2013

Iplayco Corporation Ltd.

Consolidated Financial Statements

Years ended September 30, 2013 and 2012

(*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 two of 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.

Franco Aquila
Chief Executive Officer and Director

Max Liszkowski, CPA, CA
Chief Financial Officer and Corporate Secretary

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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, 2013 and September 30, 2012, and the consolidated statements of operations and comprehensive income, statements of changes in shareholders' equity and 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, 2013 and September 30, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
November 25, 2013
Vancouver, British Columbia

Iplayco Corporation Ltd.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	September 30, 2013	September 30, 2012
Assets			
Current assets			
Cash and cash equivalents		$ **1,693,876**	$ 841,008
Restricted cash	12	**-**	300,000
Finance receivables	10	**3,535,737**	-
Trade and other receivables	19 (ii)	**1,662,452**	879,663
Inventories	6	**1,069,658**	727,495
Prepaid expenses		**272,919**	177,120
		8,234,642	2,925,286
Non-current assets			
Property and equipment	7	**1,634,824**	1,599,945
Deferred income tax assets	17	**28,283**	314,736
Total Assets		$ **9,897,749**	$ 4,839,967
Liabilities and Shareholders' Equity			
Current liabilities			
Securitization debt	10	$ **3,480,074**	$ -
Current portion of subordinate debt	11	**183,269**	-
Trade payables, accrued charges and other	13	**1,532,521**	1,363,342
Income taxes payable	17	**29,279**	-
Customer deposits		**248,221**	421,217
Current portion of rent inducement	16	**22,446**	45,127
Current portion of finance lease liabilities	8	**1,826**	58,826
Revolving loans	12	**310,000**	410,000
Notes payable	12	**-**	300,000
		5,807,636	2,598,512
Non-current liabilities			
Subordinate debt	11	**541,786**	-
Rent inducement	16	**137,779**	159,378
Finance lease liabilities	8	**-**	1,826
Deferred income tax liabilities	17	**101,054**	-
Total Liabilities		**6,588,255**	2,759,716
Shareholders' Equity			
Share capital		**1,757,643**	1,757,643
Share-based payments reserve		**256,858**	256,858
Retained earnings		**1,294,993**	65,750
Total Shareholders' Equity		**3,309,494**	2,080,251
Total Liabilities and Shareholders' Equity		$ **9,897,749**	$ 4,839,967

Commitments (Note 16)

"Franco Aquila" ....
Chief Executive Officer

"David A. Perkins" ....
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

(Expressed in Canadian dollars, except number of shares)

	Notes	Years ended September 30, 2013	2012
Sales		**$ 15,211,993**	$ 10,389,445
Cost of sales	*15*	**9,519,213**	6,475,823
Gross profit		**5,692,780**	3,913,622
Selling and administrative expenses	*15*	**3,861,210**	3,367,467
Foreign exchange loss (gain)		**(27,348)**	21,849
		3,833,862	3,389,316
Operating income		**1,858,918**	524,306
Finance costs		**212,889**	104,477
Income before income taxes		**1,646,029**	419,829
Income tax provision			
Current	*17*	**29,279**	-
Deferred	*17*	**387,507**	107,017
		416,786	107,017
Net income and total comprehensive income		**1,229,243**	312,812
Net income per share			
Basic and diluted		**$ 0.12**	$ 0.03
Weighted average number of common shares outstanding			
Basic and diluted		**10,220,187**	10,220,187

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[1]				
	Number of common shares	Amount	Share-based payments reserve[2]	Retained earnings (deficit)	Total shareholders' equity
Balance at September 30, 2011	10,220,187	$ 1,757,643	$ 256,858	$ (247,062)	$ 1,767,439
Net income and total comprehensive income	-	-	-	312,812	312,812
Balance at September 30, 2012	10,220,187	1,757,643	256,858	65,750	2,080,251
Net income and total comprehensive income	-	-	-	1,229,243	1,229,243
Balance at September 30, 2013	**10,220,187**	**1,757,643**	**256,858**	**1,294,993**	**3,309,494**

[1] Authorized share capital is comprised of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. No preferred shares have been issued.

[2] 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)

	Notes	2013	2012
		Years ended September 30,	
Operating activities			
Net income		**$ 1,229,243**	$ 312,812
Items not affecting cash			
Depreciation	7	**292,577**	302,789
Deferred income taxes	17	**387,507**	107,017
Change in fair value of derivatives	19	**-**	(4,474)
Rent inducement	16	**(44,280)**	(3,782)
Loss on disposal of property and equipment	7	**23,380**	7,213
Unrealized foreign exchange loss		**12,862**	3,366
Finance costs		**212,889**	104,477
		2,114,178	829,418
Change in non-cash operating working capital			
Finance receivables	10	**(3,564,220)**	-
Trade and other receivables	19	**(796,055)**	(44,644)
Inventories	6	**(342,163)**	14,135
Prepaid expenses		**(95,799)**	(7,125)
Trade payables, accrued charges and other	13	**145,403**	(177,016)
Income taxes payable	17	**29,279**	-
Customer deposits		**(172,996)**	236,533
		(4,796,551)	21,883
Interest paid		**(209,067)**	(34,357)
Cash provided by (used in) operating activities		**(2,891,440)**	816,944
Investing activities			
Decrease (increase) in restricted cash	12	**300,000**	(50,000)
Purchase of property and equipment	7	**(322,874)**	(86,506)
Cash used in investing activities		**(22,874)**	(136,506)
Financing activities			
Proceeds from packing credit loans	9	**1,479,553**	-
Proceeds from securitization debt	10	**2,018,239**	-
Proceeds from subordinate debt	11	**758,297**	-
Repayment of subordinate debt	11	**(41,250)**	-
Repayment of finance lease liabilities	8	**(58,826)**	(137,458)
Proceeds from (repayment of) notes payable	12	**(300,000)**	50,000
Proceeds from (repayment of) revolving loans	12	**(100,000)**	410,000
Cash provided by financing activities		**3,756,013**	322,542
Net increase in cash and cash equivalents		**841,699**	1,002,980
Effect of foreign exchange rate changes on cash and cash equivalents		**11,169**	(4,927)
Cash and cash equivalents (overdraft) at beginning of the year		**841,008**	(157,045)
Cash and cash equivalents at end of the year		**$ 1,693,876**	$ 841,008
Supplemental cash flow disclosures - non cash transactions			
Purchase of property and equipment	7	**$ 27,962**	$ 10,194
Amortization of financing costs - subordinate debt	11	**8,008**	-
Settlement of packing credit loans with proceeds from securitization debt	9	**1,479,553**	-

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

1. Nature of business and corporate information

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

The Corporation's business is carried out through its wholly owned subsidiaries, International Play Company Inc. ("IPC") and Outdoor Play Company Inc. ("OPC"). IPC operates in the manufacturing business segment of the Corporation, and designs, manufactures and installs play structures for children, from its plant in Langley, British Columbia, Canada. OPC operates in the family entertainment centre business segment of the Corporation, and owns and operates a family entertainment centre in Langley, British Columbia, Canada.

The Corporation's head office is located at #215 – 27353, 58th Crescent, Langley, British Columbia, Canada, V4W 3W7 and its registered office is located at Suite 1400, 700 – 2nd Street, S.W., Calgary, Alberta, T2P 4V5.

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 November 25, 2013.

Basis of measurement

These Consolidated Financial Statements have been prepared on a going-concern basis, under the historical cost convention, except for certain financial assets and financial liabilities recorded at fair value through profit or loss.

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, IPC and OPC. 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.

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 profit or loss. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

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 profit or 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.

<u>Financial assets at fair value through profit or loss</u>:

Financial assets are classified at fair value through profit or 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 profit or loss are measured at fair value, with changes to their fair value recognized through profit or loss.

The Corporation enters periodically into foreign exchange forward contracts to limit its exposure to foreign currency rate fluctuations. These derivative contracts are initially recorded at fair value and are recorded as either assets or liabilities based on their fair value. Subsequent to initial recognition, these derivatives are measured at fair value and changes to their value are recognized through profit or loss as foreign exchange gains or losses. The Corporation does not designate these financial instruments as hedges.

<u>Loans and receivables</u>:

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, restricted cash, finance receivables, and trade and other receivables.

The Corporation's cash, cash equivalents and restricted cash 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value, with changes to their fair value, other than impairment losses and foreign currency differences, recognized in other comprehensive income. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Determination of fair value:

The fair value of financial assets at fair value through profit or 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.

(ii) Financial liabilities

Financial liabilities are comprised of the Corporation's securitization debt, subordinate debt, trade payables and accrued charges, notes payable and revolving loans. 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. Costs of materials are determined on an average per unit basis. 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.

Property and equipment and depreciation

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the site on which they are located.

3. Significant accounting policies (continued)

Property and equipment and depreciation (continued)

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

Property and equipment are 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 if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

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 profit or 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 profit or 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.

3. Significant accounting policies (continued)

Impairment (continued)

(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 profit or 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.

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.

Warranty provision

A provision for warranty costs is recorded on product sales at the time the sale is recognized. In establishing the warranty provision, management estimates the likelihood that products sold will experience warranty claims and the estimated cost to resolve claims received, taking into account the nature of the contract and past and projected experience with the products.

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.

3. Significant accounting policies (continued)

Revenue recognition (continued)

(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.

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 customer deposits.

(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.

3. Significant accounting policies (continued)

Finance costs

Finance costs are comprised of interest expense on loans and notes payable, finance leases, unwinding of the discount on provisions, decreases in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

Income taxes

Income taxes are comprised of current and deferred income taxes. Income tax is recognized in profit or 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 asset and 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.

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 profit or 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.

3. Significant accounting policies (continued)

Employee future benefits (continued)

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 profit or 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 profit or loss with a corresponding adjustment to equity.

The Corporation issues share options under its share-based compensation plans as described in Note 14. 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 share is computed using the weighted average number of common shares outstanding during the period, adjusted for treasury shares, if any. Diluted net income per share is calculated using the treasury stock method. Under the treasury stock method, the dilution is calculated based upon the number of common shares issued should “in the money” options, if any, be exercised. The computation of diluted loss per share excludes the effects of anti-dilutive share-based compensation arrangements.

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 Chief Executive Officer. The Corporation’s 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 analysis of the functional currency for each subsidiary and noted the majority of operating expenditures were either denominated in Canadian dollars or determined by the Canadian dollar. Consequently, the Corporation concluded that the Canadian dollar is the currency that mainly influences the cost of providing goods and services by the Corporation and its subsidiaries. The Corporation also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

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.

4. Critical accounting estimates and judgments (continued)

Property and equipment

Management estimates the useful lives of property and 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 property and 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 property and 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.

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. Recent accounting pronouncements

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after September 30, 2013. Pronouncements that are not applicable to the Corporation have been excluded from those described below.

The following new standards were issued by the IASB in May 2011, and are effective for annual periods beginning on or after January 1, 2013. The Corporation has not early adopted these new standards and is currently evaluating the impact of these standards on its Consolidated Financial Statements.

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") will replace existing guidance on consolidation in IAS 27, *Consolidated and Separate Financial Statements,* and SIC 12, *Consolidation – Special Purpose Entities*. The portion of IAS 27 that deals with separate financial statements will remain.

IFRS 10 changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition focuses on the need to have both "power" and "variable returns" for control to be present. Power is the current ability to direct the activities that significantly influence returns. Variable returns can be positive, negative or both. IFRS 10 requires continuous assessment of control of an investee in line with any changes in facts and circumstances.

5. Recent accounting pronouncements (continued)

Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") will replace IAS 31 *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control.
Joint Arrangements (continued)

The focus is not solely on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement. IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the Standard categorizes joint arrangements as either joint operations or joint ventures.

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity.

Separate Financial Statements

IAS 27, *Separate Financial Statements* ("IAS 27") has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9, *Financial Instruments.* The amended IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27, *Consolidated and Separate Financial Statements* that is replaced by IFRS 10.

Investments in Associates and Joint Ventures

IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28") has been revised and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of IAS 28, *Investments in Associates* does not include joint ventures.

Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

Financial Instruments: Presentation

IAS 32, Financial Instruments: Presentation ("IAS 32") an amendment *Offsetting Financial Assets and Liabilities* was issued by the IASB in December 2011, and is effective for annual periods beginning on or after July 1, 2014, but early adoption is permitted. The objective of this amendment to IAS 32 is to clarify when an entity has the right to offset financial assets and liabilities.

(Expressed in Canadian dollars)

5. Recent accounting pronouncements (continued)

Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures ("IFRS 7") an amendment to IFRS 7 was issued by the IASB in December 2011, and is effective for annual periods beginning on or after July 1, 2013, but early adoption is permitted. The objective of this amendment is to enhance disclosures about offsetting of financial assets and financial liabilities.

Financial Instruments

The Corporation will be required to adopt *IFRS 9, Financial Instruments*, which replaces the current standard, *IAS 39, Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. The IASB recently suspended the originally planned effective date of January 1, 2015 and at present the effective date has not been determined. The Corporation has not early adopted this standard and is currently evaluating the impact, if any, that the standard might have on its Consolidated Financial Statements.

6. Inventories

	September 30, 2013	September 30, 2012
Raw materials	**$ 938,511**	$ 631,158
Work in progress	**119,259**	19,170
Finished goods	**11,888**	77,167
Total inventory	**$ 1,069,658**	$ 727,495

At September 30, 2013, raw materials include inventories measured at net realizable value of $65,687 (September 30, 2012 - $62,698).

Inventories included in cost of sales for the year ended September 30, 2013 amount to $5,864,320 (September 30, 2012 - $5,294,038).

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

	September 30, 2013	September 30, 2012
Balance at beginning of year	**$ 43,309**	$ 63,382
Write-offs	**(8,833)**	(37,858)
Increase in allowance	**30,859**	17,785
Balance at end of year	**$ 65,335**	$ 43,309

(Expressed in Canadian dollars)

7. Property and equipment

	Automotive	Computer Equipment	Furniture and Fixtures	Machinery and Equipment	Moulds	Leasehold Improvements	Total
Carrying amount at September 30, 2011	$ 16,528	$ 109,620	$ 61,303	$ 941,387	$ 39,276	$ 645,133	$ 1,813,247
Additions	610	46,073	8,081	29,828	4,973	7,135	96,700
Disposals	(2,302)	-	-	(4,911)	-	-	(7,213)
Depreciation	(3,846)	(33,141)	(12,401)	(173,366)	(11,098)	(68,937)	(302,789)
Carrying amount at September 30, 2012	$ 10,990	$ 122,552	$ 56,983	$ 792,938	$ 33,151	$ 583,331	$ 1,599,945
Balance at September 30, 2012 comprised of:							
Cost	$ 33,138	$ 230,068	$ 112,388	$ 1,662,752	$ 131,636	$ 830,558	$ 3,000,540
Accumulated depreciation	(22,148)	(107,516)	(55,405)	(869,814)	(98,485)	(247,227)	(1,400,595)
Carrying amount	$ 10,990	$ 122,552	$ 56,983	$ 792,938	$ 33,151	$ 583,331	$ 1,599,945
Carrying amount at September 30, 2012	**$ 10,990**	**$ 122,552**	**$ 56,983**	**$ 792,938**	**$ 33,151**	**$ 583,331**	**$ 1,599,945**
Additions	**-**	**109,258**	**2,412**	**120,580**	**-**	**118,586**	**350,836**
Disposals	**-**	**(23,380)**	**-**	**-**	**-**	**-**	**(23,380)**
Depreciation	**(2,833)**	**(43,524)**	**(10,702)**	**(155,949)**	**(8,686)**	**(70,883)**	**(292,577)**
Carrying amount at September 30, 2013	**$ 8,157**	**$ 164,906**	**$ 48,693**	**$ 757,569**	**$ 24,465**	**$ 631,034**	**$ 1,634,824**
Balance at September 30, 2013 comprised of:							
Cost	**$ 33,138**	**$ 251,133**	**$ 114,800**	**$ 1,776,052**	**$ 131,636**	**$ 949,144**	**$ 3,255,903**
Accumulated depreciation	**(24,981)**	**(86,227)**	**(66,107)**	**(1,018,483)**	**(107,171)**	**(318,110)**	**(1,621,079)**
Carrying amount	**$ 8,157**	**$ 164,906**	**$ 48,693**	**$ 757,569**	**$ 24,465**	**$ 631,034**	**$ 1,634,824**

During the year ended September 30, 2013, the Corporation acquired property and equipment totalling $350,836 of which $27,962 was included in trade payables, accrued charges and other, and $322,874 was paid in cash. During the year ended September 30, 2012, the Corporation acquired property and equipment totalling $96,700 of which $10,194 was included in trade payables, accrued charges and other, and $86,506 was paid in cash.

8. Obligations under finance leases

In the normal course of business, the Corporation enters into finance lease arrangements to finance the purchase of vehicles and other equipment used for operations. At September 30, 2013, one finance lease remained at an interest rate of 10.43% per annum and maturing in October 2013. The obligation under this lease is secured by the asset acquired.

9. Credit facilities

The Corporation has the following credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank"):

(a) Export Loan Facility

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,543,000 in Canadian dollars) ("Packing Credit Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $4,320,000 ($4,443,000 in Canadian dollars) ("TINRFF Facility").

<u>Packing Credit Facility</u>

Under the Packing Credit Facility, the Corporation may finance up to 75% of its purchasing, processing, manufacturing and packaging costs ("Packing Costs") for customer purchase orders approved by the Bank. The Packing Credit Facility bears interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 3.50% per annum and is payable on demand or within 90 days for advances relating to Packing Costs from suppliers located within Canada and 120 days for advances relating to Packing Costs from suppliers located outside of Canada.

<u>TINRFF Facility</u>

Under the TINRFF Facility, the Bank may at its sole discretion purchase from the Corporation select insured trade receivables of the Corporation at a discount fee of USD LIBOR plus 3.50%.

(b) Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of $1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,000,000, 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.

During the year ended September 30, 2013, the Corporation obtained packing credit loans amounting to U.S. $1,439,250 ($1,479,553 in Canadian dollars), under the Packing Credit Facility, and used proceeds from the sale of trade receivables, under the TINRFF Facility, to extinguish the packing credit loans.

10. Finance receivables and securitization debt

Finance receivables are comprised of trade receivables of U.S. $1,253,887 ($1,289,623 in Canadian dollars), U.S. $1,212,305 ($1,246,855 in Canadian dollars) and U.S. $971,569 ($999,259 in Canadian dollars) from three fixed-priced contracts recognized on a percentage of completion basis of accounting (collectively the “Finance Receivables”), which have been sold, under the TINRFF Facility described in Note 9, at their respective contractual values of U.S. $1,310,600 ($1,347,952 in Canadian dollars), U.S. $1,259,000 ($1,294,882 in Canadian dollars) and U.S. $1,190,000 ($1,223,915 in Canadian dollars) (collectively the “Securitization Debt”), discounted by 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses (the “Holdback”).

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 Holdback represents the Corporation’s maximum exposure to impaired Finance Receivables. The Holdback is remitted to the Corporation upon collection of the Finance Receivables by the Bank. The Finance Receivables underlying the Securitization Debt of $ U.S. $1,310,600, U.S. $1,259,000 and U.S. $1,190,000 are payable to the Bank on or before October 19, 2013, December 18, 2013, and February 5, 2014, respectively.

11. Subordinate debt

On May 1, 2013, the Corporation obtained from BDC Capital Inc. (“BDCC”) subordinate debt financing of $758,297, net of issuance costs of $41,703 (“Subordinate Debt”). The Subordinate Debt bears interest at BDCC’s floating base rate (currently at 5.00%) plus 7.00% per annum. In addition, BDCC receives four annual royalty payments of 2.00% of the Corporation’s consolidated earnings before interest (finance costs), income taxes and depreciation expenses (“EBITDA”) to a maximum of $1,000,000, plus 1.00% of EBITDA over $1,000,000. The Subordinate Debt matures on April 15, 2017 and the principal is payable in 47 monthly instalments of $8,250 (the “Monthly Instalments”) and one instalment of $412,250. In addition to the scheduled Monthly Instalments, the principal is payable by way of four annual payments, commencing on January 15, 2014, to a maximum of $100,000 per annum (the “Excess Cash Flow Sweep”). The Subordinate Debt is secured by a general security agreement creating a first rank security interest in all intellectual property of the Corporation and subordinated in rank to any other security granted on all other property of the Corporation. The conditions of credit include compliance with various covenants.

The following is a schedule of future principal payments assuming the maximum annual Excess Cash Flow Sweep of $100,000:

	Principal payments	Amortization of debt issuance costs	**Amortization of carrying amount**
Due within 1 year	$ 199,000	$ 15,731	**$ 183,269**
1 to 3 years	398,000	16,673	**381,327**
4 to 5 years	161,750	1,291	**160,459**
	$ 758,750	$ 33,695	**$ 725,055**

12. Related party transactions

On February 1, 2013, the Corporation renewed its revolving loans with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders of the Revolving Loans"), to borrow the aggregate principal amount of $310,000 at an interest rate of 15.00% per annum (the "Revolving Loans"). The Corporation also agreed with a former independent director to not renew a Revolving Loan in the aggregate principal amount of $100,000, pursuant to which the Corporation paid the aggregate sum of $111,295, including accrued interest, to the former independent director. As part of the Subordinate Debt financing with BDCC described in Note 11, the Lenders of the Revolving Loans agreed to limit principal payments by the Corporation for the Revolving Loans to the lesser of 25% of the Excess Cash Flow Sweep or $25,000 per annum, and to postpone any other principal payments until the earlier of: (i) the Corporation obtaining a line of credit on terms satisfactory to BDCC with sufficient margining to cover the principal payments for the Revolving Loans; or (ii) extinguishment of the Subordinate Debt.

On March 22, 2013, a standby letter of credit of $300,000 (the "Letter of Credit") was cancelled and restricted cash of $300,000 from the Notes Payable, used as collateral to secure the Letter of Credit, was released to the Corporation, pursuant to which the Corporation paid the aggregate sum of $379,274, including accrued interest of $79,274, to an independent director of the Corporation, a former independent director of the Corporation, the Corporation's Chief Executive Officer, President and Executive Vice-President.

During the year ended September 30, 2013, the Corporation purchased raw material inventories of U.S. $169,718 ($175,574 in Canadian dollars) from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). At September 30, 2013, the Corporation's trade payables and accrued charges include a balance of U.S. $39,808 ($41,152 in Canadian dollars) payable to the Related Entity, and the Corporation has purchase commitments for raw material inventories of U.S. $40,848 ($42,012 in Canadian dollars) with the Related Entity. There were no transactions with the Related Entity in 2012.

13. Trade payables, accrued charges and other

	September 30, 2013	September 30, 2012
Trade payables	**$ 847,348**	$ 779,189
Accrued charges	**678,863**	580,093
Warranty provision	**6,310**	4,060
	$ 1,532,521	$ 1,363,342

14. 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.

(Expressed in Canadian dollars)

14. Share options (continued)

The maximum number of share options available to be granted under the Option Plan as at September 30, 2013 and 2012 is 1,022,018.

There are no share options outstanding at September 30, 2013 and 2012.

15. Cost of sales and selling and administrative expenses

	Years ended September 30,	
	2013	2012
Cost of materials	**$ 4,979,416**	$ 3,237,293
Shipping, installation and other	**2,426,456**	1,277,274
Short-term employee benefits	**1,985,479**	1,819,786
Post-employment benefits	**15,020**	14,896
Depreciation	**112,842**	126,574
Total cost of sales	**$ 9,519,213**	$ 6,475,823

	Years ended September 30,	
	2013	2012
Short-term employee benefits	**$ 1,633,668**	$ 1,394,100
Post-employment benefits	**46,160**	47,754
Marketing, advertising and related expenditures	**586,803**	476,747
Travel and related expenditures	**176,947**	125,638
Rent, utilities, telecom and occupancy costs	**772,248**	762,908
Professional fees and insurance costs	**385,734**	353,351
Depreciation and loss on disposal of equipment	**203,115**	176,215
Bank charges and bad debts	**56,535**	30,754
Total selling and administrative expenses	**$ 3,861,210**	$ 3,367,467

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

	Years ended September 30,	
	2013	2012
Short-term employee benefits	**$ 693,072**	$ 625,622
Post-employment benefits	**26,000**	26,000
	$ 719,072	$ 651,622

(Expressed in Canadian dollars)

16. Commitments

The Corporation leases premises and certain equipment under long-term operating lease agreements that expire at various dates up to 2020. At September 30, 2013, the future minimum lease payments, including estimated occupancy costs, are as follows:

		September 30, 2013
Due within 1 year	$	444,660
Between 1 year and 5 years		1,346,038
More than 5 years		675,754
	$	2,466,452

For the year ended September 30, 2013, selling and administrative expenses include operating lease costs of $598,734 (September 30, 2012 - $550,230).

On February 6, 2008, the Corporation entered into an operating lease agreement commencing on March 1, 2008 to February 28, 2014 with basic rent escalating annually, and rent inducement consisting of ten months of basic rent forgiven.

On July 6, 2010, the Corporation entered into an operating lease agreement for office and warehouse space, commencing on December 1, 2010 to November 30, 2020, with basic rent escalating every two years, and rent inducement consisting of seven months of basic rent forgiven.

(Expressed in Canadian dollars)

17. 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, 2013	September 30, 2012
Net deferred income tax assets at beginning of the year	**$ 314,736**	$ 421,753
Deferred income tax provision	**(387,507)**	(107,017)
Net deferred income tax assets (liabilities) at end of the year	**$ (72,771)**	$ 314,736
Components of deferred income tax assets:		
Non-capital losses carried forward	**$ -**	$ 368,960
Timing differences on expenses	**44,411**	52,142
Share issue expenses	**-**	824
	44,411	421,926
Component of deferred income tax liability:		
Property and equipment	**(117,182)**	(107,190)
Net deferred income tax assets (liabilities) at end of the year	**$ (72,771)**	$ 314,736
Aggregation by taxable entity:		
Deferred income tax assets	**$ 28,283**	$ 314,736
Deferred income tax liabilities	**(101,054)**	-
	$ (72,771)	$ 314,736

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, 2013 and 2012, the Corporation has capital losses carried forward for income tax purposes of $51,750 for which no benefit was recognized. Future benefits, if any, will be restricted to one half of enacted rates and will be recognized when realized.

17. Income taxes (continued)

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, **2013**	2012
Income before income taxes	**$ 1,646,029**	$ 419,829
Combined Canadian and provincial statutory income tax rate	**25.00%**	25.38%
Expected income tax expense	**$ 411,507**	$ 106,553
Effect of changes in income tax rates	**(940)**	1,852
Non-deductible expenses and other	**6,219**	(1,388)
Deferred income tax provision	**$ 416,786**	$ 107,017
Effective income tax rate	**25.32%**	25.49%
Allocation of income tax provision:		
Current	**$ 29,279**	$ -
Deferred	**387,507**	107,017
	$ 416,786	$ 107,017

18. Capital management

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

	September 30, 2013	September 30, 2012
Securitization debt	**$ 3,480,074**	$ -
Subordinate debt	**725,055**	-
Shareholders' equity	**3,309,494**	2,080,251
	$ 7,514,623	$ 2,080,251

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 augments these capital sources with an available packing credit facility of U.S. $1,500,000 ($1,543,000 in Canadian dollars), which can be used to finance up to 75% of the Corporation's purchasing, processing, manufacturing and packaging costs for select customer purchase orders approved by the bank. The Corporation intends to continue to extinguish packing credit loans with proceeds from securitization debt.

(Expressed in Canadian dollars)

18. Capital management (continued)

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 10% holdback represents the Corporation's maximum exposure to impaired finance receivables.

The Corporation has also chosen subordinate debt financing as part of its capital strategy to ensure adequate working capital for customer orders that are not financed by the packing credit and securitization facilities.

The secured packing credit and securitization facilities are subject to annual renewals. The subordinate debt matures on April 15, 2017. The Corporation intends to extinguish its revolving loans of $310,000 by utilizing the repayment options, described in Note 12, available under its postponement agreements with the subordinate debt lender, BDCC.

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, 2013, 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.

19. 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:

		Carrying Amounts	
Class of Financial Instruments	**Categories in Consolidated Statements of Financial Position**	**September 30, 2013**	September 30, 2012
Loans and receivables financial assets measured at amortized cost	Cash and cash equivalents, restricted cash, finance receivables, and trade and other receivables	**6,892,065**	2,020,671
Financial liabilities measured at amortized cost	Securitization debt, subordinate debt, trade payables and accrued charges, income taxes payable, revolving loans and notes payable	**6,070,619**	2,069,282

19. Financial instruments and risk management (continued)

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

The carrying values of cash and cash equivalents, finance receivables, trade and other receivables, securitization debt, trade payables and accrued charges, and income taxes payable approximate their respective fair values due to their short-term maturities. The subordinate debt bears interest at a variable rate and its carrying value approximates its fair value. The fair values of the notes payable and the revolving loans are not practical to determine because they are not publicly traded and the borrowing terms have been concluded with related parties, as described in Note 12.

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, 2013 and 2012, all of the Corporation's financial assets and liabilities were measured at amortized cost.

(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 securitization debt and its subordinate debt, which are subject to variable interest rates. The revolving loans bear interest at a fixed rate.

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.

19. Financial instruments and risk management (continued)

(b) Risks and risk management (continued)

A sensitivity analysis has been performed assuming the Corporation's borrowing interest rates change by 2%, or 200 basis points, as at September 30, 2013. For every increase of 2% to the Corporation's borrowing interest rate, with all other variables held constant, net income and total comprehensive income would decrease by approximately $33,000. A decrease in interest rates would have the opposite effect.

In 2012, the Corporation's interest rate risk was limited, because its notes payable and revolving loans were subject to fixed interest rates.

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 significant sales denominated in U.S. dollars, which exceeds 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, 2013, the Corporation recorded a net foreign exchange loss of $6,434 on its foreign exchange forward contracts (September 30, 2012 – net gain of $7,013). There were no foreign exchange forward contracts outstanding at September 30, 2013 and 2012.

A sensitivity analysis has been performed assuming the foreign exchange rate changes by 5% as at September 30, 2013 and 2012. For every 5% strengthening of the U.S. dollar against the Canadian dollar, with all other variables held constant, net income and total comprehensive income would increase by approximately $120,000 (September 30, 2012 – net income and total comprehensive income would increase by $32,000). 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, resulting primarily from higher cash balances in U.S. dollars at September 30, 2013 as compared to September 30, 2012.

(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.

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

The Corporation performs ongoing credit evaluations of its customers, and carries third party insurance that limits its exposure to approximately 10% of the bad debt amount from impaired finance and trade receivables.

(Expressed in Canadian dollars)

19. Financial instruments and risk management (continued)

(ii) Credit risk (continued)

Trade receivables with three customers represent approximately 75% of the balance of trade receivables as at September 30, 2013 (September 30, 2012 – two customers representing approximately 64%). It is the opinion of management that these accounts do not represent a significant credit risk.

The following table provides the aging of trade receivables:

		September 30, 2013		September 30, 2012
Trade receivables				
Current	**$**	**911,336**	$	124,058
31 to 60 days		**83,153**		106,465
61 to 90 days		**91,456**		9,286
91 days +		**672,902**		42,869
		1,758,847		282,678
Unbilled receivables (progress billing in excess of work performed) from sales arrangments recognized on a percentage of completion basis of accounting		**(133,980)**		488,727
Other receivables		**37,585**		108,258
	$	**1,662,452**	$	879,663

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

		September 30, 2013		September 30, 2012
Balance at beginning of the year	**$**	**-**	$	265,020
Write-offs		**(599)**		(259,944)
Increase (decrease) in allowance		**599**		(5,076)
Balance at end of the year	**$**	**-**	$	-

(Expressed in Canadian dollars)

19. Financial instruments and risk management (continued)

(iii) 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 18.

The following table provides a summary of the Corporation's contractual obligations at September 30, 2013:

		Payments due by period			
	Total	Within 1 year	1-3 years	4-5 years	After 5 years
Securitization debt, including interest	**$ 3,508,242**	$ 3,508,242	$ -	$ -	$ -
Subordinate debt, including interest	**1,063,606**	313,863	550,115	199,628	-
Trade payables, accrued charges and other	**1,532,521**	1,532,521	-	-	-
Income taxes payable	**29,279**	29,279	-	-	-
Finance leases, including interest	**1,841**	1,841	-	-	-
Revolving loans, including interest	**329,492**	329,492	-	-	-
Operating leases	**2,466,452**	444,660	671,379	674,659	675,754
	$ 8,931,433	$ 6,159,898	$ 1,221,494	$ 874,287	$ 675,754

(Expressed in Canadian dollars)

20. 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:

	Year ended September 30, 2013		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 13,784,403	$ 1,427,590	$ 15,211,993
Cost of sales	8,641,095	878,118	9,519,213
Gross profit	5,143,308	549,472	5,692,780
Selling and administrative expenses	3,253,015	608,195	3,861,210
Foreign exchange gain	(27,348)	-	(27,348)
Finance costs	210,917	1,972	212,889
Income taxes	431,960	(15,174)	416,786
Net income (loss)	$ 1,274,764	$ (45,521)	$ 1,229,243
Total assets	$ 8,809,566	$ 1,088,183	$ 9,897,749
Total liabilities	$ 6,398,430	$ 189,825	$ 6,588,255
Depreciation expense	$ 145,575	$ 147,002	$ 292,577
Acquisition of property and equipment	$ 251,343	$ 99,493	$ 350,836

(Expressed in Canadian dollars)

20. Segment reporting and concentration of sales (continued)

(a) Business segments (continued)

	Year ended September 30, 2012		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 8,994,135	$ 1,395,310	$ 10,389,445
Cost of sales	5,672,958	802,865	6,475,823
Gross profit	3,321,177	592,445	3,913,622
Selling and administrative expenses	2,794,014	573,453	3,367,467
Foreign exchange loss	21,849	-	21,849
Finance costs	93,748	10,729	104,477
Income taxes	141,247	(34,230)	107,017
Net income	$ 270,319	$ 42,493	$ 312,812
Total assets	$ 3,534,553	$ 1,305,414	$ 4,839,967
Total liabilities	$ 2,540,020	$ 219,696	$ 2,759,716
Depreciation expense	$ 146,368	$ 156,421	$ 302,789
Acquisition of property and equipment	$ 41,766	$ 54,934	$ 96,700

(b) Geographic and customer information

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,	
	2013	2012
Sales		
Canada	**$ 2,308,819**	$ 2,272,731
Americas	**6,060,844**	3,656,699
Other	**6,842,330**	4,460,015
	$ 15,211,993	$ 10,389,445

For the years ended September 30, 2013 and 2012, the approximate sales to one significant customer from the manufacturing business segment amounted to $5,032,488 and $3,569,391, respectively.

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 November 25, 2013 and should be read together in conjunction with our audited consolidated financial statements and accompanying notes for the years ended September 30, 2013 and 2012.

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 related to Iplayco, including our Management Proxy Circular, are filed with Canadian securities regulatory authorities on SEDAR at www.sedar.com and are also available on our website at www.iplaycoltd.com.

Overview

Our business is carried out through the Corporation's wholly owned subsidiaries International Play Company Inc. and Outdoor Play Company Inc. We operate in two business segments: (1) We design, manufacture and install customized play structures for children, from our plant in Langley, British Columbia ("Manufacturing" or "MFG"); and (2) we own and operate a family entertainment centre in Langley, British Columbia ("Family Entertainment Centre" or "FEC").

Consolidated Results

Sales for the three months ended September 30, 2013 ("Q4-13") increased by 9.3% to $3,711,714 from $3,396,363 for the three months ended September 30, 2012 ("Q4-12"). Gross profit percentage was 33.6% of sales in Q4-13 compared to 41.2% in Q4-12. Operating expenses, including foreign exchange gains and losses and finance costs, were $1,120,930 or 30.2% of sales in Q4-13 compared to $877,384 or 25.8% of sales in Q4-12. Net income in Q4-13 was $93,682, or diluted net income per share of $0.01, compared to net income of $392,386, or diluted net income per share of $0.04, in Q4-12.

Sales for the year ended September 30, 2013 ("2013") increased by 46.4% to $15,211,993 from $10,389,445 for the year ended September 30, 2012 ("2012"). Gross profit percentage was 37.4% of sales in 2013 compared to 37.7% in 2012. Operating expenses, including foreign exchange gains and losses and finance costs, were $4,046,751 or 26.6% of sales in 2013 compared to $3,493,793 or 33.6% of sales in 2012. Net income in 2013 was $1,229,243, or diluted net income per share of $0.12, compared to net income of $312,812, or diluted net income per share of $0.03, in 2012.

Manufacturing Operations

The time required to manufacture, deliver, and install playgrounds is largely dependent on the size and complexity of the play structures ordered by our customers. Factors such as customer location, capital expenditure budgets, and theme requirements, may cause project completion timelines to vary from several weeks to several months. Our products are sold and installed worldwide. Our customer base includes family entertainment centres, theme parks, shopping malls, daycare centres, fitness clubs, municipalities and not-for-profit organizations.

Sales generated by our Manufacturing operations increased by 10.4% to $3,444,070 in Q4-13 from $3,118,263 in Q4-12. This increase is due primarily to higher sales to our customers located in the Americas, but excluding Canada, who accounted for sales of $1,442,533 (or 41.9% of total Manufacturing sales) in Q4-13 compared to $1,099,620 (or 35.3%) in Q4-12.

Sales generated by our Manufacturing operations increased by 53.3% to $13,784,403 in 2013 from $8,994,135 in 2012. This increase is due primarily to higher sales to our customers located in the Americas, but excluding Canada, who accounted for sales of $6,060,844 (or 44.0% of total Manufacturing sales) in 2013 compared to $3,656,699 (or 40.7%) in 2012, and higher sales to our customers located outside of the Americas, who accounted for sales of $6,842,330 (or 49.6% of total Manufacturing sales) in 2013 compared to $4,460,015 (or 49.6%) in 2012.

In Q4-13, two customers accounted for 55.6% of total sales by our Manufacturing operations as compared to two customers accounting for 56.7% of total sales by our Manufacturing operations in Q4-12. In 2013, one customer accounted for 36.5% of total sales by our Manufacturing operations as compared to one customer accounting for 39.7% of total sales by our Manufacturing operations in 2012. Should these significant customers 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 one significant customer in 2014. To manage the credit risk from our customers, we perform ongoing credit evaluations of our customers and we carry third party insurance that limits our exposure to approximately 10% of the bad debt amount from impaired finance and trade receivables.

We expected sales generated by our Manufacturing operations in Q4-13 to decrease moderately as compared to sales for the three months ended June 30, 2013 ("Q3-13"). Sales generated by our Manufacturing operations decreased by 22.6% to $3,444,070 in Q4-13 from $4,449,413 in Q3-13. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ended December 31, 2013 ("Q1-14") to decrease moderately as compared to Q4-13.

Gross profit percentage decreased to 33.7% of sales by our Manufacturing operations in Q4-13 from 42.2% in Q4-12 due to sales mix that yielded lower margins in Q4-13 as compared to Q4-12. We expected our gross profit percentage in Q4-13 to remain in-line with Q3-13. Gross profit percentage decreased to 33.7% of sales by our Manufacturing operations in Q4-13 from 40.8% in Q3-13. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations to increase in Q1-14 as compared to Q4-13.

Gross profit percentage increased marginally to 37.3% of sales by our Manufacturing operations in 2013 from 36.9% in 2012.

Our Manufacturing operations generated net income of $138,803 in Q4-13 compared to net income of $439,566 in Q4-12. This decrease is due primarily to the lower gross profit percentage in Q4-13 as compared to Q4-12. We expected the net operating results from our Manufacturing operations to decrease moderately in Q4-13 as compared to Q3-13. Our Manufacturing operations generated net income of $138,803 in Q4-13 compared to net income of $601,056 in Q3-13. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations in Q1-14 to remain in-line with Q4-13.

Our Manufacturing operations generated net income of $1,274,764 in 2013 compared to net income of $270,319 in 2012. The significant improvement in net operating results in 2013 as compared to 2012 is due primarily to significantly higher sales, partially offset by higher operating expenses, in 2013 as compared to 2012.

Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 3.8% to $267,644 in Q4-13 from $278,100 in Q4-12. We expected sales generated by our FEC operations to decrease moderately in Q4-13 as compared to Q3-13 due primarily to seasonality. Sales generated by our FEC operations decreased by 19.3% to $267,644 in Q4-13 from $331,617 in Q2-13. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase moderately in Q1-14 as compared to Q4-13 due primarily to seasonality.

Sales generated by our FEC operations increased by 2.3% to $1,427,590 in 2013 from $1,395,310 in 2012 due primarily to increases in pricing for admissions, food and redemption games.

Our FEC operations generated a net loss of $45,121 in Q4-13, compared to a net loss of $47,180 in Q4-12. We expected the net operating results from our FEC operations to decrease moderately in Q4-13 as compared to Q3-13 due primarily to seasonality. Our FEC operations generated a net loss of $45,121 in Q4-13 as compared to net income of $41,573 in Q3-13. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to increase moderately in Q1-14 as compared to Q4-13 due primarily to anticipated higher sales resulting from seasonality.

Our FEC operations generated a net loss of $45,521 in 2013, compared to net income of $42,493 in 2012. The decrease in net operating results in 2013 as compared to 2012 is due primarily to the combined effect of lower gross profit by $42,973 (or -7.3%) resulting from higher staffing costs, and higher selling and administrative expenses by $34,742 (or 6.1%) in 2013 as compared to 2012.

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 the years ended September 30, 2013 and 2012, expressed as a percentage of total sales:

	Three months ended September 30, 2013						Three months ended September 30, 2012					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**92.8**	**%**	**7.2**	**%**	**100.0**	**%**	91.8	%	8.2	%	100.0	%
Cost of sales	**61.5**		**4.9**		**66.4**		53.1		5.7		58.8	
Gross profit	**31.3**		**2.3**		**33.6**		38.7		2.5		41.2	
Selling and administrative expenses	**22.8**		**4.0**		**26.8**		19.7		4.7		24.4	
Foreign exchange loss	**1.5**		**-**		**1.5**		0.5		-		0.5	
Finance costs	**2.0**		**-**		**2.0**		0.9		0.1		1.0	
Income taxes	**1.3**		**(0.4)**		**0.9**		4.8		(0.9)		3.9	
Net income (loss)	**3.7**	**%**	**(1.3)**	**%**	**2.4**	**%**	12.8	%	(1.4)	%	11.4	%

	Year ended September 30, 2013						Year ended September 30, 2012					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**90.6**	**%**	**9.4**	**%**	**100.0**	**%**	86.6	%	13.4	%	100.0	%
Cost of sales	**56.8**		**5.8**		**62.6**		54.6		7.7		62.3	
Gross profit	**33.8**		**3.6**		**37.4**		32.0		5.7		37.7	
Selling and administrative expenses	**21.4**		**4.0**		**25.4**		26.9		5.5		32.4	
Foreign exchange loss (gain)	**(0.2)**		**-**		**(0.2)**		0.2		-		0.2	
Finance costs	**1.4**		**-**		**1.4**		0.9		0.1		1.0	
Income taxes	**2.8**		**(0.1)**		**2.7**		1.4		(0.3)		1.1	
Net income (loss)	**8.4**	**%**	**(0.3)**	**%**	**8.1**	**%**	2.6	%	0.4	%	3.0	%

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

	Three months ended September 30, 2013						Three months ended September 30, 2012					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**1.4**	**%**	**7.2**	**%**	**8.6**	**%**	3.5	%	8.2	%	11.7	%
Americas	**38.9**		**-**		**38.9**		32.4		-		32.4	
Other	**52.5**		**-**		**52.5**		55.9		-		55.9	
	92.8	**%**	**7.2**	**%**	**100.0**	**%**	91.8	%	8.2	%	100.0	%

	Year ended September 30, 2013						Year ended September 30, 2012					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**5.8**	**%**	**9.4**	**%**	**15.2**	**%**	8.4	%	13.4	%	21.8	%
Americas	**39.8**		**-**		**39.8**		35.2		-		35.2	
Other	**45.0**		**-**		**45.0**		43.0		-		43.0	
	90.6	**%**	**9.4**	**%**	**100.0**	**%**	86.6	%	13.4	%	100.0	%

Results of Operations – Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Sales

Sales increased by $315,351 (or 9.3%) to $3,711,714 in Q4-13 from $3,396,363 in Q4-12 due primarily to an increase in sales of $325,807 by our Manufacturing operations.

In Q4-13, two significant customers accounted for 51.6% of our sales. In Q4-12, two significant customers accounted for 52.0% of our sales. We expect continued business concentration from one significant customer in Q1-14.

We expected our sales in Q4-13 to decrease moderately as compared to Q3-13. Sales decreased by $1,069,316 (or 22.4%) to $3,711,714 in Q4-13 from $4,781,030 in Q3-13. Based on our updated sales forecasts, we are expecting sales to decrease moderately in Q1-14 as compared to Q4-13 due primarily to an anticipated decrease in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage decreased to 33.6% of sales in Q4-13 from 41.2% in Q4-12. This decrease is due primarily to our Manufacturing operations which generated a gross profit percentage of 33.7% in Q4-13, compared to 42.2% in Q4-12 resulting primarily from lower margin sales in Q4-13 as compared to Q4-12.

We expected our gross profit percentage in Q4-13 to remain in-line with Q3-13. Gross profit percentage decreased to 33.6% in Q4-13, compared to 40.5% in Q3-13. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q1-14 to increase moderately as compared to Q4-13 due primarily to our Manufacturing operations.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $243,546 (or 27.8%) to $1,120,930 in Q4-13, from $877,384 in Q4-12. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations in Q4-13 as compared to Q4-12.

We expected our operating expenses, as a percentage of sales to increase moderately in Q4-13 as compared to Q3-13. Our operating expenses increased to 30.2% of sales in Q4-13 from 22.6% in Q3-13. Based on our updated forecasts, we are expecting operating expenses in Q1-14 to increase moderately as a percentage of sales, compared to Q4-13.

Income Taxes

The income tax expense of $33,701 in Q4-13 is comprised primarily of a current income tax expense of $29,279 on earnings before income taxes generated by our Manufacturing operations. The income tax expense of $130,614 in Q4-12 is comprised of a deferred income tax expense of $161,731 on the earnings before income taxes generated by our Manufacturing operations and a deferred income tax recovery of $31,117 on the loss before income taxes incurred by our FEC operations.

Our taxable earnings in Q4-13 exceeded our remaining non-capital operating losses, and have resulted in a current income tax provision and income taxes payable of $29,279.

Net Operating Results

Net income and total comprehensive income was $93,682, or diluted net income per share of $0.01, in Q4-13, compared to net income and total comprehensive income of $392,386, or diluted net income per share of $0.04, in Q4-12. The decrease in net operating results is due primarily to the decrease in net income by our Manufacturing operations.

We expected our net operating results to decrease moderately in Q4-13 as compared to Q3-13. We generated net income of $93,682 in Q4-13, compared to net income of $642,629 in Q3-13. Based on our updated forecasts, we are expecting net income in Q1-14 to remain in-line with Q4-13, due primarily to anticipated net earnings by our Manufacturing operations.

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
2011	$8,467,618	$(761,550)	$ (0.07)	$4,230,083	$310,652	---
2012	$10,389,445	$312,812	$ 0.03	$4,839,967	$1,826	---
2013	$15,211,993	$1,229,243	$ 0.12	$9,897,749	$541,786	---

We expected moderate growth in sales and net income in 2013 as compared to 2012 and we exceeded expectations with both sales and net income improving significantly in 2013 as compared to 2012, due primarily to several large sales contracts in 2013. Although the economic environment in our industry is improving, the contract-based nature of our operations reduces the predictability of our sales and net earnings. As of the date of this report, we are anticipating sales and net income for our fiscal year ending September 30, 2014 to be in-line with 2013, due primarily to uncertainty as to when certain bids for larger projects turn into firm purchase orders.

The significant increase in our total assets from 2011 and 2012 to 2013 is due primarily to finance receivables, which are trade receivables that have been sold to a financial institution. The finance receivables are not derecognized since the Corporation does not transfer substantially all risks and rewards relevant to the sale of these trade receivables.

The decrease in long-term financial liabilities from 2011 to 2012 is due primarily to the notes payable, which were long-term liabilities in 2011 and current liabilities in 2012. The increase in long-term financial liabilities from 2012 to 2013 is due to the subordinate debt financing (see "Sources and Uses of Cash").

Since inception of our operations we have not declared dividends and we do not anticipate declaring dividends in the foreseeable future. Excess cash would be used primarily to repay loans and to fund new growth opportunities.

Results of Operations – Year Ended September 30, 2013 Compared to Year Ended September 30, 2012

Sales

Sales increased by $4,822,548 (or 46.4%) to $15,211,993 in 2013 from $10,389,445 in 2012 due primarily to an increase in sales of $4,790,268 by our Manufacturing operations.

In 2013, one significant customer accounted for 33.1% of our sales. In 2012, one significant customer accounted for 34.4% of our sales. We expect continued business concentration from this significant customer in 2014.

Based on our updated sales forecast, we are expecting sales for our fiscal year ending September 30, 2014 to be in-line with 2013.

Gross Profit

Gross profit percentage decreased marginally to 37.4% of sales in 2013 from 37.7% in 2012. Although sales increased significantly in 2013 as compared to 2012, the sales-mix remained similar in 2013 as compared to 2012.

Although we expect our gross profit percentage to continue to fluctuate from quarter to quarter due primarily to sales mix and purchase costs for our Manufacturing operations, we are expecting our gross profit percentage to increase moderately in 2014 as compared to 2013 due to a number of manufacturing process improvements which are expected to contribute to higher forecast yields.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $552,958 (or 15.8%) to $4,046,751 in 2013 from $3,493,793 in 2012. This increase is due primarily to higher selling and administrative expenses from higher wages and benefits due to increased headcount.

Actual results versus expected results for 2013 as compared to 2012 are as follows:

- We expected a slight increase in selling and administrative expenses, excluding depreciation, due to anticipated higher wages and benefits, and higher selling and marketing expenses. Actual selling and administrative expenses, excluding depreciation, increased by $466,843 (or 14.6%) in 2013 as compared to 2012.
- We expected a moderate decrease in depreciation expense resulting from the declining balance of property and equipment. Actual depreciation expense decreased by $10,212 (or 3.4%) in 2013 as compared to 2012.
- We expected a moderate increase in net foreign exchange loss in 2013 as compared to 2012. We generated a net foreign exchange gain of $27,348 in 2013 as compared to a net foreign exchange loss of $21,849 in 2012.
- We expected a significant increase in net finance costs due primarily to interest expense on the notes payable and the revolving loans. Actual net finance costs increased by $108,412 (or 103.8%) in 2013 as compared to 2012, due to interest on the notes payable, the revolving loans, the securitization debt and the subordinate debt.

For our fiscal year ending September 30, 2014, we expect the following as compared to 2013:

- Selling and administrative expenses, excluding depreciation, to remain in-line with 2013.
- Moderate increase in depreciation expense due to capital expenditures.
- Net effect of foreign exchange to remain in-line with 2013.
- Significant increase in finance costs due to higher levels of debt, from packing credit loans, securitization debt, and subordinate debt financing (see "Liquidity and Capital Resources").

Income Taxes

The income tax expense of $416,786 in 2013 is comprised of a current income tax expense of $29,279 and a deferred income tax expense of 387,507, due primarily to earnings before income taxes generated by our Manufacturing operations. The income tax expense of $107,017 in 2012 is comprised of a deferred income tax expense of $141,247 on the earnings before income taxes generated by our Manufacturing operations and a deferred income tax recovery of $34,230 on the loss before income taxes incurred by our FEC operations.

Our taxable earnings in 2013 have exceeded our remaining non-capital operating losses from prior fiscal years and have resulted in a current income tax provision and income taxes payable of $29,279.

Net Operating Results

Net income and total comprehensive income was $1,229,243, or diluted net income per share of $0.12 in 2013, compared to net income and total comprehensive income of $312,812, or diluted net income per share of $0.03 in 2012. The significant increase in net operating results is due primarily to our Manufacturing operations.

We are expecting net earnings for our fiscal year ending September 30, 2014 to be in-line with 2013.

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, 2013 and 2012. 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.

CONSOLIDATED	Q1-12 31-Dec-11	Q2-12 31-Mar-12	Q3-12 30-Jun-12	Q4-12 30-Sep-12	Q1-13 31-Dec-12	Q2-13 31-Mar-13	Q3-13 30-Jun-13	**Q4-13 30-Sep-13**
Sales	$ 1,784,328	$ 2,762,665	$ 2,446,089	$ 3,396,363	$ 3,495,495	$ 3,223,754	$ 4,781,030	**$3,711,714**
Cost of sales	1,132,968	1,762,257	1,584,619	1,995,979	2,146,708	2,065,693	2,843,411	**2,463,401**
Gross profit	651,360	1,000,408	861,470	1,400,384	1,348,787	1,158,061	1,937,619	**1,248,313**
Selling and administrative expenses	805,938	866,369	868,537	826,623	903,831	895,726	1,068,066	**993,587**
Foreign exchange loss (gain)	15,328	(4,484)	(5,248)	16,253	11,067	(21,461)	(71,466)	**54,512**
Finance costs	22,344	22,547	25,078	34,508	30,769	25,835	83,454	**72,831**
Income taxes	(47,394)	29,869	(6,072)	130,614	102,894	65,255	214,936	**33,701**
Net income (loss)	$ (144,856)	$ 86,107	$ (20,825)	$ 392,386	$ 300,226	$ 192,706	$ 642,629	**$ 93,682**
Basic and diluted net income (loss) per share	(0.01)	0.01	0.00	0.04	0.03	0.02	0.06	**0.01**

MANUFACTURING	Q1-12 31-Dec-11	Q2-12 31-Mar-12	Q3-12 30-Jun-12	Q4-12 30-Sep-12	Q1-13 31-Dec-12	Q2-13 31-Mar-13	Q3-13 30-Jun-13	**Q4-13 30-Sep-13**
Sales	$ 1,406,403	$ 2,355,745	$ 2,113,724	$ 3,118,263	$ 3,113,886	$ 2,777,034	$ 4,449,413	**$3,444,070**
Cost of sales	932,699	1,554,501	1,383,124	1,802,634	1,893,020	1,829,101	2,635,152	**2,283,822**
Gross profit	473,704	801,244	730,600	1,315,629	1,220,866	947,933	1,814,261	**1,160,248**
Selling and administrative expenses	662,647	728,641	734,159	668,567	720,529	751,112	935,861	**845,513**
Foreign exchange loss (gain)	15,328	(4,484)	(5,248)	16,253	11,067	(21,461)	(71,466)	**54,512**
Finance costs	19,062	20,053	25,121	29,512	29,790	25,307	83,141	**72,679**
Income taxes	(46,200)	24,108	1,608	161,731	116,188	1,362	265,669	**48,741**
Net income (loss)	$ (177,133)	$ 32,926	$ (25,040)	$ 439,566	$ 343,292	$ 191,613	$ 601,056	**$ 138,803**

FEC	Q1-12 31-Dec-11	Q2-12 31-Mar-12	Q3-12 30-Jun-12	Q4-12 30-Sep-12	Q1-13 31-Dec-12	Q2-13 31-Mar-13	Q3-13 30-Jun-13	**Q4-13 30-Sep-13**
Sales	$ 377,925	$ 406,920	$ 332,365	$ 278,100	$ 381,609	$ 446,720	$ 331,617	**$ 267,644**
Cost of sales	200,269	207,756	201,495	193,345	253,688	236,592	208,259	**179,579**
Gross profit	177,656	199,164	130,870	84,755	127,921	210,128	123,358	**88,065**
Selling and administrative expenses	143,291	137,728	134,378	158,056	183,302	144,614	132,205	**148,074**
Finance costs	3,282	2,494	(43)	4,996	979	528	313	**152**
Income taxes	(1,194)	5,761	(7,680)	(31,117)	(13,294)	63,893	(50,733)	**(15,040)**
Net income (loss)	$ 32,277	$ 53,181	$ 4,215	$ (47,180)	$ (43,066)	$ 1,093	$ 41,573	**$ (45,121)**

Our quarterly results fluctuate because our operating expenses are determined based on anticipated sales, however these operating expenses are generally fixed and are incurred throughout each quarter. 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 increase in net operating results from Q1-12 to Q2-12 is due primarily to higher sales and gross profit in Q2-12 compared to Q1-12.
- The decrease in net operating results from Q2-12 to Q3-12 is due primarily to lower sales and gross profit in Q3-12 compared to Q2-12.
- The increase in net operating results from Q3-12 to Q4-12 is due primarily to higher sales and gross profit in Q4-12 compared to Q3-12.
- The decrease in net operating results from Q4-12 to Q1-13 is due primarily to lower gross profit in Q1-13 compared to Q4-12.
- The decrease in net operating results from Q1-13 to Q2-13 is due primarily to lower gross profit in Q2-13 compared to Q1-13.
- The increase in net operating results from Q2-13 to Q3-13 is due primarily to higher sales and gross profit in Q3-13 compared to Q2-13.
- The decrease in net operating results from Q3-13 to Q4-13 is due primarily to lower sales and gross profit in Q4-13 compared to Q3-13.

Liquidity and Capital Resources

Operating Activities

Cash used in operating activities amounted to $1,440,307 in Q4-13, compared to cash provided by operating activities of $443,834 in Q4-12. The change in cash from operating activities is due primarily to higher working capital requirements in Q4-13 as compared to Q4-12.

Cash used in operating activities amounted to $2,891,440 in 2013, compared to cash provided by operating activities of $816,944 in 2012. The change in cash from operating activities is due primarily to higher working capital requirements in 2013 as compared to 2012.

We expect our operating activities to continue to use cash as our working capital requirements increase to sustain our growth.

Investing Activities

Cash used in investing activities amounted to $175,763 in Q4-13, compared to $51,581 in Q4-12. The increase in cash used in investing activities is due primarily to higher purchases of property and equipment in Q4-13 as compared to Q4-12.

Cash used in investing activities amounted to $22,874 in 2013, compared to $136,506 in 2012. The change in cash used in investing activities is due to higher purchases of property and equipment in 2013 as compared to 2012, partially offset by a decrease in restricted cash in 2013 (see "Related Party Transactions").

We have not entered into any proposed material asset or business acquisition or disposition agreements, and except in such instances, we do not anticipate to significantly increase our investment in capital expenditures in 2014.

Financing Activities

Cash provided by financing activities amounted to $596,349 in Q4-13, compared to cash used in financing activities of $30,270 in Q4-12. The increase in cash provided by financing activities is due primarily to net proceeds from the securitization debt (see "Credit Facilities").

Cash provided by financing activities amounted to $3,756,013 in 2013, compared to $322,542 in 2012. The increase in cash provided by financing activities is due primarily to net proceeds from the securitization debt (see "Credit Facilities") and the subordinate debt (see "Sources and Uses of Cash").

Our off-balance sheet financing is comprised of long-term operating lease agreements concluded in the normal course of business for premises and certain equipment. The Corporation has no off-balance sheet finance or special purpose entities.

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repayment of our loans, subordinate debt, and leases, and funding of capital expenditures. Our sources of cash include cash on hand, trade receivables, customer deposits, cash from operations, and proceeds from our credit facilities (see "Credit Facilities") and subordinate debt (see "Sources and Uses of Cash"). 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 source of funds for our future capital expenditures and commitments includes cash on hand, trade receivables, borrowings, and cash from operations, as follows:

- At September 30, 2013, cash and cash equivalents amounted to $1,693,876 (September 30, 2012 – $841,008).
- At September 30, 2013, trade and other receivables amounted to $1,662,452 (September 30, 2012 – 879,663).
- On May 1, 2013, we obtained from BDC Capital Inc. ("BDCC") subordinate debt financing of $758,297, net of issuance costs of $41,703 ("Subordinate Debt"). The Subordinate Debt bears interest at BDCC's floating base rate (currently at 5.00%) plus 7.00% per annum. In addition, BDCC receives four annual royalty payments of 2.00% of the Corporation's consolidated earnings before interest (finance costs), income taxes and depreciation expenses ("EBITDA") to a maximum of $1,000,000, plus 1.00% of EBITDA over $1,000,000. The Subordinate Debt matures on April 15, 2017 and the principal is payable in 47 monthly instalments of $8,250 (the "Monthly Instalments") and one instalment of $412,250. In addition to the scheduled Monthly Instalments, the principal is payable by way of four annual payments, commencing on January 15, 2014, to a maximum of $100,000 per annum (the "Excess Cash Flow Sweep"). The Subordinate Debt is secured by a general security agreement creating a first rank security interest in all intellectual property of the Corporation and subordinated in rank to any other security granted on all other property of the Corporation. The conditions of credit include compliance with various covenants.

- Finance receivables are comprised of trade receivables of U.S. $1,253,887 ($1,289,623 in Canadian dollars), U.S. $1,212,305 ($1,246,855 in Canadian dollars) and U.S. $971,569 ($999,259 in Canadian dollars) from three fixed-priced contracts recognized on a percentage of completion basis of accounting (collectively the "Finance Receivables"), which have been sold, under the TINRFF Facility (see "Credit Facilities"), at their respective contractual values of U.S. $1,310,600 ($1,347,952 in Canadian dollars), U.S. $1,259,000 ($1,294,882 in Canadian dollars) and U.S. $1,190,000 ($1,223,915 in Canadian dollars) (collectively the "Securitization Debt"), discounted by 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses (the "Holdback"). 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 Holdback represents the Corporation's maximum exposure to impaired Finance Receivables. The Holdback is remitted to the Corporation upon collection of the Finance Receivables by the Bank. The Finance Receivables underlying the Securitization Debt of $ U.S. $1,310,600, U.S. $1,259,000 and U.S. $1,190,000 are payable to the Bank on or before October 19, 2013, December 18, 2013, and February 5, 2014, respectively.

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 securitization debt, subordinate debt and shareholders' equity. The Corporation augments these capital sources with an available packing credit facility of U.S. $1,500,000 ($1,543,000 in Canadian dollars), which can be used to finance up to 75% of the Corporation's purchasing, processing, manufacturing and packaging costs for select customer purchase orders approved by the bank (see "Credit Facilities"). We intend to continue to extinguish packing credit loans with proceeds from securitization debt.

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

We have also chosen subordinate debt financing as part of our capital strategy to ensure adequate working capital for customer orders that are not financed by the packing credit and securitization facilities.

The secured packing credit and securitization facilities are subject to annual renewals. The subordinate debt matures on April 15, 2017. We intend to extinguish our revolving loans of $310,000 by utilizing the repayment options available under our postponement agreements with the subordinate debt lender, BDCC.

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, 2013, 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

We have the following credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank"):

Export Loan Facility

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,543,000 in Canadian dollars) ("Packing Credit Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $4,320,000 ($4,443,000 in Canadian dollars) ("TINRFF Facility").

- Packing Credit Facility

  Under the Packing Credit Facility, we may finance up to 75% of our purchasing, processing, manufacturing and packaging costs ("Packing Costs") for customer purchase orders approved by the Bank. The Packing Credit Facility bears interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 3.50% per annum and is payable on demand or within 90 days for advances relating to Packing Costs from suppliers located within Canada and 120 days for advances relating to Packing Costs from suppliers located outside of Canada.

- TINRFF Facility

  Under the TINRFF Facility, the Bank may at its sole discretion purchase from the Corporation select insured trade receivables of the Corporation at a discount fee of USD LIBOR plus 3.50%.

Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of $1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,000,000, 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.

During the year ended September 30, 2013, the Corporation obtained packing credit loans amounting to U.S. $1,439,250 ($1,479,553 in Canadian dollars), under the Packing Credit Facility, and used proceeds from the sale of trade receivables, under the TINRFF Facility, to extinguish the packing credit loans.

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 or 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 $1,800,000 to purchase foreign exchange forward contracts and options up to an aggregate of $6,000,000, with a maximum maturity of 12 months (the "Foreign Exchange Loan Facility"). 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.

During the year ended September 30, 2013, the Corporation recorded a net foreign exchange loss of $6,434 on its foreign exchange forward contracts (September 30, 2012 – net gain of $7,013). There were no foreign exchange forward contracts outstanding at September 30, 2013 and 2012.

A sensitivity analysis has been performed assuming the foreign exchange rate changes by 5% as at September 30, 2013 and 2012. For every 5% strengthening of the U.S. dollar against the Canadian dollar, with all other variables held constant, net income and total comprehensive income would increase by approximately $120,000 (September 30, 2012 – net income and total comprehensive income would increase by $32,000). 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, resulting primarily from higher cash balances in U.S. dollars at September 30, 2013 as compared to September 30, 2012.

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.

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

We perform ongoing credit evaluations of our customers, and we carry third party insurance that limits our exposure to approximately 10% of the bad debt amount from impaired finance and trade receivables.

Trade receivables with three customers represent approximately 75% of the balance of trade receivables as at September 30, 2013 (September 30, 2012 – two customers representing approximately 64%). It is the opinion of management that these accounts do not represent a significant credit risk.

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 securitization debt and its subordinate debt, which are subject to variable interest rates. The revolving loans bear interest at a fixed rate.

We manage interest rate risk on our 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.

A sensitivity analysis has been performed assuming the Corporation's borrowing interest rates change by 2%, or 200 basis points, as at September 30, 2013. For every increase of 2% to the Corporation's borrowing interest rate, with all other variables held constant, net income and total comprehensive income would decrease by approximately $33,000. A decrease in interest rates would have the opposite effect.

In 2012, the Corporation's interest rate risk was limited, because its notes payable and revolving loans were subject to fixed interest rates.

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 certain legal actions in the ordinary course of business 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

On February 1, 2013, the Corporation renewed its revolving loans with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders of the Revolving Loans"), to borrow the aggregate principal amount of $310,000 at an interest rate of 15.00% per annum (the "Revolving Loans"). The Corporation also agreed with a former independent director to not renew a Revolving Loan in the aggregate principal amount of $100,000, pursuant to which the Corporation paid the aggregate sum of $111,295, including accrued interest, to the former independent director. As part of the Subordinate Debt financing with BDCC, the Lenders of the Revolving Loans agreed to limit principal payments by the Corporation for the Revolving Loans to the lesser of 25% of the Excess Cash Flow Sweep or $25,000 per annum, and to postpone any other principal payments until the earlier of: (i) the Corporation obtaining a line of credit on terms satisfactory to BDCC with sufficient margining to cover the principal payments for the Revolving Loans; or (ii) extinguishment of the Subordinate Debt.

On March 22, 2013, a standby letter of credit of $300,000 (the "Letter of Credit") was cancelled and restricted cash of $300,000 from the Notes Payable, used as collateral to secure the Letter of Credit, was released to the Corporation, pursuant to which the Corporation paid the aggregate sum of $379,274, including accrued interest of $79,274, to an independent director of the Corporation, a former independent director of the Corporation, the Corporation's Chief Executive Officer, President and Executive Vice-President.

During the year ended September 30, 2013, the Corporation purchased raw material inventories of U.S. $169,718 ($175,574 in Canadian dollars) from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). At September 30, 2013, the Corporation's trade payables and accrued charges include a balance of U.S. $39,808 ($41,152 in Canadian dollars) payable to the Related Entity, and the Corporation has purchase commitments for raw material inventories of U.S. $40,848 ($42,012 in Canadian dollars) with the Related Entity. There were no transactions with the Related Entity in 2012.

Outstanding Share Capital

At September 30, 2013 and November 25, 2013, the Corporation had 10,220,187 common shares issued and outstanding and no 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.

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