
Earnings from operations	1,031,617	602,513	330,910	727,235	522,858
Share based compensation	(328,674)	(436,414)	-	-	-
Impairment loss	-	(300,253)	-	-	-
RTO transaction costs	-	-	(572,170)	-	-
Earnings (loss) before income taxes	803,508	(53,352)	(240,052)	641,723	323,446
Income tax (recovery)	262,360	91,454	(25,703)	156,204	61,674
Net earnings (loss)	541,148	(144,806)	(214,349)	485,519	261,772
Earnings (loss) per share - basic	0.021	(0.006)	(0.009)	0.04	1308.86
Earnings (loss) per share - diluted	0.020	(0.006)	(0.009)	0.04	1308.86
Dividends declared	-	-	-	-	-

DISCUSSION OF OPERATIONS

REVENUE AND OPERATING EXPENSE ANALYSIS

UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF COMPREHESIVE EARNINGS

Three months ended December 31		2014		2013
REVENUE	$	**3,042,404**	$	3,005,785
COST OF SALES		**1,663,853**		1,433,373
GROSS PROFIT		**1,378,551**		1,572,412
EXPENSES				
General and administrative costs		**800,630**		571,138
Selling and design costs		**642,301**		622,421
Interest on operating line		**5,520**		4,838
Interest on secured loan		**11,676**		12,962
Amortization of property, plant and equipment		**9,783**		10,930
Amortization of deferred development costs		**40,366**		36,100
		1,510,276		1,258,389
EARNINGS (LOSS) FROM OPERATIONS		**(131,725)**		314,023
OTHER EXPENSES (INCOME)				
Share based compensation		**108,629**		47,671
Gain on foreign exchange		**(65,728)**		(70,506)
Unrealized loss on foreign exchange forward contracts		**334**		21,579
Sundry income		**-**		(5,693)
		43,235		(6,949)
EARNINGS (LOSS) BEFORE INCOME TAXES		**(174,960)**		320,972
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current		**46,760**		112,962
Deferred		**(61,500)**		(5,320)
		(14,740)		107,642
NET EARNINGS (LOSS)		**(160,220)**		213,330
OTHER COMPREHENSIVE EARNINGS		**-**		-
TOTAL COMPREHENSIVE EARNINGS (LOSS)	$	**(160,220)**	$	213,330
EARNINGS (LOSS) PER SHARE				
Basic	$	**(0.006)**	$	0.008
Diluted		**(0.006)**		0.008

Earnings

For the quarter ended December 31, 2014, the Company reported an after-tax loss of $160,220 or $0.006 per share (basic and diluted) compared to an after-tax earnings of $213,330 or $0.008 per share (basic and diluted) for the quarter ended December 31, 2013. The loss for the quarter includes an amount of $108,629, which was expensed in respect of non-cash share based compensation related to stock options granted to directors, employees and consultants of the Company, compared to $47,671 in 2013. The loss further includes expenses of the intelligent fabrics division amounting to $306,000 (2013 - $99,000) comprising regulatory, marketing, and other costs, which have been incurred in advance of future sales for this division, as well as additional margin guarantee support of approximately $100,000 compared to 2013, which was provided to major retailers by the apparel division, as an incentive to support current and future programs. Further included is an amount of $93,000 paid and accrued in respect of severance payments for a former Director and Officer of the Company.

The loss from operations for the quarter amounted to $131,725 compared to operating earnings of $314,023 in the comparable quarter of 2013. The loss from operations for the first quarter is mainly attributable to the factors detailed above.

Revenues

For the quarter ended December 31, 2014, the Company reported revenues of $3,042,404 compared to $3,005,785 in the comparable quarter of 2013. The Company experienced a minor reduction is sales as a result of a truckers' strike which commenced in November 2014 and affected the clearance of goods from the port of Long Beach, which is the Company's main port of entry for goods destined for the US market. A more serious strike of dock workers escalated in February 2015 (subsequent to the end of the quarter) and has caused serious delays at the port. As at the date of this MDA, the Company has a number of containers awaiting clearance. However, a settlement of the strike appears imminent and whilst sales for January and February 2015 has been impacted by the port backlog, it is anticipated that all the affected products will be delivered to customers before the end of the quarter ended March 31, 2015.

Cost of sales

Cost of sales represents the cost of goods imported from China and the USA as well as other direct costs such as freight and import duties incurred to bring inventory to their current state and location.

For the quarter ended December 31, 2014, the Company incurred $1,663,853 on cost of sales compared to $1,433,373 for the quarter ended December 31, 2013. Gross profit for the quarter amounted to $1,378,551 (or 45% of sales) compared to $1,572,412 (or 52% of sales) in 2013. The decrease in gross margins is attributable to increased margin guarantee support provided to major retailers by the apparel division in order to support future sales growth in respect of current and new programs as well as the sales mix for the quarter, which comprised a higher than normal proportion of seasonal goods carrying lower margins as opposed to replenishment products.

General, administrative and operation expenses

Total general and administrative expenses for the first quarter of 2014 amounted to $800,630 compared to $571,138 in 2013 representing an increase of $229,492 or 40%. This increase in general and administrative expenses is attributable to severance payments of $93,000 to a former director of the company, addition staffing costs of $86,000 and increased regulatory costs of $50,000 incurred with respect to intelligent fabrics.

Selling and design costs

Selling and design costs for the quarter ended December 31, 2014 amounted to $642,301 compared to $622,421 in 2013, representing an increase of $19,880 or 3%.

Interest on current debt

Interest costs of $5,520 were incurred in the quarter in respect of the use of a bank operating line to fund current working capital needs compared to $4,838 in 2013.

Interest on secured loan

This expense comprises the interest expense incurred on a secured loan which was utilized to finance the acquisition of the Company's premises located in Markham, Ontario.

The Company incurred interest costs on this loan for the quarter ended December 31, 2014 of $11,676 compared to $12,962 for the prior comparable quarter in 2013. The reduction in interest costs is attributable to a reduction in the amount of the loan, which is being repaid at the rate of $10,000 per month.

Depreciation and amortization

Amortization of property, equipment and development costs increased from $47,030 in 2013 to $50,149 in 2014. This increase is mainly attributable to the amortization of deferred development expenses relating to available for sale antimicrobial products.

ASSETS, LIABILITIES AND SHARE CAPITAL ACTIVITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

As at		**December 31, 2014**		September 30, 2014
ASSETS				
CURRENT				
Cash	**$**	**587,736**	$	1,006,385
Accounts receivable		**2,275,720**		2,042,179
Inventory		**4,220,994**		4,412,215
Prepaid expenses and deposits		**269,867**		283,533
Foreign exchange forward contracts		**59,494**		59,828
		7,413,811		7,804,140
NON-CURRENT				
Property, plant and equipment		**2,517,229**		2,527,012
Deferred development costs		**719,271**		759,637
Deferred income taxes		**515,094**		453,594
Goodwill		**55,050**		55,050
		3,806,644		3,795,293
TOTAL ASSETS	**$**	**11,220,455**	$	11,599,433

ASSETS, LIABILITIES AND SHARE CAPITAL ACTIVITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY

As at		**December 31, 2014**		September 30, 2014
LIABILITIES				
CURRENT				
Bank indebtedness	**$**	**502,694**	$	251,904
Accounts payable and accrued liabilities		**953,165**		1,470,510
Income taxes payable		**377,211**		330,451
Current portion of loans payable		**120,000**		120,000
		1,953,070		2,172,865
NON-CURRENT				
Due to related parties		**882,695**		972,287
Loans payable		**950,000**		980,000
		1,832,695		1,952,287
TOTAL LIABILITIES		**3,785,765**		4,125,152
SHAREHOLDERS' EQUITY				
CAPITAL STOCK		**2,743,530**		2,722,194
WARRANTS		**704,861**		704,861
OPTIONS		**856,601**		757,308
NON-CONTROLLING INTEREST		**12,895**		12,210
RETAINED EARNINGS		**3,116,803**		3,277,708
TOTAL SHAREHOLDERS' EQUITY		**7,434,690**		7,474,281
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**11,220,455**	$	11,599,433

Summarized major financial statement balances:

	December 31, 2014 (Unaudited)	Sept 30, 2014 (Audited)	December 31, 2013 (Unaudited)
Assets	$ 11,220,455	$ 11,599,433	$ 10,336,611
Liabilities	$ 3,785,765	$ 4,125,152	$ 3,481,151
Shareholders' Equity	$ 7,434,690	$ 7,474,281	$ 6,855,460
Common shares outstanding	25,899,750	25,869,750	25,844,750
Options outstanding	1,620,000	1,650,000	1,525,000
Warrants outstanding	232,113	232,113	232,113

Assets

Total assets of the Company as at December 31, 2014, December 31, 2013 and September 30, 2014 were comprised primarily of cash, accounts receivable, investment tax credits receivable, inventories, deposits, prepaid expenses and other receivables, deferred development costs, deferred income taxes and property and equipment.

Cash on hand decreased from $1,006,385 as at September 30, 2014 to $587,736 at December 31, 2014 representing a decrease of $481,351. Refer to the liquidity, financing, and capital discussion below for detailed explanations of the Company's use of its cash during the quarter.

Accounts receivable increased from $2,042,179 at September 30, 2014 to $2,275,720 at December 31, 2014. This increase is attributable to the monthly timing of sales in the quarter compared to the comparable quarter of 2013.

There was a nominal decrease amount of inventories on hand, from $4,412,215 at September 30, 2014 to $4,220,994, as at December 31, 2014.

Changes in all other asset balances during the quarter were not significant.

Liabilities

As at December 31, 2014, the Company's liabilities totaled $3,785,765 of which current liabilities represented $1,953,070 and non-current liabilities represented $1,832,695. As at September 30, 2014, the Company's liabilities totaled $4,125,152, of which current liabilities represented $2,172,865 and non-current liabilities represented $1,952,287. The decrease in current liabilities is mainly attributable to the increase of $250,790 in the Company's bank operating line and a decrease of $517,345 in the amount of accounts payable and accrued liabilities.

Shareholders' equity

As at December 31, 2014, shareholders' equity amounted to $7,434,690 compared to $7,474,281 as at September 30, 2014, representing a decrease of $39,591. The decrease in shareholders' equity during the quarter resulted from the net loss of $160,220 during the quarter net of the value of options recognized and exercised during the quarter amounting to $120,629.

Outstanding share data

As at December 31, 2014, the Company had 25,899,750 common shares issued and outstanding, 1,620,000 stock options outstanding, exercisable at a weighted average price of $0.86 and 232,133 warrants outstanding, exercisable at a weighted average price of $5.10.

LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, the potential inability to raise additional funds through debt and/or equity financing to support of the Company's development and continued operations and to meet the Company's liabilities and commitments as they come due.

Working capital

Working capital represents current assets less current liabilities. As at December 31, 2014, the Company's working capital was $5,460,741 compared to working capital of $5,631,275 as at September 30, 2014 representing a decrease of $170,534. This decrease in working capital was mainly attributable to the net loss of $160,220 for the quarter.

Cash used in operating activities

During the quarter ended December 31, 2014, operating activities consumed cash of $561,846 as compared to an amount of $519,971 consumed in the comparable quarter of 2013. A reduction in the amount of accounts payable was the main contributor to the increased operating cash consumption of $41,875 in the quarter.

Cash used in investing activities

No cash was consumed by investing activities during the current quarter as opposed to cash of $13,271 consumed in 2013.

Cash provided by financing activities

Cash provided by financing activities for the quarter ended December 31, 2014 amounted to $143,197 and comprised the proceeds of $12,000 from the exercise of options and the use of $250,789 of the Company's bank operating line to repay debt of $119,592. By comparison, for the quarter ended December 31, 2013, financing activities provided $1,402,845 and was mainly comprised of net private placement proceeds of $1,430,288 from which $375,107 was applied in reduction of the balance owing on Company's bank operating line.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that would require disclosure.

TRANSACTIONS WITH RELATED PARTIES

During the quarter ended December 31, 2014, the Company was involved in the following related party transactions in which all transactions have been measured at the exchange amount (the amount established and agreed to by the related parties):

1. The CEO and CFO of the Company provide certain management advisory and accounting services to the Company. For the quarter, the Company incurred expenses of $85,500 (2013 - $65,000) for services rendered. Of these amounts, paid and accrued amounts for the CEO amounted to $50,000 (2013 – $30,000) and $35,500 (2013 - $35,000) was paid and accrued in respect of the CFO.

2. A director of the Company was paid $14,000 (2013 - $12,000) for the provision of technical services.

3. Salaries and benefits for other officers and directors of the Company amounted to $40,922 for the current quarter (2013 - $49,915).

4. An amount of $46,914 was expensed in respect of share based compensation resultant from the prior issuance of stock options to directors and officers of the company (2013 – $23,859)

5. Included in accounts payable and accrued liabilities is an amount of $25,000 ($45,000 as at September 30, 2014) due to Directors and key management personnel of the Company in respect of unpaid fees

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments comprise cash and bank indebtedness, accounts receivable, other receivables, accounts payable and accrued liabilities, loans payable, amounts due to related parties and forward exchange contracts.

These instruments are initially recognized at fair value with the carrying amount being reduced by any impairment loss, with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

Financial instruments that potentially subject the Company to credit risk consist of accounts receivable and prepayments and deposits. The credit risk that exists in this regard has been largely mitigated as a result of credit insurance maintained in respect of trade receivables.

As at December 31, 2014, the Company's debt consisted of:

- A bank loan of $1,070,000 secured by a first readvanceable mortgage over land and buildings and a General Security Agreement over the assets of a subsidiary company. The loan is repayable in monthly principal payments of $10,000 together with interest at the bank's prime rate plus 1.25% and full repayment is due May 31, 2023.
- Amounts due to related parties of $882,695. These amounts are currently unsecured, interest free and payable on demand. As the related parties have waived their right to demand repayment over the next 12 months, the loans have been classified as non-current liabilities.

SEGMENTED INFORMATION

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

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

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

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

The following segmented information pertains to the reportable segments for the quarters ended December 31, 2014 and 2013:

Operating Segments - Three months ended December 31, 2014

	Intimate Apparel	Intelligent Fabrics	Other Segments	Corporate Items and Eliminations	**Consolidated**
Revenues					
Third party	$ 2,892,071	$ 127,031	$ 23,302	$ -	**$ 3,042,404**
Inter-segment	309,000	-	38,835	(347,835)	**-**
Total Revenues	3,201,071	127,031	62,137	(347,835)	**3,042,404**
Earnings (loss) before income taxes	171,342	(302,727)	21,709	(67,284)	**(176,960)**

Operating Segments - Three months ended December 31, 2013

	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	419,960	(100,387)	4,895	(3,496)	320,972

COMMITMENTS

The following details the Company's commitments as at December 31, 2014:

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

2015	48,828
2016	64,080
2017	41,920
2018	10,740
	$ 165,568

(b) As at December 31, 2014, the Company had contracted to sell GBP £65,000 and sell USD $850,000. As well, the Company had contracted to buy USD $700,000.

For the three months ended December 31, 2014, there is an unrealized loss on foreign exchange of $334 (2013 - $21,579) included in the statement of earnings (loss) and comprehensive earnings (loss).

(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 during the year was renewed for an additional term of two years ending December 31, 2014, under the same terms as the prior agreement. As at the financial statements approval date, the Company is in the process of negotiating an extension of this agreement, including expanding the agreement to include additional apparel categories. Management anticipates that the new agreement will be executed in March, 2015.

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

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

SUBSEQUENT EVENTS

There we no material subsequent events that occurred between September 30, 2014 and the date of this MDA.

RISK FACTORS

Financial

iFabric will require additional financing to fund the expansion of iFabric. There can be no assurance that iFabric will be able to obtain adequate financing in the future, or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of development of certain of iFabric's business, and therefore affect its future cash flows, earnings, results of operations and financial condition.

Competition

iFabric faces significant competition in almost every aspect of its business, particularly from other companies that:
- Design, manufacture and distribute intimate apparel and accessories;
- Sell sprays, topical liquids and creams that repel biting insects when applied to the skin;
- Sell sprays, liquids, creams, chemicals and textiles which have the ability to kill bacteria;
- Sell sprays, topical liquids, creams and oral medication that assist with the healing of skin and the control of skin irritations; and
- Distribute chemicals that can be applied to textiles in order to kill bacteria.

Licensing Arrangements

iFabric will be reliant on a number of key licensing and distribution agreements and its future performance could be materially affected by a termination of one or more of such agreements. Termination could arise as a result of any of the following:
- Failure to pay royalties or advertising contributions;
- Failure to meet minimum purchase obligations;
- Failure to achieve minimum sales targets;
- The breach of a material covenant;
- Failure to ship licensed products to authorized customers;
- Failure to give notice of intention to renew within the stipulated time period

Key Personnel

The senior officers of the Company are critical to its success. In the event of the departure of a senior officer, the Company believes that it will be successful in attracting and retaining qualified successors but there can be no assurance of such success. Recruiting qualified personnel as the Company grows is critical to its success. As the Company's business activities grow, it will require additional key financial, administrative and technical personnel as well as additional operations staff. If the Company is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Technological Advancements

The chemical industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of the Company will depend on its ability to secure technological superiority in its products and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the Company will not be required in order to meet demands or to remain competitive.

Intellectual Property

The success of the Company will depend, in part, on its ability to maintain proprietary protection over its intellectual property and operate without infringing the proprietary rights of third parties. Despite precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's technologies without authorization. There can be no assurance that any steps taken by the Company will prevent misappropriation of its technologies.

Government Regulation and Regulatory Approvals

Future changes in government regulation could adversely affect the industries in jurisdictions in which the Company operates or intends to operate.

With regard to its intelligent textile technologies the Company is dependent on regulatory approvals or registrations and the legal systems in the markets in which it operates, such as the U.S. Environmental Protection Agency ("EPA") and Health Canada. The Company currently has certain EPA registrations and is in process of securing additional approvals from both the EPA and Health Canada. There is no certainty that such approvals will be granted and regulators could, even after granting such approvals, be stringent on non-compliance with regulatory requirements or change such requirements, which could have a material adverse effect on the Company's business and result in adverse publicity.

Customer Adoption

The Company's revenues in its Intelligent Fabrics Division are highly dependent on the willingness of consumers to purchase products based upon their awareness the benefits of such products. Different markets will require differing marketing strategies and the adoption of the Company's products may be slower than anticipated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of these financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities at the end of the reporting period. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant assumptions about the future that management has made and that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

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

Recoverability of deferred development costs:
Management deems all such costs as recoverable based on the pending Health Canada and the EPA approval of items under development as well as contracts with buyers, which are pending.

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

Estimated useful life of property, plant and equipment:
Management makes this estimate based on past experience with similar assets and future business plans.

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

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.

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

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

CHANGES IN ACCOUNTING POLICIES

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for annual periods beginning on or after January 1, 2014. As of October 1, 2014, the Company has adopted the following standards:

i) IAS 32, 'Financial Instruments: Presentation' was amended in December, 2011, clarifying the application of the offsetting requirements of financial assets and financial liabilities. The Company has assessed that the adoption of IAS 32 has no material impact on the financial statements.

ii) 'Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycle' were approved by the IASB in December, 2013. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The Company has assessed that no adjustments are necessary as a result of applying the revised rules.

FUTURE ACCOUNTING CHANGES

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

i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted. The IASB amended IFRS 9 in November, 2013 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The standard is not expected to have an impact on the Company's accounting for financial instruments and the Company has not yet decided when to adopt IFRS 9.