



2017

## **Iplayco Corporation Ltd.**

Consolidated Financial Statements

Years ended September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

# **Iplayco Corporation Ltd.**

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## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Iplayco Corporation Ltd. ("Iplayco" or "the Corporation") and management's discussion and analysis of financial condition and results of operations ("MD&A"), disclosed separately, are the responsibility of management and have been approved by the Board of Directors of the Corporation.

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The preparation of these consolidated financial statements requires that management make judgments, estimates and assumptions that affect the amounts reported in these consolidated financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances, in order to ensure fair presentation, in all material respects, of these consolidated financial statements in accordance with IFRS. Management has also prepared the MD&A, disclosed separately, on a basis that is consistent with these consolidated financial statements.

Iplayco maintains systems of internal controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving these consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board, and its three members are independent directors. The Audit Committee meets periodically with management and the independent auditors to discuss internal controls over financial reporting, auditing matters and financial issues, to ensure that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, the independent auditor's report, and the MD&A. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the independent auditors. The accompanying consolidated financial statements have been audited in accordance with Canadian generally accepted auditing standards by Deloitte LLP on behalf of the shareholders of Iplayco. Deloitte LLP has full and free access to the Audit Committee.

"Max Liszkowski, CPA, CA"

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*Chief Financial Officer and  
Corporate Secretary*

"Scott Forbes"

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*President & Chief Executive  
Officer and Director*

## Independent Auditor's Report

To the Shareholders of Iplayco Corporation Ltd.

We have audited the accompanying consolidated financial statements of Iplayco Corporation Ltd., which comprise the consolidated statements of financial position as at September 30, 2017 and September 30, 2016, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Iplayco Corporation Ltd. as at September 30, 2017 and September 30, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*/s/ Deloitte LLP*

Chartered Professional Accountants  
December 4, 2017  
Vancouver, British Columbia

**Iplayco Corporation Ltd.**  
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

		September 30,	
	Notes	2017	2016
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 4,491,700	\$ 5,109,026
Finance receivables	10, 21(b)(ii)	5,734,398	3,725,753
Trade and other receivables	21(b)(ii)	7,346,321	9,374,759
Income taxes receivable		-	585,969
Inventories	6	2,760,565	2,196,019
Prepaid expenses and deposits		435,589	446,808
		<b>20,768,573</b>	<b>21,438,334</b>
<b>Non-current assets</b>			
Equipment	7	2,244,451	1,998,516
Deferred income tax assets	19	87,891	97,513
<b>Total Assets</b>		<b>\$ 23,100,915</b>	<b>\$ 23,534,363</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Operating loans	9	\$ -	\$ 3,238,430
Securitization debt	10	5,160,958	3,461,314
Trade payables, accrued liabilities and other	13	1,923,290	2,350,610
Income taxes payable		449,780	-
Customer deposits and deferred revenue		2,001,344	1,830,897
Current portion of rent inducement	18	15,989	5,283
		<b>9,551,361</b>	<b>10,886,534</b>
<b>Non-current liabilities</b>			
Rent inducement	18	139,405	139,837
Deferred income tax liabilities	19	62,346	77,475
<b>Total Liabilities</b>		<b>9,753,112</b>	<b>11,103,846</b>
<b>Shareholders' Equity</b>			
Share capital		9,859,270	9,859,270
Warrants reserve		450,971	450,971
Share-based payments reserve		256,858	256,858
Retained earnings		2,780,704	1,863,418
<b>Total Shareholders' Equity</b>		<b>13,347,803</b>	<b>12,430,517</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 23,100,915</b>	<b>\$ 23,534,363</b>

**Commitments (Note 18)**

**Subsequent events (Note 23)**

"Scott Forbes"  
.....  
President & CEO

"Muhanad Awad"  
.....  
Chairman of the Board

The accompanying notes form an integral part of these Consolidated Financial Statements.

## Iplayco Corporation Ltd.

### Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in Canadian dollars, except number of shares)

		Years ended September 30,	
	Notes	2017	2016
<b>Sales</b>	16	<b>\$ 19,963,299</b>	\$ 17,023,914
Cost of sales	17	<b>11,172,994</b>	12,126,832
<b>Gross profit</b>		<b>8,790,305</b>	4,897,082
Selling and administrative expenses	17	<b>6,515,858</b>	5,885,800
Foreign exchange loss		<b>709,953</b>	220,262
		<b>7,225,811</b>	6,106,062
<b>Operating income (loss)</b>		<b>1,564,494</b>	(1,208,980)
Finance costs		<b>198,878</b>	114,715
<b>Income (loss) before income taxes</b>		<b>1,365,616</b>	(1,323,695)
<b>Income tax provision (recovery)</b>			
Current	19	<b>453,837</b>	(411,875)
Deferred	19	<b>(5,507)</b>	43,331
		<b>448,330</b>	(368,544)
<b>Net income (loss) and total comprehensive income (loss)</b>		<b>917,286</b>	(955,151)
<b>Basic and diluted net income (loss) per common share</b>		<b>\$ 0.04</b>	\$ (0.05)
<b>Weighted average number of common shares outstanding :</b>			
<b>Basic and diluted</b>		<b>20,870,187</b>	20,870,187

The accompanying notes form an integral part of these Consolidated Financial Statements.

## Iplayco Corporation Ltd.

### Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars, except number of common shares)

	Share capital <sup>(1)</sup>		Warrants reserve <sup>(2)</sup>	Share-based payments reserve <sup>(3)</sup>	Retained earnings	Total shareholders' equity
	Number of common shares	Amount				
<b>Balance at September 30, 2015</b>	20,870,187	\$ 9,859,270	\$ 450,971	\$ 256,858	\$ 2,818,569	\$ 13,385,668
Net loss and total comprehensive loss	-	-	-	-	(955,151)	(955,151)
<b>Balance at September 30, 2016</b>	20,870,187	\$ 9,859,270	\$ 450,971	\$ 256,858	\$ 1,863,418	\$ 12,430,517
<b>Net income and total comprehensive income</b>	-	-	-	-	<b>917,286</b>	<b>917,286</b>
<b>Balance at September 30, 2017</b>	<b>20,870,187</b>	<b>\$ 9,859,270</b>	<b>\$ 450,971</b>	<b>\$ 256,858</b>	<b>\$ 2,780,704</b>	<b>\$ 13,347,803</b>

<sup>(1)</sup> Authorized share capital is comprised of an unlimited number of voting common shares without par value and an unlimited number of preferred shares without par value. The preferred shares may be issued as either voting or non-voting. No preferred shares have been issued.

<sup>(2)</sup> The warrants reserve is comprised of the grant date fair value of share purchase warrants that have expired unexercised.

<sup>(3)</sup> The share-based payments reserve is comprised of the grant date fair value of share options that have expired unexercised.

The accompanying notes form an integral part of these Consolidated Financial Statements.

**Iplayco Corporation Ltd.**  
Consolidated Statements of Cash Flows  
*(Expressed in Canadian dollars)*

		Years ended September 30,	
	Notes	2017	2016
<b>Operating activities</b>			
Net income (loss)		\$ 917,286	\$ (955,151)
Items not affecting cash			
Depreciation	7	437,727	370,996
Deferred income tax expenses (recoveries)	19	(5,507)	43,331
Rent inducement		10,274	8,217
Unrealized loss on foreign exchange derivatives	13, 21(b)	29,407	60,716
Loss on disposal of equipment		19,757	-
Unrealized foreign exchange loss (gain)		392,361	(71,606)
Finance costs		198,878	114,715
		<b>2,000,183</b>	<b>(428,782)</b>
Change in non-cash operating working capital			
Finance receivables		(1,860,231)	(3,688,810)
Trade and other receivables		1,492,159	(2,383,916)
Inventories		(564,546)	(61,154)
Prepaid expenses		11,219	319,410
Trade payables, accrued liabilities and other		(468,351)	170,831
Current income tax expense	19	453,837	(411,875)
Customer deposits and deferred revenue		170,447	855,159
		<b>(765,466)</b>	<b>(5,200,355)</b>
Interest paid		(198,878)	(71,831)
Income taxes recovered		584,681	-
<b>Cash provided by (used in) operating activities</b>		<b>1,620,520</b>	<b>(5,700,968)</b>
<b>Investing activities</b>			
Acquisition of IREC Corporation, net of cash acquired	12	-	(172,800)
Purchase of equipment	7	(694,564)	(580,885)
<b>Cash used in investing activities</b>		<b>(694,564)</b>	<b>(753,685)</b>
<b>Financing activities</b>			
Proceeds from operating loans	9	4,810,402	5,485,212
Repayment of operating loans	9	(8,048,832)	-
Proceeds from securitization debt		8,350,909	1,145,120
Repayment of securitization debt		(6,517,692)	-
<b>Cash provided by (used in) financing activities</b>		<b>(1,405,213)</b>	<b>6,630,332</b>
<b>Net increase (decrease) in cash</b>		<b>(479,257)</b>	<b>175,679</b>
Effect of foreign exchange rate changes on cash		(138,069)	(13,677)
Cash at beginning of the year		5,109,026	4,947,024
<b>Cash at end of the year</b>		<b>\$ 4,491,700</b>	<b>\$ 5,109,026</b>
<b>Supplemental cash flow disclosures - non cash transactions</b>			
Purchase of equipment	7	\$ 8,855	\$ 23,520
Settlement of operating loans with proceeds from securitization debt	9	5,073,215	2,282,945

The accompanying notes form an integral part of these Consolidated Financial Statements.



# **Iplayco Corporation Ltd.**

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

#### **1. Nature of business and corporate information**

Iplayco Corporation Ltd. (the "Corporation") is incorporated under the Alberta Business Corporations Act and its common shares trade on the TSX Venture Exchange under the trading symbol "IPC".

The Corporation's business is carried out through its wholly owned subsidiaries, International Play Company Inc. ("IPC"), Iplayco Inc. ("IPI"), Iplayco Canada Inc. ("ICI"), Outdoor Play Company Inc. ("OPC"), and IREC Corporation ("IREC"). The Corporation operates in two business segments: (i) Manufacturing of play structures for children from its production plants in Langley, British Columbia, Canada, and Subic Bay, Philippines; and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada.

The Corporation's head office is located at 215, 27353 – 58<sup>th</sup> Crescent, Langley, British Columbia, Canada V4W 3W7, and its registered office is located at 1600, 421 – 7<sup>th</sup> Avenue SW, Calgary, Alberta, Canada T2P 4K9.

#### **2. Basis of preparation and adoption of International Financial Reporting Standards**

##### *Statement of compliance*

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These Consolidated Financial Statements were authorized for issue by the Board of Directors on December 4, 2017.

##### *Basis of measurement*

These Consolidated Financial Statements have been prepared on a going-concern basis, under the historical cost convention.

##### *Functional and presentation currency*

The functional and presentation currency of the Corporation and its subsidiaries is the Canadian dollar.

#### **3. Significant accounting policies**

##### *Basis of consolidation*

These Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries. Subsidiaries are entities over which the Corporation exercises control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities, which is generally the case when owning more than half of the voting rights. The accounts of subsidiaries are included in Consolidated Financial Statements from the date that control commences to the date that control ceases. Intercompany balances, transactions and revenues and expenses have been eliminated in the Consolidated Financial Statements. The accounting policies of the Corporation's subsidiaries are consistent with the policies adopted by the Corporation.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Corporation and its subsidiaries at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at each reporting date. The resulting exchange gains and losses are recognized through net income and total comprehensive income. Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis in net income (loss) and total comprehensive income (loss).

#### *Financial instruments*

##### (i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated and all other financial assets on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset.

#### Financial assets at fair value through net income (loss) and total comprehensive income (loss):

Financial assets are classified at fair value through net income (loss) and total comprehensive income (loss) if they are held for trading or if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's treasury policies. Financial assets at fair value through net income (loss) and total comprehensive income (loss) are measured at fair value, with changes to their fair value recognized through net income (loss) and total comprehensive income (loss).

#### Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, net of transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of the Corporation's cash, cash equivalents, finance receivables, and trade and other receivables.

The Corporation's cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less.

#### Determination of fair value:

The fair value of financial assets at fair value through net income (loss) and total comprehensive income (loss) and available-for-sale are determined by reference to their quoted closing bid price at the reporting date if they are traded in an active market. For derivative instruments, including foreign exchange forward contracts, fair value is estimated based on forward exchange rates, from observable forward exchange rates at the end of the reporting period, and contract forward rates, discounted at a rate that reflects the credit risk of the counterparties. The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

#### (ii) Financial liabilities

Financial liabilities are comprised of the Corporation's operating loans, securitization debt, and trade payables and accrued liabilities. The financial liabilities are initially recognized on the date they are originated and are derecognized when the contractual obligations are discharged or cancelled or expire. These financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently are measured at amortized cost using the effective interest method. Fair value is determined based on the present value of future cash flows, discounted at the market rate of interest.

#### *Inventories*

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes materials, labour and appropriate share of production overhead based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In establishing any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand and design, which would impair the value of inventory on hand.

#### *Equipment and depreciation*

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components).

Equipment is amortized from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use, using the following methods less residual value over the estimated useful lives of the assets as follows:

Automotive	30% declining balance
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Machinery and equipment	20% declining balance
Moulds	30% declining balance
Leasehold improvements	Straight-line over lease term

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted as appropriate.

Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net in net income (loss) and total comprehensive income (loss).

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Leases*

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset together with a corresponding long-term liability is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset and the liability is measured at amortized cost using the effective interest rate method. Other leases are operating leases and not recognized in the statement of financial position.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized through net income (loss) and total comprehensive income (loss) on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the lease expense over the term of the lease.

#### *Impairment*

##### (i) Financial assets

Financial assets not carried at fair value through net income (loss) and total comprehensive income (loss) are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

##### (ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets other than inventories and income taxes are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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. For the purposes 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 groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized through net income (loss) and total comprehensive income (loss). Impairment losses recognized in respect of the cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

For non-financial assets other than goodwill, 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 only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Provisions*

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

#### *Revenue recognition*

The Corporation generates revenue from the following principle sources:

- The sale and installation of play structure equipment by its manufacturing operations (“Manufacturing Operations”); and
- Admission fees, redemption games, and the sale of concession goods by its family entertainment centre operations (“FEC Operations”).

Revenue is measured at the fair value of the consideration received or receivable.

#### (i) Revenue Recognition – Manufacturing Operations

Revenue from the sale of equipment is recognized when all the following conditions are satisfied:

- The Corporation has transferred to the customer the significant risks and rewards of ownership of the equipment;
- The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the equipment sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Arrangements that include the sale of equipment and installation services are accounted for as multiple element revenue transactions. The equipment and the installation services are separate units of accounting in the arrangement because the equipment has stand-alone value, as it is sometimes sold separately, and because there are no general return or refund rights. Arrangement consideration is allocated to the separate units of accounting based on their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable is determined using vendor-specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Corporation uses its best estimate of the selling price for that deliverable when applying the relative selling price method.

None of the amount allocable to the equipment is contingent upon performing the installation. The consideration allocated to the installation services is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue upon completion of the installation of equipment and when the Corporation’s obligations have been fulfilled.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Revenue recognition (continued)*

On long-term fixed price contracts for the sale of larger play structures, revenues are recognized on the percentage of completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the reporting date by the sum of incurred and anticipated costs for completing the contract. The cumulative effect of changes to anticipated revenues and anticipated costs for completing the contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on the contract, such loss is recognized in its entirety in the period it becomes known.

Amounts received from customers in excess of revenue recognized on uncompleted contracts are recorded as deferred revenue.

#### (ii) Revenue Recognition – FEC Operations

Revenue from admission fees, redemption games, and the sale of concession goods are recognized at the point of sale. Amounts received from customers for future admissions are recorded as customer deposits.

#### *Finance costs*

Finance costs are comprised of interest expense on loans, finance leases, unwinding of the discount on provisions and impairment losses recognized on financial assets.

#### *Income taxes*

Income taxes are comprised of current and deferred income taxes. Income tax is recognized in net income (loss) and total comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible for income tax purposes. Current income tax is calculated using income tax rates and laws that were enacted or substantively enacted at the reporting date.

Deferred income tax is recorded using the liability method. Under this method, the Corporation calculates temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the period end date. Deferred income tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using income tax rates that are expected to apply to the year of realization or settlement based on income tax rates and laws enacted or substantively enacted at the period end date.

Temporary differences are not recorded for the initial recognition of assets or liabilities that do not affect accounting or taxable profit and differences relating to investments in subsidiaries, to the extent that the Corporation is able to control the reversal of such differences, and it is probable that such differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Income taxes (continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the Corporation intends to settle its current income tax assets and liabilities on a net basis.

#### *Employee future benefits*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income (loss) and total comprehensive income (loss) in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Corporation's defined contribution plan is a group registered retirement savings plan ("Group Plan") in which full-time employees are eligible to participate. The Group Plan provides for eligible employees to receive matching contributions from the Corporation at pre-defined rates.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash or share bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### *Share-based compensation plan*

The Corporation uses the fair-value based method of accounting for share-based compensation for all awards of share options granted. The resulting compensation expense, based on the fair value of the awards granted is charged through net income (loss) and total comprehensive income (loss) over the period that the employees unconditionally become entitled to the award, with a corresponding increase to the share-based payments reserve. Fair values of share options are calculated using the Black-Scholes valuation method as of the grant date and estimated for forfeitures. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

At each reporting date, the Corporation reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision through net income (loss) and total comprehensive income (loss) with a corresponding adjustment to equity.

The Corporation issues share options under its share-based compensation plans as described in Note 15. Any consideration paid by employees on exercise of share options or purchase of shares, together with the amount initially recorded in the share-based payments reserve, is credited to share capital.

#### *Net income per share*

Basic net income per common share is calculated using the weighted average number of common shares outstanding during the year. Diluted net income per share reflects the potential dilution of common share equivalents, such as outstanding stock options, if any, in the weighted average number of common shares outstanding during the year, if dilutive.

# **Iplayco Corporation Ltd.**

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

#### **3. Significant accounting policies (continued)**

##### *Net income per share (continued)*

For this purpose, the “treasury stock method” is used for the assumed proceeds upon the exercise of outstanding stock options that are used to purchase common shares at the average market price during the period.

##### *Segment reporting*

An operating segment is a component of the Corporation 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 Corporation’s other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Corporation’s operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the Corporation’s President & Chief Executive Officer. The Corporation’s President & Chief Executive Officer is considered the chief operating decision-maker and has the authority for resource allocation and is responsible for assessing the Corporation’s performance.

#### **4. Critical accounting estimates and judgments**

The preparation of these Consolidated Financial Statements requires the Corporation’s management to make judgments, estimates and assumptions that affect the amounts reported in these financial statements and the accompanying notes. Actual results may differ from those estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions critical to the determination of carrying value of the Corporation’s assets and liabilities are discussed below:

##### *Functional currency*

The Corporation has performed an analysis with respect to its functional currency and that of its subsidiaries. For the Corporation and its subsidiary OPC, substantially all revenues and operating expenses are denominated in Canadian dollars. For the Corporation’s subsidiaries IPC, IPI and ICI, revenues are primarily denominated in U.S. dollars and the majority of operating expenditures are denominated in Canadian dollars. Sales contracts are costed in Canadian dollars and receipts from operating activities denominated in U.S. dollars are usually converted and retained in Canadian dollars. For the Corporation’s subsidiary IREC, its operations are funded by IPC. The Corporation has concluded that the Canadian dollar is the currency that mainly influences the cost of providing goods and services by the Corporation and its subsidiaries.



# **Iplayco Corporation Ltd.**

## Notes to Consolidated Financial Statements

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#### **4. Critical accounting estimates and judgments (continued)**

##### *Revenue*

Revenue recognized on the percentage of completion basis consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the reporting date by the sum of incurred and anticipated costs for completing the contract. Changes in management's estimated costs to complete a contract may result in an adjustment to previously recognized revenues.

##### *Allowance for doubtful accounts and sales adjustments*

In determining whether trade receivables are collectible from customers, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from management's estimates, future earnings would be affected.

##### *Inventory*

In determining the lower of cost and net realizable value of inventory and in establishing the appropriate impairment amount for inventory obsolescence, management estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in design which could make inventory on hand obsolete or recoverable at less than the recorded value. Management performs regular reviews to assess the impact of changes in design, sales trends and other changes on the carrying value of inventory. Where it is determined that such changes have occurred and will have an impact on the value of inventory on hand, appropriate adjustments are made. If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions, being required.

##### *Equipment*

Management estimates the useful lives of equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear or commercial obsolescence. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Corporation's equipment in the future.

##### *Income taxes*

The Corporation's manufacturing operations generates sales from customers located in various tax jurisdictions and as a result, the Corporation's income may become subject to taxation in those jurisdictions. The complexity of tax regulations requires assessments of uncertainties and judgments in estimating the taxes the Corporation will ultimately pay. The final taxes paid may be dependent upon many factors, including negotiations with various taxing authorities, outcomes of potential tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these potential uncertainties and the associated final taxes may result in adjustments to the Corporation's tax assets and tax liabilities.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

#### 4. Critical accounting estimates and judgments (continued)

##### *Income taxes (continued)*

The Corporation estimates deferred income taxes based upon temporary differences between the assets and liabilities that it reports in its Consolidated Financial Statements and the tax bases of its assets and liabilities as determined under applicable tax laws. The amount of deferred tax assets recognized is generally limited to the extent that it is probable that taxable profit will be available against which the related deductible temporary differences can be utilized. Therefore, the amount of the deferred income tax asset recognized and considered realizable could be reduced if projected income is not achieved.

#### 5. New accounting pronouncements

The following applicable pronouncements issued by the IASB are effective for the Corporation's annual accounting periods after September 30, 2017. The Corporation is assessing the impact of these new standards on its Consolidated Financial Statements:

##### *Revenues recognition*

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes current revenue recognition guidance, including IAS 18 – Revenue, IAS 11 – Construction Contracts, and related interpretations. IFRS 15 establishes a single five-step model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

##### *Financial instruments*

In July 2014, the IASB issued IFRS 9 – Financial Instruments (“IFRS 9”) to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single model for impairment. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

##### *Leases*

In January 2017, the IASB issued IFRS 16 – Leases, which brings most leases onto the statement of financial position by eliminating the different accounting treatment applied by lessees to operating leases as compared to finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

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**6. Inventories**

	September 30,	
	2017	2016
Raw materials	\$ 1,748,152	\$ 1,572,856
Work in progress	167,072	296,480
Finished goods	845,341	326,683
<b>Total inventory</b>	<b>\$ 2,760,565</b>	<b>\$ 2,196,019</b>

Inventories included in cost of sales for the year ended September 30, 2017 amount to \$7,272,769 (September 30, 2016 - \$6,737,970).

The following table reflects the movement in allowance for inventory obsolescence:

	September 30,	
	2017	2016
Balance at beginning of year	\$ -	\$ 70,084
Write-offs	-	(64,154)
Increase (reversal) of allowance	-	(5,930)
<b>Balance at end of year</b>	<b>\$ -</b>	<b>\$ -</b>

**Iplayco Corporation Ltd.**  
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**7. Equipment**

	Automotive	Computer Equipment	Furniture and Fixtures	Machinery and Equipment	Moulds	Leasehold Improvements	Total
Carrying amount at September 30, 2015	\$ 54,480	\$ 253,648	\$ 110,387	\$ 669,347	\$ 71,452	\$ 558,212	\$ 1,717,526
Additions from business combination (Note 12)	20,553	5,975	2,440	18,613	-	-	47,581
Additions	3,927	104,175	75,116	77,947	850	342,390	604,405
Depreciation	(17,380)	(79,478)	(25,092)	(130,866)	(18,894)	(99,286)	(370,996)
<b>Carrying amount at September 30, 2016</b>	<b>\$ 61,580</b>	<b>\$ 284,320</b>	<b>\$ 162,851</b>	<b>\$ 635,041</b>	<b>\$ 53,408</b>	<b>\$ 801,316</b>	<b>\$ 1,998,516</b>
Balance at September 30, 2016 comprised of:							
Cost	\$ 104,845	\$ 575,850	\$ 288,628	\$ 1,968,338	\$ 196,921	\$ 1,378,471	\$ 4,513,053
Accumulated depreciation	(43,265)	(291,530)	(125,777)	(1,333,297)	(143,513)	(577,155)	(2,514,537)
Carrying amount	\$ 61,580	\$ 284,320	\$ 162,851	\$ 635,041	\$ 53,408	\$ 801,316	\$ 1,998,516
<b>Carrying amount at September 30, 2016</b>	<b>\$ 61,580</b>	<b>\$ 284,320</b>	<b>\$ 162,851</b>	<b>\$ 635,041</b>	<b>\$ 53,408</b>	<b>\$ 801,316</b>	<b>\$ 1,998,516</b>
Additions	20,822	107,325	11,977	471,005	6,000	86,290	703,419
Disposals	-	(205)	-	(19,552)	-	-	(19,757)
Depreciation	(20,278)	(91,659)	(30,617)	(158,123)	(15,451)	(121,599)	(437,727)
<b>Carrying amount at September 30, 2017</b>	<b>\$ 62,124</b>	<b>\$ 299,781</b>	<b>\$ 144,211</b>	<b>\$ 928,371</b>	<b>\$ 43,957</b>	<b>\$ 766,007</b>	<b>\$ 2,244,451</b>
Balance at September 30, 2017 comprised of:							
Cost	\$ 125,667	\$ 683,173	\$ 300,605	\$ 2,400,398	\$ 202,921	\$ 1,466,761	\$ 5,179,525
Accumulated depreciation	(63,543)	(383,392)	(156,394)	(1,472,027)	(158,964)	(700,754)	(2,935,074)
Carrying amount	\$ 62,124	\$ 299,781	\$ 144,211	\$ 928,371	\$ 43,957	\$ 766,007	\$ 2,244,451

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

#### 8. Credit facilities

The Corporation has the following credit facilities, as amended on May 17, 2017, (the "Credit Facilities") with a large Canadian financial institution (the "Bank"):

##### *(a) Overdraft Facility*

The Overdraft Facility is a demand revolving loan of up to \$600,000 bearing interest at the bank's prime rate plus 1.50% per annum and margined by trade receivables and certain equipment of the Corporation.

At September 30, 2017 and 2016, no amounts were drawn under this facility.

##### *(b) Export Loan Facility*

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. \$4,000,000 (\$4,992,000 in Canadian dollars) ("Operating Loan Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. \$7,920,000 (\$9,884,000 in Canadian dollars) ("Securitization Facility").

##### Operating Loan Facility

Under the Operating Loan Facility, the Corporation may finance up to 60% of customer purchase orders approved by the Bank. The Operating Loan Facility bears interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 4.00% per annum and is payable on demand or within 160 days of funding (see Note 9).

##### Securitization Facility

Under the Securitization Facility, the Corporation may sell to the Bank select insured trade receivables net of a discount fee of USD LIBOR plus 3.50% (see Note 10).

##### *(c) Foreign Exchange Loan Facility*

The Foreign Exchange Loan Facility is a demand revolving line of U.S. \$1,840,000 (\$2,296,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$9,984,000 in Canadian dollars), with a maximum maturity of 12 months (see Note 21(b)(i)b)).

The Credit Facilities are governed and secured by a general security agreement creating a first priority security interest in all property of the Corporation. The conditions of credit include compliance with various covenants. At September 30, 2017, all financial ratios and tests have been met.

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**9. Operating loans**

For the years ended September 30, 2017 and 2016, the Corporation obtained the following proceeds in U.S. dollars from operating loans and made the following repayments in U.S. dollars using proceeds from the sale of select trade receivables under its Securitization Facility:

	<b>Carrying Amounts</b>	
	U.S. dollars	Canadian dollars
Balance at September 30, 2015	-	-
Proceeds from operating loans	4,198,680	<b>5,485,212</b>
Repayment of operating loans	(1,729,800)	<b>(2,247,183)</b>
Repayment using proceeds from securitization debt	-	<b>(35,762)</b>
Net realized foreign exchange loss on repayment	-	<b>36,163</b>
Balance at September 30, 2016	\$ 2,468,880	\$ <b>3,238,430</b>
Proceeds from operating loans	3,588,543	<b>4,810,402</b>
Repayment of operating loans	(2,226,543)	<b>(2,862,064)</b>
Repayment using proceeds from securitization debt	(3,830,880)	<b>(5,022,703)</b>
Net realized foreign exchange gain on repayment	-	<b>(164,065)</b>
<b>Balance at September 30, 2017</b>	<b>\$ -</b>	<b>\$ -</b>

**10. Finance receivables and securitization debt**

The carrying amounts of finance receivables are comprised of U.S. dollar denominated trade receivables, which have been sold to a large Canadian financial institution (the "Bank"), net of a retainer, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses. The finance receivables are due to the Bank on or before the January 2, 2018 at which time the securitization debt is extinguished and the retainer is remitted to the Corporation.

	<b>September 30,</b>			
	<b>2017</b>		<b>2016</b>	
	U.S. dollars	Canadian dollars	U.S. dollars	Canadian dollars
<b>Finance receivables</b>	\$ 4,594,870	\$ <b>5,734,398</b>	\$ 2,840,400	\$ <b>3,725,753</b>
Less: Retainer	(459,487)	<b>(573,440)</b>	(201,600)	<b>(264,439)</b>
<b>Securitization debt</b>	\$ 4,135,383	\$ <b>5,160,958</b>	\$ 2,638,800	\$ <b>3,461,314</b>

Upon completion of the sale, the finance receivables are not derecognized since the Corporation does not transfer substantially all risks and rewards relevant to the sale of the finance receivables. The servicing of the finance receivables remains the responsibility of the Corporation and the Bank retains the right of recourse against the Corporation if any finance receivable is not collected by the Bank on its due date. Any finance receivable not collected by the Bank on its due date is subject to payment upon demand to the Bank at the Bank's U.S. dollar annual prime rate plus 3.00% per annum payable monthly in arrears.

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**11. Related party transactions**

The Corporation's ultimate parent company, Saudi FAS Holding Company, controls various other entities, which are also customers of the Corporation (the "Affiliates"). The Corporation recorded the following sales in U.S. dollars to the Affiliates:

	Years ended September 30,	
	2017	2016
Sales in U.S. dollars	\$ 4,975,955	\$ 5,876,516
<b>Equivalent in Canadian dollars</b>	<b>6,556,563</b>	<b>7,778,083</b>

The Corporation's finance receivables include the following amounts denominated in U.S. dollars that are due from the Affiliates:

	September 30,	
	2017	2016
Balance in U.S. dollars	\$ 4,594,870	\$ 2,840,400
<b>Equivalent in Canadian dollars</b>	<b>5,734,398</b>	<b>3,725,753</b>

The Corporation's trade and other receivables include the following amounts denominated in U.S. dollars that are due from the Affiliates:

	September 30,	
	2017	2016
Balance in U.S. dollars	\$ 4,867,487	\$ 6,659,740
<b>Equivalent in Canadian dollars</b>	<b>6,074,624</b>	<b>8,735,580</b>

**12. Business combination**

On June 1, 2016, the Corporation acquired all of the issued and outstanding shares of IREC Corporation ("IREC") for an aggregate purchase price of \$197,000 payable in cash. Prior to this transaction, IREC was controlled by a party related to the President & CEO of the Corporation. IREC is a private company based in the Philippines and carries on the business of manufacturing various components for children's playground equipment.

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**12. Business combination (Continued)**

The fair value of the identifiable assets acquired and liabilities assumed at June 1, 2016 are as follows:

Assets acquired	
Cash	\$ 24,200
Inventories	126,555
Prepaid expenses and deposits	25,454
Equipment	47,581
<b>Total assets acquired</b>	<b>223,790</b>
Liabilities assumed	
Trade payables, accrued liabilities and other	26,790
<b>Total liabilities assumed</b>	<b>26,790</b>
<b>Net assets acquired</b>	<b>\$ 197,000</b>

From June 1, 2016 to September 30, 2016, IREC had operating expenses of \$84,015 and sales of \$5,198 to external customers. For the year ended September 30, 2017, IREC had operating expenses of \$412,289 and sales of \$236,041 to external customers. IREC supplies IPC and IREC's operations are funded by IPC. IREC's operating activities are included in the Corporation's manufacturing business segment.

**13. Trade payables, accrued liabilities and other**

	September 30,	
	2017	2016
Trade payables	\$ 591,271	\$ 1,280,792
Accrued liabilities	1,205,673	981,218
Foreign exchange financial derivative	31,039	60,716
Warranty provision	95,307	27,884
	<b>\$ 1,923,290</b>	<b>\$ 2,350,610</b>

**14. Share capital**

*Basic and diluted net income per common share*

For the years ended September 30, 2017 and 2016, there was no potential dilution of common shares.



**Iplayco Corporation Ltd.**  
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**15. Share options**

The Corporation has an incentive share option plan (the "Option Plan"). Under the terms of this Option Plan, the Board of Directors may grant incentive share options to directors and employees of the Corporation, and the exercise price is generally determined by reference to the market price of the Corporation's shares on the grant date. Vesting and expiry of options may vary at the discretion of the Corporation's Compensation Committee, subject to the rules of the stock exchange. The contractual life of the options is generally for one year. The total number of shares issuable pursuant to the Option Plan cannot exceed 10% of the issued and outstanding shares.

The maximum number of share options available to be granted under the Option Plan as at September 30, 2017 and 2016 is 2,087,018.

There are no share options outstanding at September 30, 2017 and 2016.

**16. Sales contracts**

The Corporation recorded the following sales and related direct costs, receivables, deposits and deferred revenue from fixed-priced sales contracts recognized using the percentage of completion basis of accounting in accordance with the revenue recognition policies described in Notes 3 and 4:

	Years ended September 30,	
	2017	2016
Sales	\$ 9,022,172	\$ 7,549,686
Direct costs incurred	5,460,621	4,439,698
	<b>\$ 3,561,551</b>	<b>\$ 3,109,988</b>
	September 30,	
	2017	2016
Unbilled receivables	\$ -	\$ 6,009,680
Customer deposits and deferred revenue	198,535	159,738

**17. Cost of sales and selling and administrative expenses**

	Years ended September 30,	
	2017	2016
Cost of materials	\$ 4,663,032	\$ 5,829,119
Shipping, installation and other	3,331,956	3,593,101
Short-term employee benefits	2,953,720	2,534,936
Post-employment benefits	21,211	19,799
Depreciation	203,075	149,877
<b>Total cost of sales</b>	<b>\$ 11,172,994</b>	<b>\$ 12,126,832</b>

**Iplayco Corporation Ltd.**  
Notes to Consolidated Financial Statements  
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**17. Cost of sales and selling and administrative expenses (continued)**

	Years ended September 30,	
	2017	2016
Short-term employee benefits	\$ 2,508,231	\$ 2,426,597
Post-employment benefits	71,737	68,549
Marketing, advertising and related expenditures	625,637	602,906
Travel and related expenditures	414,378	387,415
Rent, utilities, telecom and occupancy costs	1,562,068	1,303,526
Professional fees and insurance costs	958,544	801,256
Depreciation	234,651	221,087
Bank charges and bad debts	140,612	74,464
<b>Total selling and administrative expenses</b>	<b>\$ 6,515,858</b>	<b>\$ 5,885,800</b>

Selling and administrative expenses include the following compensation paid to executive management personnel, comprised of the Corporation's President & Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer:

	Years ended September 30,	
	2017	2016
Short-term employee benefits	\$ 810,176	\$ 636,857
Post-employment benefits	32,000	32,000
	<b>\$ 842,176</b>	<b>\$ 668,857</b>

**18. Commitments**

The Corporation leases premises and certain equipment under long-term operating lease agreements that expire at various dates to September 30, 2022. At September 30, 2017, the future minimum lease payments, including estimated occupancy costs, are as follows:

	September 30, 2017
Due within 1 year	\$ 1,152,679
Between 1 year and 5 years	2,634,732
	<b>\$ 3,787,411</b>

For the year ended September 30, 2017, selling and administrative expenses include operating lease costs of \$1,097,075 (September 30, 2016 - \$911,757).

At September 30, 2017 and 2016, rent inducements consist of rent abatement periods and escalating rent from various operating leases for office and warehouse space.

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**19. Income taxes**

The approximate tax effect of temporary differences for income tax purposes that gives rise to the Corporation's deferred income tax assets and liabilities is as follows:

	September 30,	
	2017	2016
<b>Net deferred income tax assets at beginning of the year</b>	<b>\$ 20,038</b>	<b>\$ 63,369</b>
Deferred income tax recovery (provision)	5,507	(43,331)
<b>Net deferred income tax assets at end of the year</b>	<b>\$ 25,545</b>	<b>\$ 20,038</b>
Components of deferred income tax assets:		
Timing differences on rent inducement and various accrued expenses	\$ 112,171	\$ 81,983
Share issuance costs	43,038	63,655
	<b>155,209</b>	<b>145,638</b>
Component of deferred income tax liabilities:		
Equipment	(129,664)	(125,600)
<b>Net deferred income tax assets at end of the year</b>	<b>\$ 25,545</b>	<b>\$ 20,038</b>
Aggregation by taxable entity:		
<b>Deferred income tax assets</b>	<b>\$ 87,891</b>	<b>\$ 97,513</b>
<b>Deferred income tax liabilities</b>	<b>(62,346)</b>	<b>(77,475)</b>
<b>Net deferred income tax assets at end of the year</b>	<b>\$ 25,545</b>	<b>\$ 20,038</b>

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**19. Income taxes (continued)**

The future benefit of the deductible temporary differences, that gives rise to the deferred income tax assets, has been recognized in these Consolidated Financial Statements as management estimates that it is probable the future income tax benefit will be utilized.

At September 30, 2017 and 2016, the Corporation had capital losses carried forward for income tax purposes of \$51,750 for which the benefit was recognized in the subsequent year.

The Corporation's effective income tax rate differs from the combined Canadian federal and provincial statutory income tax rate for manufacturing and processing companies. The principal factors causing the difference are as follows:

	Years ended September 30,	
	2017	2016
Income (loss) before income taxes	\$ 1,365,616	\$ (1,323,695)
Combined Canadian and provincial statutory income tax rate	26.00%	26.00%
Expected income tax expense	\$ 355,060	\$ (344,161)
Effect of income tax expense (recovery) in foreign jurisdictions	80,267	(33,505)
Non-deductible expenses and other	13,003	9,122
<b>Income tax provision</b>	<b>\$ 448,330</b>	<b>\$ (368,544)</b>
<b>Effective income tax rate</b>	<b>32.83%</b>	<b>27.84%</b>
Allocation of income tax provision:		
<b>Current</b>	<b>\$ 453,837</b>	<b>\$ (411,875)</b>
<b>Deferred</b>	<b>(5,507)</b>	<b>43,331</b>
	<b>\$ 448,330</b>	<b>\$ (368,544)</b>

**20. Capital management**

The Corporation's capital is comprised of operating loans, securitization debt and shareholders' equity as follows:

	September 30,	
	2017	2016
Operating loans	\$ -	\$ 3,238,430
Securitization debt	5,160,958	3,461,314
Shareholders' equity	13,347,803	12,430,517
	<b>\$ 18,508,761</b>	<b>\$ 19,130,261</b>

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**20. Capital management (continued)**

The Corporation's objective, when managing capital, is to maintain sufficient liquidity for normal operating and capital expenditures, while maintaining an adequate return for shareholders.

The Corporation funds its working capital requirements in part with cash and cash equivalents, and available credit facilities described in Note 8, which include an overdraft facility of \$600,000, an operating loan facility of U.S. \$4,000,000 (\$4,992,000 in Canadian dollars), and a securitization facility of U.S. \$7,920,000 (\$9,884,000 in Canadian dollars). The credit facilities are subject to annual renewals.

The Corporation chooses securitization as part of its capital strategy to limit its credit risk when offering extended credit terms to certain customers with larger orders. Although the servicing of finance receivables remains the responsibility of the Corporation, securitization debt is non-recourse to the Corporation and the retainer of 10% represents the Corporation's maximum exposure to impaired finance receivables.

The Corporation's debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At September 30, 2017, all financial ratios and tests have been met.

The Corporation manages its capital structure to maintain the flexibility to adjust to changes in economic conditions and to respond to interest rate, foreign exchange, credit, and other market risks.

In management's opinion, the Corporation's capital and ongoing cash flows from operations are sufficient to fund its anticipated contractual obligations, future operations, and capital expenditures.

**21. Financial instruments and risk management**

*(a) Classification of financial instruments and fair value*

The following table summarizes information relating to the Corporation's financial instruments:

<b>Class of Financial Instruments</b>	<b>Categories in Consolidated Statements of Financial Position</b>	<b>Carrying Amounts</b>	
		<b>September 30, 2017</b>	<b>September 30, 2016</b>
Loans and receivables financial assets measured at amortized cost	Cash and cash equivalents, finance receivables, and trade and other receivables	<b>17,572,419</b>	18,209,538
Financial liabilities measured at amortized cost	Operating loans, securitization debt, trade payables and accrued liabilities	<b>6,988,941</b>	9,022,469

The carrying values of cash and cash equivalents, finance receivables, trade and other receivables, and trade payables and accrued liabilities approximate their respective fair values due to their short-term maturities.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

(Expressed in Canadian dollars)

#### 21. Financial instruments and risk management (continued)

##### (a) Classification of financial instruments and fair value (continued)

The operating loans and securitization debt bear interest at variable rates and their carrying values approximate their fair values.

Fair value measurements recognized in the statements of financial position must be categorized in accordance with the following levels:

- (i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- (ii) Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability directly (as prices) or indirectly (derived from prices); and
- (iii) Level 3 – Inputs that are not based on observable market data (involves assumptions and estimates by management of how market participants would price the asset or liability).

At September 30, 2017 and 2016, all of the Corporation's financial assets and liabilities were measured at amortized cost, except for the foreign exchange financial derivative liability at September 30, 2017, which fair value is determined by quoted prices categorized in Level 1.

##### (b) Risks and risk management

Financial instruments may expose the Corporation to a number of financial risks, including market risk (interest rate risk and currency risk), credit risk and liquidity risk. The Corporation's overall risk management program seeks to mitigate these risks and reduce the volatility that may otherwise affect its financial performance.

The risks associated with the Corporation's financial instruments and the Corporation's policies for minimizing these risks are detailed below.

##### (i) Market risk

###### a) Interest rate risk

Interest rate risk refers to the risk that the fair value of a financial instrument or the future cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation's interest rate risk arises primarily from its operating loans and securitization debt, which are subject to variable interest rates.

The Corporation manages interest rate risk on its debt portfolio by controlling the mix of liabilities with fixed and variable interest rate obligations and attempting to ensure access to diverse sources of funding.

At September 30, 2017, a sensitivity analysis was performed assuming the Corporation's borrowing interest rates change by 2%, or 200 basis points. For every increase of 2% to the Corporation's borrowing interest rate, with all other variables held constant, the net loss and total comprehensive loss for the year ended September 30, 2017 would increase by approximately \$35,000. A decrease in interest rates would have the opposite effect. At September 30, 2016, the same analysis was performed and the impact to the year ended September, 2016 was approximately \$45,000.

# Iplayco Corporation Ltd.

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

#### 21. Financial instruments and risk management (continued)

##### *(b) Risks and risk management (continued)*

###### (i) Market risk (continued)

###### b) Currency risk

Currency risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in foreign currency exchange rates.

The Corporation has sales denominated in U.S. dollars which exceed the natural hedge provided by the purchase of products denominated in U.S. dollars, and therefore exposes the Corporation to financial risk resulting from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation manages this risk by entering into foreign exchange forward contracts.

During the year ended September 30, 2017, the Corporation recorded a net foreign exchange loss of \$43,175 on its foreign exchange forward contracts (September 30, 2016 – net gain of \$54,107).

At September 30, 2017, the Corporation has various foreign exchange forward contracts outstanding with maturity dates from December 1, 2017 to February 9, 2018 and a total commitment to sell \$2,000,000 U.S. dollars and purchase \$2,462,802 Canadian dollars at exchange rates ranging from 1.21113 to 1.25167. At September 30, 2016, the foreign exchange forward contracts outstanding was a total commitment to sell \$6,000,000 U.S. dollars and purchase \$7,797,318 Canadian dollars at exchange rates ranging from 1.29217 to 1.30906, with maturity dates from November 28, 2016 to September 29, 2017. The mark-to-market fair value of the foreign exchange forward contracts outstanding at September 30, 2017 represents a liability of \$31,039 (at September 30, 2016 – a liability of 60,716) for the Corporation and is recorded as an unrealized foreign exchange loss in the consolidated statements of operations and comprehensive income (loss).

A sensitivity analysis has been performed assuming the foreign exchange rate changes by 5% at September 30, 2017 and 2016. For every 5% strengthening of the U.S. dollar against the Canadian dollar, with all other variables held constant, the net gain and total comprehensive gain for the year ended September 30, 2017 would increase by approximately \$490,000 (September 30, 2016 – net loss and total comprehensive loss would decrease by approximately \$406,000). A weakening of the U.S. dollar against the Canadian dollar would have the opposite effect. The increase in sensitivity to foreign exchange rate changes between the U.S. dollar and the Canadian dollar is due to an increase in the Corporation's net assets denominated in U.S. dollars from U.S. \$6,190,298 (\$8,119,814 in Canadian dollars) at September 30, 2016 to U.S. \$7,857,878 (\$9,806,632 in Canadian dollars) at September 30, 2017.

###### (ii) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The carrying amounts of cash and cash equivalents, trade and finance receivables recorded in the consolidated statements of financial position represent the Corporation's maximum exposure to credit risk.

**Iplayco Corporation Ltd.**  
Notes to Consolidated Financial Statements  
September 30, 2017 and 2016  
*(Expressed in Canadian dollars)*

**21. Financial instruments and risk management (continued)**

*(b) Risks and risk management (continued)*

(ii) Credit risk

The credit risk associated with the Corporation's cash and cash equivalents is limited because these financial assets are held through large financial institutions with high investment grade ratings.

The Corporation performs ongoing credit evaluations of its customers and purchases third party insurance on trade receivables from customers with larger orders.

At September 30, 2017, finance receivables from entities affiliated with the Corporation amount to \$5,734,398 (September 30, 2016 - \$3,725,753) and represent the entire balance of finance receivables (September 30, 2016 – 100%). At September 30, 2017, there are no past due finance receivables from entities affiliated with the Corporation.

At September 30, 2017, trade receivables from entities affiliated with the Corporation amount to \$6,074,624 (September 30, 2016 - \$8,735,580) and represent approximately 83% of the balance of trade receivables (September 30, 2016 – 93%). At September 30, 2017, past due trade receivables from entities affiliated with the Corporation amount to \$2,353,961 (September 30, 2016 - \$551,455).

Management expects collection of the entire balance of finance receivables and trade receivables from the affiliates, which amount to \$11,809,022 at September 30, 2017 (September 30, 2016 - \$12,461,333). Should the affiliates default on payment due to insolvency, the Corporation's third-party insurance coverage would pay 90% of the unpaid balance from the affiliates, leaving an unrecoverable balance of 10%, or \$1,180,902 at September 30, 2017.

The following table provides the aging of trade receivables:

	September 30,	
	2017	2016
Trade receivables		
Current	\$ 3,899,234	\$ 2,204,067
31 to 60 days	94,354	538,448
61 to 90 days	9,899	13,092
91 days +	3,379,236	605,971
	<b>7,382,723</b>	3,361,578
Unbilled receivables from sales arrangements recognized on a percentage of completion basis of accounting	-	6,009,680
Other receivables	52,740	21,019
Allowance for doubtful accounts	<b>(89,142)</b>	(17,518)
	<b>\$ 7,346,321</b>	\$ 9,374,759



**Iplayco Corporation Ltd.**  
Notes to Consolidated Financial Statements  
September 30, 2017 and 2016  
*(Expressed in Canadian dollars)*

**21. Financial instruments and risk management (continued)**

*(b) Risks and risk management (continued)*

(ii) Credit risk (continued)

The following table reflects the movement in the allowance for doubtful accounts:

	September 30,	
	<b>2017</b>	2016
Balance at beginning of the year	<b>\$ 17,518</b>	\$ 95,063
Write-offs	<b>(5,458)</b>	(48,405)
Recoveries	<b>(11,980)</b>	-
Increase (decrease) in allowance	<b>89,062</b>	(29,140)
Balance at end of the year	<b>\$ 89,142</b>	\$ 17,518

(ii) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due.

The Corporation manages its liquidity risk through maintaining cash and access to credit facilities, and adheres to its capital management policies outlined in Note 20.

The following table provides a summary of the Corporation's contractual obligations at September 30, 2017:

	Payments due by period			
	<b>Total</b>	Within 1 year	1-3 years	4-5 years
Securitization debt, including interest	<b>\$ 5,160,958</b>	5,160,958	\$ -	-
Trade payables, accrued liabilities and other	<b>1,923,290</b>	1,923,290	-	-
Operating leases	<b>3,787,411</b>	1,152,679	2,624,861	9,871
	<b>\$ 10,871,659</b>	\$ 8,236,927	\$ 2,624,861	\$ 9,871

**Iplayco Corporation Ltd.**  
Notes to Consolidated Financial Statements  
September 30, 2017 and 2016  
*(Expressed in Canadian dollars)*

**22. Segment reporting and concentration of sales**

*(a) Business segments*

The Corporation operates in two business segments: (i) Manufacturing of play structures for children; and (ii) Operating a Family Entertainment Centre.

The accounting policies of these two business segments are the same as those described in Note 3. Inter-segment balances, transactions and revenues and expenses are eliminated upon consolidation.

Information related to these two business segments' operations is as follows:

	<b>Year ended September 30, 2017</b>		
	<b>Manufacturing</b>	<b>Family Entertainment Centre</b>	<b>Total</b>
<b>Sales to external customers</b>	\$ 18,649,213	\$ 1,314,086	\$ 19,963,299
<b>Cost of sales</b>	10,401,682	771,312	11,172,994
<b>Gross profit</b>	8,247,531	542,774	8,790,305
<b>Selling and administrative expenses</b>	5,939,638	576,220	6,515,858
<b>Foreign exchange loss</b>	709,953	-	709,953
<b>Finance costs</b>	198,878	-	198,878
<b>Income taxes</b>	457,026	(8,696)	448,330
<b>Net income</b>	\$ 942,036	\$ (24,750)	\$ 917,286
<b>Total assets</b>	\$ 22,348,415	\$ 752,500	\$ 23,100,915
<b>Total liabilities</b>	\$ 9,594,692	\$ 158,420	\$ 9,753,112
<b>Depreciation expense</b>	\$ 305,433	\$ 132,294	\$ 437,727
<b>Purchase of equipment</b>	\$ 611,579	\$ 91,840	\$ 703,419

**Iplayco Corporation Ltd.**  
Notes to Consolidated Financial Statements  
September 30, 2017 and 2016  
*(Expressed in Canadian dollars)*

**22. Segment reporting and concentration of sales (continued)**

*(a) Business segments (continued)*

	Year ended September 30, 2016		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 15,715,628	\$ 1,308,286	\$ 17,023,914
Cost of sales	11,342,409	784,423	12,126,832
Gross profit	4,373,219	523,863	4,897,082
Selling and administrative expenses	5,289,761	596,039	5,885,800
Foreign exchange loss	220,262	-	220,262
Finance costs	114,715	-	114,715
Income taxes	(349,778)	(18,766)	(368,544)
Net loss	\$ (901,741)	\$ (53,410)	\$ (955,151)
Total assets	\$ 22,698,479	\$ 835,884	\$ 23,534,363
Total liabilities	\$ 10,893,443	\$ 210,403	\$ 11,103,846
Depreciation expense	\$ 235,409	\$ 135,587	\$ 370,996
Purchase of equipment	\$ 584,567	\$ 19,838	\$ 604,405

*(b) Geographic and customer information*

Substantially all of the Corporation's assets are located in Canada.

The Corporation attributes sales amounts to geographical areas based on where the customer is located. Information related to geographical areas is as follows:

	Years ended September 30,	
	2017	2016
<b>Sales</b>		
Canada	\$ 2,695,208	\$ 3,324,511
Americas	8,694,783	8,775,983
Other	8,573,308	4,923,420
	\$ 19,963,299	\$ 17,023,914

For the year ended September 30, 2017, sales to significant customers, all affiliates of the Corporation described in Note 11, and all from the manufacturing business segment, amounted to \$6,556,563 (2016 – \$7,778,083).

# **Iplayco Corporation Ltd.**

## Notes to Consolidated Financial Statements

### September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

#### **23. Subsequent events**

On October 19, 2017 the Corporation entered into agreements covering purchases of assets, intellectual property, and product distribution with three companies possessing long-established brands and sales networks in continental Europe. The agreements encompass the acquisition of a of franchising business with one employee, the revenue stream from 30 franchisees, and the purchase of various assets from Italy-based companies Play Way S.r.l. and The Play Company S.r.l. ("TPC"). Also included is an intellectual property agreement with TPC and a distribution agreement with TPC and its wholly owned subsidiary Play Mart Co. S.r.l. Once the acquisitions are concluded, the Corporation will own the intellectual property rights to the Play Mart and Play Planet brands, as well as the Play Planet franchising business. The distribution agreements are for the supply of playground equipment. Financial terms of the transactions involve an aggregate cash purchase price of €450,000 (\$662,000 in Canadian dollars) and 15% of pre-tax earnings for the next five years of the Corporation's European operations, comprised of newly incorporated, and wholly owned, entities Play Planet S.r.l. in Italy and Play Mart International EOOD in Bulgaria. The Corporation is in the process of preparing its preliminary estimates of the fair values of assets acquired and liabilities assumed and the amount of goodwill that would be recognized at the acquisition date.

## Management's Discussion and Analysis

This discussion and analysis of financial condition and results of operations ("MD&A") of Iplayco Corporation Ltd. ("Iplayco", "the Corporation", "we", "us", or "our") is prepared as of December 5, 2017 and should be read together in conjunction with our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2017 and 2016.

The results reported herein are presented in Canadian dollars, unless otherwise stated, and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read the cautionary note in this MD&A regarding forward looking statements and should not place undue reliance on any such forward looking statements. See "Cautionary Note Regarding Forward-looking Statements".

Additional information about Iplayco, including our Management Proxy Circular, are filed with Canadian securities regulatory authorities on SEDAR at [www.sedar.com](http://www.sedar.com) and are also available on our website at [www.iplaycoltd.com](http://www.iplaycoltd.com).

### Overview

Iplayco is incorporated under the Alberta Business Corporations Act and its common shares trade on the TSX Venture Exchange under the trading symbol "IPC". Iplayco's business is carried out through its wholly owned subsidiaries Iplayco Inc., Iplayco Canada Inc., International Play Company Inc., Outdoor Play Company Inc., and IREC Corporation. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its production plants in Langley, British Columbia, Canada and Subic Bay, Philippines ("Manufacturing" or "MFG") and; (ii) Operating a family entertainment centre in Langley, British Columbia, Canada ("Family Entertainment Centre" or "FEC").

Iplayco is controlled by FAS Entertainment B.C. Ltd., a wholly-owned subsidiary of Saudi FAS Holding Company (collectively "FAS"), which owns 51.03% of Iplayco's issued and outstanding common shares. FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are beneficially held by three individuals. FAS controls various entities that own and operate Billy Beez family entertainment centres, Iplayco's largest customer over the past five years. FAS is expanding its Billy Beez family entertainment centres throughout the Middle East, Europe and North America. FAS also controls Fawaz Abdulaziz Al Hokair & Co., a retail conglomerate listed on the Saudi stock exchange (Tadawul), with a market capitalization at September 30, 2017 of 9.0 billion Saudi Riyal (or \$3.0 billion in Canadian dollars). For more information on FAS, please visit the company's website at: [www.fawazalhokair.com](http://www.fawazalhokair.com).

On October 19, 2017 the Corporation entered into agreements covering purchases of assets, intellectual property, and product distribution with three companies possessing long-established brands and sales networks in continental Europe. The agreements encompass purchases of assets from Italy-based companies Play Way S.r.l. and The Play Company S.r.l. ("TPC"). Also included is an intellectual property agreement with TPC and a distribution agreement with TPC and its wholly owned subsidiary Play Mart Co. S.r.l. Once the acquisitions are concluded, the Corporation will own the intellectual property rights to the Play Mart and Play Planet brands, as well as the Play Planet line of business. The distribution agreements are for the supply of playground equipment. Financial terms of the transactions involve an aggregate cash purchase price of €450,000 (\$662,000 in Canadian dollars) and 15% of pre-tax earnings for the next five years of the Corporation's European operations, comprised of newly incorporated, and wholly owned, entities Play Planet S.r.l. in Italy and Play Mart International EOOD in Bulgaria.

## Consolidated Results

Sales for the three months ended September 30, 2017 ("Q4-17") decreased by 35.3% to \$3,550,302 from \$5,488,474 for the three months ended September 30, 2016 ("Q4-16"). Gross profit percentage increased to 44.7% of sales in Q4-17 from 19.3% in Q4-16. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$2,233,966, or 62.9% of sales, in Q4-17 from \$1,589,871, or 29.0% of sales, in Q4-16. Net loss amounted to \$539,655, or diluted net loss per share of \$0.03, in Q4-17 as compared to net loss of \$345,782, or net loss per share of \$0.02, in Q4-16.

Sales for the year ended September 30, 2017 ("2017") increased by 17.3% to \$19,963,299 from \$17,023,914 for the year ended September 30, 2016 ("2016"). Gross profit percentage increased to 44.0% of sales in 2017 from 28.8% for 2016. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$7,424,689 or 37.2% of sales in 2017 from \$6,220,777 or 36.5% of sales in 2016. Net income amounted to \$917,286, or diluted net income per share of \$0.04, in 2017 as compared to a net loss of \$955,151, or net loss per share of \$0.05, in 2016.

## Manufacturing Operations

Sales generated by our Manufacturing operations decreased by 36.7% to \$3,288,848 in Q4-17 from \$5,194,013 in Q4-16. This decrease is due to lower sales to our customers located outside of the Americas, who accounted for sales of \$764,889 (or 23.3% of total Manufacturing sales) in Q4-17 compared to \$3,364,198 (or 64.8%) in Q4-16, partially offset by higher sales to our customers located in the Americas, including Canada, who accounted for sales of \$2,523,959 (or 76.7% of total Manufacturing sales) in Q4-17 compared to \$1,829,815 (or 35.2%) in Q4-16.

Sales generated by our Manufacturing operations increased by 18.7% to \$18,649,213 in 2017 from \$15,715,628 in 2016. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for sales of \$8,573,308 (or 46.0% of total Manufacturing sales) in 2017 compared to \$4,923,420 (or 31.3%) in 2016, partially offset by lower sales to our customers located in the Americas, including Canada, who accounted for sales of \$10,075,905 (or 54.0%) in 2017 compared to \$10,792,208 (or 68.7%) in 2016.

Sales to related party, Billy Beez, accounted for 40.8% of sales by our Manufacturing operations in Q4-17 (35.2% in 2017) as compared to 70.2% in Q4-16 (49.5% in 2016). Should Billy Beez end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would decline materially. We expect continued business concentration from Billy Beez for the foreseeable future.

We expected sales generated by our Manufacturing operations in Q4-17 to decrease moderately as compared to sales for the three months ended June 30, 2017 ("Q3-17"). Sales generated by our Manufacturing operations decreased by 37.5% to \$3,288,848 in Q4-17 from \$5,266,278 in Q3-17. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending December 31, 2017 ("Q1-18") to increase significantly as compared to Q4-17.

Gross profit percentage increased to 45.5% of sales by our Manufacturing operations in Q4-17 from 18.2% in Q4-16. We expected our gross profit percentage in Q4-17 to decrease moderately as compared to Q3-17. Gross profit percentage in Q4-17 was 45.5% of sales by our Manufacturing operations as compared to 45.6% in Q3-17. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations to decrease moderately in Q1-18 as compared to Q4-17.

Gross profit percentage increased to 44.2% of sales by our Manufacturing operations in 2017 from 27.8% in 2016 due primarily to significantly lower margins resulting from cost overruns on fixed-priced sales contracts in 2016.

Our Manufacturing operations generated a net loss of \$512,215 in Q4-17 compared to net loss of \$326,869 in Q4-16. We expected the net operating results from our Manufacturing operations to decrease moderately as compared to Q3-17. Our Manufacturing operations generated a net loss of

\$512,215 in Q4-17 compared to net income of \$497,490 in Q3-17 due primarily to significantly lower sales in Q4-17 as compared to Q3-17. We are expecting the net operating results from our Manufacturing operations in Q1-18 to improve significantly as compared to Q4-17.

Our Manufacturing operations generated net income of \$942,036 for 2017 compared to a net loss of \$901,741 for 2016. The improvement in net operating results is due primarily to substantially higher sales and gross profit percentage for 2017 as compared to 2016.

### Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 11.2% to \$261,454 in Q4-17 from \$294,461 in Q4-16. We expected sales generated by our FEC operations in Q4-17 to remain in line with Q3-17. Sales generated by our FEC operations increased by 5.8% to \$261,454 in Q4-17 from \$247,087 in Q3-17. Based on our updated sales forecast, we are expecting sales generated by our FEC operations in Q1-18 to increase moderately as compared to Q4-17.

Sales generated by our FEC operations increased by 0.4% to \$1,314,086 for 2017 from \$1,308,286 for 2016.

Our FEC operations generated a net loss of \$27,440 in Q4-17 compared to a net loss of \$18,913 in Q4-16. We expected the net operating results from our FEC operations in Q4-17 to remain in line with Q3-17. Our FEC operations generated a net loss of \$27,440 in Q4-17 as compared to net loss of \$58,554 in Q3-17. Based on our updated forecasts, we are expecting the net operating results from our FEC operations in Q1-18 to improve significantly as compared to Q4-17.

Our FEC operations generated net loss of \$24,750 for 2017, compared to net loss of \$53,410 for 2016. The decrease in the net loss in 2017 as compared to 2016 is due primarily to higher gross profit percentage and lower selling and administrative expenses in 2017 as compared to 2016.

The net operating results from our FEC operations will continue to fluctuate from quarter to quarter based on seasonality factors, such as weather conditions and school holidays. Seasonality trends have developed in sales and net operating results, with Q2 historically generating the strongest operating results, due primarily to a higher number of customer visits during the winter months. Conversely, our Q4 operating results have historically been the weakest due to a lower number of customer visits during the summer months.

## Results of Operations

The following tables set forth the operating results of our Manufacturing and our FEC business segments for the three months and years ended September 30, 2017 and 2016, expressed as a percentage of total sales:

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	92.6 %	7.4 %	100.0 %	94.6 %	5.4 %	100.0 %
Cost of sales	50.5	4.8	55.3	77.5	3.2	80.7
Gross profit	42.1	2.6	44.7	17.1	2.2	19.3
Selling and administrative expenses	47.9	3.6	51.5	24.4	2.7	27.1
Foreign exchange loss	10.8	-	10.8	0.5	-	0.5
Finance costs	0.6	-	0.6	1.4	-	1.4
Income taxes	(2.8)	(0.3)	(3.1)	(3.1)	(0.2)	(3.3)
<b>Net loss</b>	<b>(14.4) %</b>	<b>(0.7) %</b>	<b>(15.1) %</b>	<b>(6.1) %</b>	<b>(0.3) %</b>	<b>(6.4) %</b>

	Twelve months ended September 30, 2017			Twelve months ended September 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	93.4 %	6.6 %	100.0 %	92.3 %	7.7 %	100.0 %
Cost of sales	52.1	3.9	56.0	66.6	4.6	71.2
Gross profit	41.3	2.7	44.0	25.7	3.1	28.8
Selling and administrative expenses	29.8	2.9	32.7	31.1	3.5	34.6
Foreign exchange loss	3.6	-	3.6	1.3	-	1.3
Finance costs	1.0	-	1.0	0.7	-	0.7
Income taxes	2.3	-	2.3	(2.1)	(0.1)	(2.2)
<b>Net income (loss)</b>	<b>4.6 %</b>	<b>(0.2) %</b>	<b>4.4 %</b>	<b>(5.3) %</b>	<b>(0.3) %</b>	<b>(5.6) %</b>

Our sales by business segment, and geographical region, are as follows:

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	7.0 %	7.4 %	14.4 %	2.8 %	5.4 %	8.2 %
Americas	64.1	-	64.1	30.6	-	30.6
Other	21.5	-	21.5	61.2	-	61.2
	92.6 %	7.4 %	100.0 %	94.6 %	5.4 %	100.0 %

	Twelve months ended September 30, 2017			Twelve months ended September 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	6.9 %	6.6 %	13.5 %	11.8 %	7.7 %	19.5 %
Americas	43.6	-	43.6	51.6	-	51.6
Other	42.9	-	42.9	28.9	-	28.9
	93.4 %	6.6 %	100.0 %	92.3 %	7.7 %	100.0 %



## **Results of Operations – Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016**

### **Sales**

Sales decreased by \$1,938,172 (or 35.3%) to \$3,550,302 in Q4-17 from \$5,488,474 in Q4-16 due primarily to a decrease in sales of \$1,905,165 by our Manufacturing operations.

We expected our sales in Q4-17 to decrease moderately as compared to Q3-17. Sales decreased by \$1,963,063 (or 35.6%) to \$3,550,302 in Q4-17 from \$5,513,365 in Q3-17. Based on our updated sales forecasts, we are expecting sales to increase significantly in Q1-18 as compared to Q4-17.

### **Gross Profit**

Gross profit percentage increased to 44.7% of sales in Q4-17 from 19.3% in Q4-16. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 45.5% in Q4-17 compared to 18.2% in Q4-16.

We expected our gross profit percentage to decrease moderately in Q4-17 as compared to Q3-17. Gross profit percentage decreased to 44.7% in Q4-17 from 45.0% in Q3-17. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to decrease moderately in Q1-18 as compared to Q4-17.

### **Operating Expenses**

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$644,095 (or 40.5%) to \$2,233,966 in Q4-17, from \$1,589,871 in Q4-16. This increase is due primarily to an increase of \$342,618 in selling and administrative expenses and an increase of \$353,536 in foreign exchange loss in Q4-17 as compared Q4-16.

We expected our operating expenses, as a percentage of sales, in Q4-17 to increase moderately as compared to Q3-17. Our operating expenses increased to 62.9% of sales in Q4-17 from 34.0% in Q3-17. Based on our updated forecasts, we are expecting operating expenses, as a percentage of sales, to decrease significantly in Q1-18 as compared to Q4-17.

### **Income Taxes**

The income tax recoveries of \$107,588 in Q4-17 and \$182,914 in Q4-16 are due primarily to the losses before income taxes incurred by our Manufacturing operations.

### **Net Operating Results**

Net loss and total comprehensive loss amounted to \$539,655, or diluted net loss per share of \$0.03, in Q4-17, compared to a net loss and total comprehensive loss of \$345,782, or diluted net loss per share of \$0.02, in Q4-16. The increase in net loss is due primarily to the combined effect of lower sales and higher foreign exchange loss and selling and administrative expenses in Q4-17 as compared to Q4-16.

We expected our net income in Q4-17 to decrease moderately as compared to Q3-17. We generated net loss of \$539,655 in Q4-17 compared to net income of \$438,936 in Q3-17. We are expecting our net operating results to improve significantly in Q1-18 as compared to Q4-17.

## Select Annual Information

The following table sets forth selected annual information derived from our consolidated financial statements for each of the last three years ended September 30:

	Sales	Net income (loss)	Basic and diluted income (loss) per share	Total assets	Long-term financial liabilities	Cash dividends
2015	\$17,202,988	\$ 517,062	\$ 0.03	\$16,662,068	---	---
2016	\$17,023,914	\$ (955,151)	\$ (0.05)	\$23,534,363	---	---
2017	\$19,963,299	\$ 917,286	\$ 0.04	\$23,100,915	---	---

We expected sales and gross profit margins to increase significantly and operating results to improve significantly in 2017 as compared to 2016, due to expected increases in both sales and gross profit margins from Billy Beez and non-Billy Beez customers. Sales increased by \$2,939,385 (or 17.3%) to \$19,963,299 in 2017 from \$17,023,914 in 2016 due primarily to an increase in sales of \$4,160,905 (or 52.8%) to non-Billy Beez customers, partially offset by a decrease of \$1,221,520 (or 15.7%) in sales to Billy Beez. Our gross profit margin increased to 44.0% of sales in 2017 from 28.8% in 2016 and we generated net income of 917,286 in 2017 as compared to a net loss of \$955,151 in 2016.

We are anticipating sales to increase significantly in 2018 as compared to 2017, gross profit margin in 2018 to remain in-line with 2017, operating expenses to increase moderately in 2018 as compared to 2017 and net operating results to increase moderately in 2018 as compared to 2017.

The increase in our total assets from 2015 to 2016 is due primarily to an increase in our working capital, leveraged by an increase in operating loans and securitization debt. The decrease in our total assets from 2016 to 2017 is due primarily to a decrease in cash from financing activities in 2017 as compared to 2016.

We do not anticipate declaring dividends in 2018.

## Results of Operations – Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

### Sales

Sales increased by \$2,939,385 (or 17.3%) to \$19,963,299 for 2017 from \$17,023,914 for 2016 due primarily to an increase in sales of \$2,933,585 by our Manufacturing operations.

We are expecting a significant increase in sales for our financial year ending September 30, 2018 ("2018") compared to 2017 due to anticipated higher sales to non-Billy Beez customers.

### Gross Profit

Gross profit percentage increased to 44.0% of sales in 2017 from 28.8% in 2016 due primarily to an increase in gross profit percentage by our Manufacturing operations.

We expect the gross profit percentage in 2018 to remain in-line with 2017.

### Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$1,203,912 (or 19.4%) to \$7,424,689 for 2017 from \$6,220,777 for 2016. This increase is due primarily to increases in selling and administrative expenses, foreign exchange loss and interest expense in 2017 as compared to 2016.

We expect the following for our 2018 financial year as compared to 2017:

- Moderate increase in selling and administrative expenses, due to increased headcount, rent, travel, trade show and related selling expenses primarily from new operations in Europe.
- Moderate increase in depreciation expense due to higher capital expenditures.
- Anticipated decrease in foreign exchange loss due to forecast weakening of the Canadian dollar against the U.S. dollar.
- Moderate decrease in finance costs due to lower anticipated levels of operating loans and securitization debt.

#### Income Taxes

The income tax expense of \$448,330 for 2017 is due primarily to the income tax expense on earnings before income taxes generated by our Manufacturing operations. The income tax recovery of \$368,544 for 2016 is due primarily to the income tax recovery on the loss before income taxes generated by our Manufacturing operations. We expect our effective tax rate in 2018 to decrease moderately from the effective tax rate of 32.8% in 2017.

#### Net Operating Results

Net income and total comprehensive income amounted to \$917,286, or diluted net income per share of \$0.04 in 2017 as compared to a net loss and total comprehensive loss of \$955,151, or net loss per share of \$0.05, in 2016. The improvement in net operating results is due primarily to our Manufacturing operations.

#### Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements for the years ended September 30, 2017 and 2016. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17	30-Sep-17
<b>CONSOLIDATED</b>								
Sales	\$ 3,618,561	\$ 3,304,442	\$ 4,612,437	\$ 5,488,474	\$ 7,228,963	\$ 3,670,669	\$ 5,513,365	\$ 3,550,302
Cost of sales	2,197,420	2,351,245	3,150,868	4,427,299	4,359,600	1,817,220	3,032,595	1,963,579
Gross profit	1,421,141	953,197	1,461,569	1,061,175	2,869,363	1,853,449	2,480,770	1,586,723
Selling and administrative expenses	1,397,892	1,562,281	1,439,973	1,485,654	1,442,813	1,656,149	1,588,624	1,828,272
Foreign exchange loss (gain)	(218,840)	575,543	(166,555)	30,114	28,861	13,812	283,630	383,650
Finance costs	-	1,892	38,720	74,103	77,514	95,129	4,191	22,044
Income taxes	65,316	(301,767)	50,821	(182,914)	360,966	29,563	165,389	(107,588)
<b>Net income (loss)</b>	\$ 176,773	\$ (884,752)	\$ 98,610	\$ (345,782)	\$ 959,209	\$ 58,796	\$ 438,936	\$ (539,655)
Basic and diluted net income (loss) per share	\$ 0.01	\$ (0.04)	\$ 0.00	\$ (0.02)	\$ 0.05	\$ 0.00	\$ 0.02	\$ (0.03)
<b>MANUFACTURING</b>								
Sales	\$ 3,264,525	\$ 2,907,092	\$ 4,349,998	\$ 5,194,013	\$ 6,842,328	\$ 3,251,759	\$ 5,266,278	\$ 3,288,848
Cost of sales	1,962,975	2,156,338	2,972,236	4,250,860	4,134,553	1,610,936	2,862,553	1,793,640
Gross profit	1,301,550	750,754	1,377,762	943,153	2,707,775	1,640,823	2,403,725	1,495,208
Selling and administrative expenses	1,248,478	1,410,792	1,293,113	1,337,378	1,291,088	1,516,420	1,432,453	1,699,677
Foreign exchange loss (gain)	(218,840)	575,543	(166,555)	30,114	28,861	13,812	283,630	383,650
Finance costs	-	1,892	38,720	74,103	77,514	95,129	4,191	22,044
Income taxes	73,075	(315,014)	63,734	(171,573)	358,402	10,611	185,961	(97,948)
<b>Net income (loss)</b>	\$ 198,837	\$ (922,459)	\$ 148,750	\$ (326,869)	\$ 951,910	\$ 4,851	\$ 497,490	\$ (512,215)
<b>FEC</b>								
Sales	\$ 354,036	\$ 397,350	\$ 262,439	\$ 294,461	\$ 386,635	\$ 418,910	\$ 247,087	\$ 261,454
Cost of sales	234,445	194,907	178,632	176,439	225,047	206,284	170,042	169,939
Gross profit	119,591	202,443	83,807	118,022	161,588	212,626	77,045	91,515
Selling and administrative expenses	149,414	151,489	146,860	148,276	151,725	139,729	156,171	128,595
Income taxes	(7,759)	13,247	(12,913)	(11,341)	2,564	18,952	(20,572)	(9,640)
<b>Net income (loss)</b>	\$ (22,064)	\$ 37,707	\$ (50,140)	\$ (18,913)	\$ 7,299	\$ 53,945	\$ (58,554)	\$ (27,440)

Our quarterly results fluctuate due primarily to the combined effect of significant variability in our sales, and operating expenses that are generally fixed. The impact of significant items incurred during these interim periods is discussed in more detail in our condensed consolidated interim financial statements and MD&A.

The following are significant items affecting our consolidated quarterly results of operations:

- The decrease in net operating results from Q1-16 to Q2-16 is due primarily to lower gross profit margin, a foreign exchange loss and higher selling and administrative expenses, in Q2-16 compared to Q1-16.
- The increase in net operating results from Q2-16 to Q3-16 is due primarily to the foreign exchange loss in Q2-16 as compared to the foreign exchange gain in Q3-16.
- The decrease in net operating results from Q3-16 to Q4-16 is due primarily to lower gross margin profit, a foreign exchange loss and higher selling and administrative expenses, in Q4-16 compared to Q3-16.
- The improvement in net operating results from Q4-16 to Q1-17 is due primarily to the significant improvement in gross profit margin in Q1-17 compared to Q4-16.
- The decrease in net operating results from Q1-17 to Q2-17 is due primarily to significantly lower sales in Q2-17 compared to Q1-17.
- The increase in net operating results from Q2-17 to Q3-17 is due primarily to higher sales in Q3-17 compared to Q2-17.
- The decrease in net operating results from Q3-17 to Q4-17 is due primarily to lower sales and higher selling and administrative expenses in Q4-17 compared to Q3-17.

## Liquidity and Capital Resources

### Operating Activities

Cash provided by operating activities amounted to \$1,323,054 in Q4-17, compared to cash used in operating activities of \$1,488,128 in Q4-16. The change is due primarily to the net change in non-cash working capital in Q4-17 as compared to Q4-16.

Cash provided by operating activities amounted to \$1,620,520 for 2017, compared to cash used in operating activities of \$5,700,968 for 2016 due primarily to the net change in non-cash working capital in 2017 as compared to 2016.

Except for the collection of finance receivables, we expect our operating activities to continue to use cash as our working capital requirements increase to support growth in our sales.

### Investing Activities

Cash used in investing activities increased to \$122,022 in Q4-17 from \$91,082 in Q4-16 due to higher purchases of equipment in Q4-17 as compared to Q4-16.

Cash used in investing activities decreased to \$694,564 for 2017 from \$753,685 for 2016 due primarily to the acquisition of IREC Corporation in 2016.

With the set-up of new operations in Bulgaria and Italy, we anticipate our investment in capital expenditures to increase significantly in 2018 as compared to 2017.

### Financing Activities

Cash used in financing activities amounted to \$77,082 in Q4-17, compared to cash provided by financing activities of \$2,520,038 in Q4-16 due primarily to repayment of operating loans and securitization debt in Q4-17 as compared to Q4-16.

Cash used in financing activities amounted to \$1,405,213 for 2017 compared to cash provided by financing activities of \$6,630,332 for 2016 due primarily to repayments exceeding proceeds from operating loans and securitization debt for 2017.

Our off-balance sheet financing is comprised of long-term operating lease arrangements for premises, concluded in the normal course of business. The Corporation has no off-balance sheet special purpose entities.

### Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repaying our operating loans, and funding our capital expenditures. We expect our working capital requirements to continue to increase due primarily to the investments required to set-up our new operations in Europe and the anticipated growth in our sales.

Our sources of cash include cash on hand, trade receivables, customer deposits, cash from operations, and funding from our credit facilities (see "Credit Facilities"). We expect our sources of cash to be sufficient to fund our forecast cash outflows for at least the next twelve months.

### Sources and Uses of Cash

The sources of funds for our future capital expenditures and commitments include cash on hand, trade receivables, cash from operations, and borrowings (see "Credit Facilities") as follows:

- Cash of \$4,491,700 at September 30, 2017 (September 30, 2016 – \$5,109,026).
- Trade and other receivables of \$7,346,321 at September 30, 2017 (September 30, 2016 – \$9,374,759).

Our objective when managing capital is to maintain sufficient liquidity for normal operating and capital expenditures, while maintaining an adequate return for shareholders.

The Corporation's capital is comprised of operating loans, securitization debt, and shareholders' equity.

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of \$600,000, an Operating Loan Facility of U.S. \$4,000,000 (\$4,992,000 in Canadian dollars), and a Securitization Facility of U.S. \$7,920,000 (\$9,884,000 in Canadian dollars), which are subject to annual renewals (see "Credit Facilities").

We choose securitization as part of our capital strategy to reduce our credit risk when offering extended credit terms to certain customers with larger orders. The servicing of the finance receivables remains the responsibility of the Corporation and the Bank retains the right of recourse against the Corporation if any finance receivable is not collected by the Bank on its due date. Any finance receivable not collected by the Bank on its due date is subject to payment upon demand to the Bank at the Bank's U.S. dollar annual prime rate plus 3.00% per annum payable monthly in arrears.

Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At September 30, 2017, all financial ratios and tests have been met.

The Corporation manages its capital structure to maintain the flexibility to adjust to changes in economic conditions and to respond to interest rate, foreign exchange, credit, and other market risks. In management's opinion, the Corporation's capital and ongoing cash flows from operations are sufficient to fund its anticipated contractual obligations, future operations, and capital expenditures.

## Credit Facilities

The Corporation has the following credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank"), as amended on May 17, 2017:

### (a) Overdraft Facility

The Overdraft Facility is a demand revolving loan of up to \$600,000 bearing interest at the bank's prime rate plus 1.50% per annum and margined by trade receivables and certain equipment of the Corporation.

### (b) Export Loan Facility

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. \$4,000,000 (\$4,992,000 in Canadian dollars – previously U.S. \$2,500,000 or \$3,120,000 in Canadian dollars) ("Operating Loan Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. \$7,920,000 (\$9,884,000 in Canadian dollars) ("Securitization Facility").

#### Operating Loan Facility

Under the Operating Loan Facility, the Corporation may finance up to 60% of customer purchase orders approved by the Bank. The Operating Loan Facility bears interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 4.00% per annum and is payable on demand or within 160 days of funding.

#### Securitization Facility

Under the Securitization Facility, the Corporation may sell to the Bank select insured trade receivables net of a discount fee of USD LIBOR plus 3.50%.

### (c) Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of U.S. \$1,840,000 (\$2,296,000 in Canadian dollars – previously U.S. \$1,440,000 or \$1,797,120 in Canadian dollars) for the

purchase of foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$9,984,000 in Canadian dollars), with a maximum maturity of 12 months.

The Credit Facilities are governed and secured by a general security agreement creating a first priority security interest in all property of the Corporation. The conditions of credit include compliance with various covenants.

## Market Risk Disclosure

### Currency risk

We are exposed to currency fluctuations and exchange rate risk on all operations conducted in currencies other than the Canadian dollar. We cannot accurately predict the future effects of foreign currency fluctuations on our financial condition or results of operations.

We are exposed to foreign currency fluctuations because a significant portion of our sales are denominated in U.S. dollars and a significant portion of our expenses are incurred in Canadian dollars. We monitor our exposure to fluctuations between the U.S. dollar and the Canadian dollar and manage this risk by entering into foreign exchange forward contracts. We do not enter into foreign exchange forward contracts for speculative purposes.

As described above in "Credit Facilities", we have a demand revolving line of U.S. \$1,840,000 (\$2,296,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$9,984,000 in Canadian dollars), with a maximum maturity of 12 months. We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

At September 30, 2017, we had various foreign exchange forward contracts outstanding with maturity dates from December 1, 2017 to February 9, 2018 and a total commitment to sell \$2,000,000 U.S. dollars and purchase \$2,462,802 Canadian dollars at exchange rates ranging from 1.21113 to 1.25167. The mark-to-market fair value of the foreign exchange forward contracts outstanding at September 30, 2017 represents a liability of \$31,039 for the Corporation and is recorded as an unrealized foreign exchange loss in the consolidated statements of operations and comprehensive income.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The carrying amounts of cash, trade and finance receivables recorded in the consolidated statements of financial position represent the Corporation's maximum exposure to credit risk.

The credit risk associated with the Corporation's cash is limited because this financial asset is held through a large financial institution with a high investment grade rating.

We perform ongoing credit evaluations of our customers and carry third party insurance on trade receivables from customers with larger orders.

At September 30, 2017, finance receivables from entities affiliated with the Corporation amount to \$5,734,398 (September 30, 2016 - \$3,725,753) and represent the entire balance of finance receivables (September 30, 2016 - 100%). At September 30, 2017, there are no past due finance receivables from entities affiliated with the Corporation.

At September 30, 2017, trade receivables from entities affiliated with the Corporation amount to \$6,074,624 (September 30, 2016 - \$8,735,580) and represent approximately 83% of the balance of trade receivables (September 30, 2016 - 93%). At September 30, 2017, past due trade receivables from entities affiliated with the Corporation amount to \$2,353,961 (September 30, 2016 - \$551,455).

Management expects collection of the entire balance of finance receivables and trade receivables from the affiliates, which amount to \$11,809,022 at September 30, 2017 (September 30, 2016 - \$12,461,333). Should the affiliates default on payment due to insolvency, the Corporation's third-

party insurance coverage would pay 90% of the unpaid balance from the affiliates, leaving an unrecoverable balance of 10%, or \$1,180,902 at September 30, 2017.

### Interest rate risk

Interest rate risk refers to the risk that the fair value of a financial instrument or the future cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation's interest rate risk arises primarily from its operating loans and securitization debt, which are subject to variable interest rates. At September 30, 2017, the Corporation does not have outstanding operating loans (September 30, 2016 - \$3,238,430) and its securitization debt of \$5,160,958 (September 30, 2016 - \$3,461,314) are subject to variable interest rate obligations ranging from USD LIBOR plus 3.50% to USD LIBOR plus 4.00% per annum.

### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due.

We manage our liquidity risk by maintaining cash and available funds from our existing credit facilities, as outlined above in "Liquidity and Capital Resources".

### Legal Proceedings

We are engaged in legal actions in the ordinary course of business due primarily to injury claims from the use of play structure equipment we have supplied to various customers. We carry commercial general liability insurance and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

### Related Party Transactions

The Corporation recorded the following sales in U.S. dollars to various entities controlled by FAS (the "Affiliates"):

	Three months ended September 30,		Years ended September 30,	
	2017	2016	2017	2016
Sales in U.S. dollars	\$ 1,066,455	\$ 2,796,922	\$ 4,975,955	\$ 5,876,516
<b>Equivalent in Canadian dollars</b>	<b>1,340,241</b>	3,648,718	<b>6,556,563</b>	7,778,083

The Corporation's finance receivables include the following amounts denominated in U.S. dollars that are due from the Affiliates:

	September 30,	
	2017	2016
Balance in U.S. dollars	\$ 4,594,870	\$ 2,840,400
<b>Equivalent in Canadian dollars</b>	<b>5,734,398</b>	3,725,753



The Corporation's trade and other receivables include the following amounts denominated in U.S. dollars that are due from the Affiliates:

	September 30,	
	2017	2016
Balance in U.S. dollars	\$ 4,867,487	\$ 6,659,740
<b>Equivalent in Canadian dollars</b>	<b>6,074,624</b>	8,735,580

## Outstanding Share Capital

At September 30, 2017, and December 5, 2017, the Corporation had 20,870,187 common shares issued and outstanding, and no warrants or share options outstanding.

## Cautionary Note Regarding Forward-looking Statements

Certain statements in this report that are not based on historical facts constitute forward-looking statements or forward-looking information within the meaning of Canadian securities laws ("forward-looking statements"). These forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance, achievements or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Forward-looking statements include disclosure regarding possible events, conditions circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. We caution you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this report and can be identified by words such as "may", "estimates", "projects", "expects", "intends", "believes", "plans", "anticipates", "continue", "growing", "expanding" or their negatives or other comparable words. Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for the introduction or enhancement of our services and products, statements concerning strategies or developments, statements about future market conditions, supply conditions, end customer demand conditions, sales, gross profit, operating expenses, profits, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The risk factors and uncertainties that may affect our actual results, performance, achievements or developments are many and include, amongst others, our ability to develop, manufacture, supply and market new products that we do not produce today and that meet the needs of customers, the continuous commitment of our customers and increased competition. Many of the risk factors that affect our business are beyond our control. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and we cannot assure you that the actual results, performance, achievements or developments that we anticipate will be realized. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions and we do not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change, except as required by law.

