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2018

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017

Unaudited (*Expressed in Canadian dollars*)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsections 4.3(3)(a), if an auditor has not performed a review of these Condensed Consolidated Interim Financial Statements they must be accompanied by a notice indicating that these Condensed Consolidated Interim Financial Statements have not been reviewed by an auditor.

The accompanying unaudited Condensed Consolidated Interim Financial Statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

Unaudited (Expressed in Canadian dollars)

	Notes	December 31, 2017	September 30, 2017
Assets			
Current assets			
Cash		$ 4,144,996	$ 4,491,700
Restricted cash	8	214,740	-
Finance receivables	6	5,764,264	5,734,398
Trade and other receivables		7,981,977	7,346,321
Inventories		2,700,583	2,760,565
Prepaid expenses and deposits		680,868	435,589
		21,487,428	20,768,573
Non-current assets			
Equipment		2,196,677	2,244,451
Intangible assets	8	143,590	-
Goodwill	8	1,012,896	-
Deferred income tax assets		56,749	87,891
Total Assets		$ 24,897,340	$ 23,100,915
Liabilities and Shareholders' Equity			
Current liabilities			
Operating loans	5	$ 1,073,852	$ -
Securitization debt	6	5,187,838	5,160,958
Trade payables, accrued liabilities and other		2,534,821	1,923,290
Income taxes payable		133,917	449,780
Customer deposits and deferred revenue		2,021,800	2,001,344
Current portion of rent inducement		17,601	15,989
		10,969,829	9,551,361
Non-current liabilities			
Rent inducement		137,265	139,405
Deferred income tax liabilities		58,637	62,346
Total Liabilities		11,165,731	9,753,112
Shareholders' Equity			
Share capital		9,859,270	9,859,270
Warrants reserve		450,971	450,971
Share-based payments reserve		256,858	256,858
Retained earnings		3,164,510	2,780,704
Total Shareholders' Equity		13,731,609	13,347,803
Total Liabilities and Shareholders' Equity		$ 24,897,340	$ 23,100,915

Subsequent events (Note 10)

"Scott Forbes"	"Muhanad Awad"
President & CEO	Chairman of the Board

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended December 31,	
	2017	2016
Sales	**$ 5,154,335**	$ 7,228,963
Cost of sales	**2,656,970**	4,359,600
Gross profit	**2,497,365**	2,869,363
Selling and administrative expenses	**1,921,712**	1,442,813
Foreign exchange loss (gain)	**(16,155)**	28,861
	1,905,557	1,471,674
Operating income	**591,808**	1,397,689
Finance costs	**75,389**	77,514
Income before income taxes	**516,419**	1,320,175
Income tax provision		
Current	**105,180**	349,108
Deferred	**27,433**	11,858
	132,613	360,966
Net income and total comprehensive income	**383,806**	959,209
Basic and diluted net income per common share	**$ 0.02**	$ 0.05
Weighted average number of common shares outstanding :		
Basic and diluted	**20,870,187**	20,870,187

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

	Share capital[1]					
	Number of common shares	Amount	Warrants reserve[2]	Share-based payments reserve[3]	Retained earnings	Total shareholders' equity
Balance at September 30, 2016	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 1,863,418	$ 12,430,517
Net income and total comprehensive income	-	-	-	-	959,209	959,209
Balance at December 31, 2016	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,822,627	$ 13,389,726
Balance at September 30, 2017	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,780,704	$ 13,347,803
Net income and total comprehensive income	**-**	**-**	**-**	**-**	**383,806**	**383,806**
Balance at December 31, 2017	**20,870,187**	**$9,859,270**	**$ 450,971**	**$ 256,858**	**$3,164,510**	**$ 13,731,609**

[1] Authorized share capital is comprised of an unlimited number of voting common shares without par value and an unlimited number of preferred shares without par value. The preferred shares may be issued as either voting or non-voting. No preferred shares have been issued.

[2] The warrants reserve is comprised of the grant date fair value of share purchase warrants that have expired unexercised.

[3] 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 Condensed Consolidated Interim Financial Statements.

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Cash Flows

Unaudited (Expressed in Canadian dollars)

	Notes	Three months ended December 31, 2017	2016
Operating activities			
Net income		**$ 383,806**	$ 959,209
Items not affecting cash			
Depreciation		**115,064**	103,803
Deferred income tax expenses		**27,433**	11,858
Rent inducement		**(528)**	1,791
Unrealized loss on foreign exchange derivatives		**9,470**	145,952
Loss on disposal of equipment		**414**	-
Unrealized foreign exchange loss (gain)		**30,517**	(174,171)
Finance costs		**75,389**	77,514
		641,565	1,125,956
Change in non-cash operating working capital			
Finance receivables		**-**	(1,045,972)
Trade and other receivables		**(676,152)**	984,786
Inventories		**82,018**	218,094
Prepaid expenses		**(245,279)**	(507,937)
Trade payables, accrued liabilities and other		**(359,144)**	(535,322)
Current income tax expense		**105,180**	349,108
Customer deposits and deferred revenue		**20,456**	(287,346)
		(1,072,921)	(824,589)
Interest paid		**(64,548)**	(73,856)
Income taxes paid		**(421,119)**	-
Cash provided by (used in) operating activities		**(917,023)**	227,511
Investing activities			
Acquisition of European operations	*8*	**(451,425)**	-
Purchase of equipment		**(58,652)**	(107,143)
Cash used in investing activities		**(510,077)**	(107,143)
Financing activities			
Proceeds from operating loans	*5*	**1,099,361**	2,364,066
Repayment of operating loans		**-**	(1,269,306)
Proceeds from securitization debt		**-**	1,117,748
Repayment of securitization debt		**-**	(2,253,632)
Cash provided by (used in) financing activities		**1,099,361**	(41,124)
Net increase (decrease) in cash		**(327,739)**	79,244
Effect of foreign exchange rate changes on cash		**(18,965)**	20,528
Cash at beginning of the year		**4,491,700**	5,109,026
Cash at end of the year		**$ 4,144,996**	$ 5,208,798
Supplemental cash flow disclosures - non cash transactions			
Purchase of equipment		**$ 7,216**	$ 38,253
Increase in restricted cash to secure bank gurantees	*8*	**214,740**	-
Acquisition of European operations	*8*	**710,660**	-
Settlement of operating loans with proceeds from securitization debt		**-**	1,969,124

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

Unaudited (Expressed in Canadian dollars)

1. Nature of business and corporate information

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

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

The Corporation’s business is carried out through its subsidiaries listed below. The Corporation operates in two business segments: (i) Manufacturing of play structures for children (“MFG”); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada and managing a network of 28 franchisees located throughout Italy under the Play Planet banner (collectively “FEC”).

Subsidiary	Place of incorporation	Ownership percentage	Business segment
International Play Company Inc. (“IPC”)	British Columbia, Canada	100.0%	MFG
Iplayco Canada Inc. (“ICI”)	Alberta, Canada	100.0%	MFG
Iplayco Inc. (“IPI”)	Delaware, USA	100.0%	MFG
IREC Corporation (“IREC”)	Subic Bay, Philippines	99.9%	MFG
Play Mart International EOOD (“PMI”)	Sofia, Bulgaria	100.0%	MFG
Outdoor Play Company Inc. (“OPC”)	British Columbia, Canada	100.0%	FEC
Play Planet S.r.l. (“PP”)	Milan, Italy	100.0%	FEC

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). These Condensed Consolidated Interim Financial Statements do not include all of the information required for complete annual financial statements.

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on February 20, 2018.

Basis of measurement

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

Functional and presentation currency

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

3. Significant accounting policies

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's Consolidated Financial Statements for the year ended September 30, 2017.

4. Critical accounting estimates and judgments

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

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

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

Functional currency

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

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.

4. Critical accounting estimates and judgments (continued)

Inventory

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

Equipment

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

Income taxes

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

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. Operating loans

For the three-month period ended December 31, 2017, the Corporation obtained the following proceeds in U.S. dollars from an operating loan in U.S. dollars:

	Carrying Amounts	
	U.S. dollars	**Canadian dollars**
Balance at September 30, 2017	$ -	**$ -**
Proceeds from operating loans	856,000	**1,099,361**
Unrealized foreign exchange gain on balance due	-	**(25,509)**
Balance at December 31, 2017	$ 856,000	**$ 1,073,852**

6. Finance receivables and securitization debt

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

	December 31, 2017	
	U.S. dollars	**Canadian dollars**
Finance receivables	$ 4,594,870	**$ 5,764,264**
Less: Retainer	(459,487)	**(576,426)**
Securitization debt	$ 4,135,383	**$ 5,187,838**

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

7. Related party transactions

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

	Three months ended December 31,	
	2017	2016
Sales in U.S. dollars	**$ 120,008**	$ 1,645,197
Equivalent in Canadian dollars	**152,649**	2,209,232

7. Related party transactions (continued)

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

	December 31, 2017	September 30, 2017
Balance in U.S. dollars	**$ 4,594,870**	$ 4,594,870
Equivalent in Canadian dollars	**5,764,264**	5,734,398

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

	December 31, 2017	September 30, 2017
Balance in U.S. dollars	**$ 4,337,687**	$ 4,867,487
Equivalent in Canadian dollars	**5,441,629**	6,074,624

8. Business combination

On October 19, 2017, the Corporation entered into agreements covering purchases of assets, intellectual property, and product distribution with three companies possessing long-established brands and sales networks in continental Europe. The agreements encompass the acquisition of a franchising business with one employee, the revenue stream from 28 franchisees, and the purchase of various assets from Italy-based companies Play Way S.r.l. and The Play Company S.r.l. ("TPC"). Also included is an intellectual property agreement with TPC and a distribution agreement with TPC and its wholly owned subsidiary Play Mart Co. S.r.l. Once the acquisitions are concluded, the Corporation will own the intellectual property rights to the Play Mart and Play Planet brands, as well as the Play Planet franchising business. The distribution agreements are for the supply of playground equipment. Financial terms of the transactions involve an aggregate cash purchase price of €450,000 ($677,139 in Canadian dollars) and 15% of pre-tax earnings for the next five years of the Corporation's European operations, comprised of PP and PMI (the "Contingent Consideration").

The fair value of the identifiable assets acquired and liabilities assumed as at October 19, 2017 are as follows:

Assets acquired		
Inventories	**$**	**22,036**
Equipment		**1,836**
Intangible assets		**146,520**
Total assets acquired		**170,392**
Liabilities assumed		
Trade payables and accrued liabilities		**21,203**
Total liabilities assumed		**21,203**
Net assets acquired	**$**	**149,189**

8. Business combination (continued)

Cash paid at acquisition date	$	**451,425**
Estimated fair value at acquisition date of bank guarantees issued with restricted cash to secure balance of purchase price payable in cash		**212,060**
Estimated fair value of Contingent Consideration at acquisition date		**498,600**
Total estimated purchase price		**1,162,085**
Less: Net assets acquired		**149,189**
Goodwill	**$**	**1,012,896**

On October 19, 2017, the Corporation paid €300,000 ($451,425 in Canadian dollars) in cash and issued bank guarantees backed by restricted cash of €150,000 ($225,714 in Canadian dollars) to secure the balance of purchase price payable in three installments of €50,000 ($75,238 in Canadian dollars) on April 18, 2018, October 18, 2018 and April 18, 2019, respectively. The restricted cash had an estimated fair value of $212,060 and $214,740 at October 19, 2017 and December 31, 2017, respectively.

The purchase price for the acquisition also includes the fair value of the Contingent Consideration, which has been estimated to be $498,600 at the acquisition date. The Contingent Consideration will be remeasured to fair value at each reporting period with changes recorded in the statement of operations and comprehensive income or loss. The fair value of the Contingent Consideration is dependent on management's forecasts and expectations of the Corporation's European operations' pre-tax earnings over the next five years, currently estimated to aggregate between $4 million and $5 million.

The amount of goodwill recorded upon acquisition represents the excess of the purchase price paid over the individually identifiable and separately recognizable assets. None of the goodwill is expected to be deductible for tax purposes.

From October 19, 2017 to December 31, 2017, PMI had operating expenses of $41,498 and no sales to external customers, and PP had operating expenses of $39,770 and revenues from franchisees of 12,092.

The Corporation incurred $132,742 of acquisition-related costs of which $77,148 was recorded in selling and administrative expenses in the year ended September 30, 2017 and $55,594 was recorded in selling and administrative expenses in the three months ended December 31, 2017.

At December 31, 2017, the initial accounting for the acquisition of PMI and PP has been provisionally determined. If new information obtained within one year of the date of acquisition results in other identifiable intangible assets, adjustments to the fair value of the assets acquired and liabilities assumed, or additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Unaudited (Expressed in Canadian dollars)

9. Segment reporting and concentration of sales

Business segments

The Corporation operates in the Manufacturing ("MFG") and Family Entertainment Centres ("FEC") business segments.

The accounting policies of the 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 the two business segments' operations for the three-month period ended December 31, 2017 is as follows:

	Three months ended December 31, 2017		
	MFG	FEC	Total
Sales to external customers	$ 4,776,412	$ 377,923	$ 5,154,335
Cost of sales	2,433,191	223,779	2,656,970
Gross profit	2,343,221	154,144	2,497,365
Selling and administrative expenses	1,718,505	203,207	1,921,712
Foreign exchange loss (gain)	(17,777)	1,622	(16,155)
Finance costs	75,389	-	75,389
Income taxes	136,322	(3,709)	132,613
Net income (loss)	$ 430,782	$ (46,976)	$ 383,806
Total assets	$ 23,823,854	$ 1,073,486	$ 24,897,340
Total liabilities	$ 10,973,863	$ 191,868	$ 11,165,731
Depreciation expense	$ 81,877	$ 33,187	$ 115,064
Purchase of equipment	$ 56,574	$ 9,294	$ 65,868

Unaudited (Expressed in Canadian dollars)

9. Segment reporting and concentration of sales (continued)

Business segments (continued)

Information related to the two business segments' operations for the three-month period ended December 31, 2016 is as follows:

	Three months ended December 31, 2016		
	MFG	FEC	Total
Sales to external customers	$ 6,842,328	$ 386,635	$ 7,228,963
Cost of sales	4,134,553	225,047	4,359,600
Gross profit	2,707,775	161,588	2,869,363
Selling and administrative expenses	1,291,088	151,725	1,442,813
Foreign exchange loss	28,861	-	28,861
Finance costs	77,514	-	77,514
Income taxes	358,402	2,564	360,966
Net income	$ 951,910	$ 7,299	$ 959,209
Total assets	$ 22,963,411	$ 902,539	$ 23,865,950
Total liabilities	$ 10,302,570	$ 173,654	$ 10,476,224
Depreciation expense	$ 71,377	$ 32,426	$ 103,803
Purchase of equipment	$ 135,880	$ 9,516	$ 145,396

Geographic and customer information

At December 31, 2017, 90% of the Corporation's assets were in Canada, 5% in Europe and 5% in the Philippines.

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

	Three months ended December 31,	
	2017	2016
Sales		
Canada	**$ 806,770**	$ 776,645
Americas	**1,088,824**	4,113,403
Other	**3,258,741**	2,338,915
	$ 5,154,335	$ 7,228,963

9. Segment reporting and concentration of sales (continued)

Geographic and customer information (continued)

The approximate sales to significant customers, all from the manufacturing business segment, are as follows:

	Three months ended December 31,	
	2017	2016
Customer A	**$ 838,970**	$ -
Customer B	**746,178**	
Customer C	**636,710**	-
Customer D	**-**	2,209,232
Customer E	**-**	874,869

10. Subsequent events

On January 19, 2018, the Corporation's credit facilities were amended to include bank guarantees of €1,500,000 ($2,287,000 in Canadian dollars), €500,000 ($762,000 in Canadian dollars) and U.S. $1,000,000 ($1,246,000 in Canadian dollars) to secure credit facilities for the Corporation's subsidiaries, PMI, PP and IREC, respectively.

As at February 20, 2018, finance receivables of U.S. $3,979,870 ($4,992,747 in Canadian dollars) that were due to the Bank on or before January 2, 2018 remain uncollected from an entity affiliated to the Corporation and the underlying securitization debt of U.S. $3,581,883 ($4,493,472 in Canadian dollars) to these uncollected finance receivables remains unpaid by the Corporation to the Bank. It is the opinion of management that the finance receivables will be collected from the affiliated entity at which point the underlying securitization debt will be extinguished.

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 February 20, 2018 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2017 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2017 and 2016.

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

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

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

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

Overview

Iplayco is incorporated under the Alberta Business Corporations Act and its common shares trade on the TSX Venture Exchange under the trading symbol "IPC". Iplayco's business is carried out through its wholly owned subsidiaries Iplayco Inc., Iplayco Canada Inc., International Play Company Inc., Outdoor Play Company Inc., IREC Corporation, Play Planet S.r.l and Play Mart International EOOD. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its production plants in Langley, British Columbia, Canada, Subic Bay, Philippines and Sofia, Bulgaria ("Manufacturing" or "MFG"); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada and managing a network of 28 franchisees located throughout Italy under the Play Planet banner (collectively "Family Entertainment Centre" or "FEC").

Iplayco is controlled by FAS Entertainment B.C. Ltd., a wholly-owned subsidiary of Saudi FAS Holding Company (collectively "FAS"), which owns 51.03% of Iplayco's issued and outstanding common shares. FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are beneficially held by three individuals. FAS controls various entities that own and operate Billy Beez family entertainment centres, Iplayco's largest customer over the past five years. FAS is expanding its Billy Beez family entertainment centres throughout the Middle East, Europe and North America. FAS also controls Fawaz Abdulaziz Al Hokair & Co., a retail conglomerate listed on the Saudi stock exchange (Tadawul), with a market capitalization at December 31, 2017 of approximately 6.4 billion Saudi Riyal (or approximately $2.1 billion in Canadian dollars). For more information on FAS, please visit the company's website at: www.fawazalhokair.com.

On October 19, 2017, Iplayco entered into agreements covering purchases of assets, intellectual property, and product distribution with three companies possessing long-established brands and sales networks in continental Europe. The agreements encompass the acquisition of a franchising business with one employee, the revenue stream from 28 franchisees, and the purchase of various assets from Italy-based companies Play Way S.r.l. and The Play Company S.r.l. ("TPC"). Also included is an intellectual property agreement with TPC and a distribution agreement with TPC and its wholly owned subsidiary Play Mart Co. S.r.l. Once the acquisitions are concluded, the Corporation will own the intellectual property rights to the Play Mart and Play Planet brands, as well as the Play Planet franchising business. The distribution agreements are for the supply of playground equipment. Financial terms of the transactions involve an aggregate cash purchase price of €450,000 ($677,139 in Canadian dollars) and 15% of pre-tax earnings for the next five years of the Corporation's European operations, comprised of Play Planet S.r.l and Play Mart International EOOD.

Consolidated Results

Sales for the three months ended December 31, 2017 ("Q1-18") decreased by 28.7% to $5,154,335 from $7,228,963 for the three months ended December 31, 2016 ("Q1-17"). Gross profit percentage increased to 48.5% of sales in Q1-18 from 39.7% in Q1-17. Operating expenses, including foreign exchange gains and losses and finance costs, increased to $1,980,946, or 38.4% of sales, in Q1-18 from $1,549,188, or 21.4% of sales, in Q1-17. Net income amounted to $383,806, or diluted net income per share of $0.02, in Q1-18 as compared to net income of $959,209, or diluted net income per share of $0.05, in Q1-17.

Manufacturing Operations

Sales generated by our Manufacturing operations decreased by 30.2% to $4,776,412 in Q1-18 from $6,842,328 in Q1-17. This decrease is due to lower sales to our customers located in the Americas, including Canada, who accounted for sales of $1,529,763 (or 32.0% of total Manufacturing sales) in Q1-18 compared to $4,503,413, (or 65.8%) in Q1-17, despite the higher sales to our customers located outside of the Americas, who accounted for sales of $3,246,649 (or 68.0% of total Manufacturing sales) in Q1-18 compared to $2,338,915 (or 34.2%) in Q1-17.

Sales to related party, Billy Beez, accounted for 3.2% of sales by our Manufacturing operations in Q1-18 as compared to 32.3% in Q1-17. Should Billy Beez end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would not decline materially. We expect continued business from Billy Beez for the foreseeable future.

We expected sales generated by our Manufacturing operations in Q1-18 to increase significantly as compared to sales for the three months ended September 30, 2017 ("Q4-17"). Sales generated by our Manufacturing operations increased by 45.2% to $4,776,412 in Q1-18 from $3,288,848 in Q4-17. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending March 31, 2018 ("Q2-18") to decrease moderately as compared to Q1-18.

Gross profit percentage increased to 49.1% of sales by our Manufacturing operations in Q1-18 from 39.6% in Q1-17. We expected our gross profit percentage to decrease moderately in Q1-18 as compared to Q4-17. Gross profit percentage increased to 49.1% of sales by our Manufacturing operations in Q1-18 from 45.5% in Q4-17 due primarily to sales mix which yielded higher margin sales in Q1-18 as compared to Q4-17. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations in Q2-18 to decrease moderately as compared to Q1-18.

Our Manufacturing operations generated net income of $430,782 in Q1-18 compared to net income of $951,910 in Q1-17. We expected the net operating results from our Manufacturing operations to improve significantly in Q1-18 as compared to Q4-17. Our Manufacturing operations generated net income of $430,782 in Q1-18 compared to a net loss of $512,215 in Q4-17 due primarily to the significant increase in sales in Q1-18 as compared to Q4-17 and the non-recurrence in Q1-18 of the significant unrealized foreign exchange loss recorded in Q4-17. We are expecting the net income from our Manufacturing operations to decrease moderately in Q2-18 as compared to Q1-18 due primarily to lower anticipated sales and lower gross profit percentage.

Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 2.3% to $377,923 in Q1-18 from $386,635 in Q1-17. We expected sales generated by our FEC operations to increase moderately in Q1-18 as compared to Q4-17. Sales generated by our FEC operations increased by 44.5% to $377,923 in Q1-18 from $261,454 in Q4-17 due primarily to seasonality. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase moderately in Q2-18 as compared to Q1-18, due primarily to seasonality resulting in an expected increase in the number of customer visits.

Our FEC operations generated net loss of $46,976 in Q1-18 compared to a net income of $7,299 in Q1-17. We expected the net operating results from our FEC operations to improve significantly in Q1-18 as compared to Q4-17. Our FEC operations generated net loss of $46,976 in Q1-18 as compared to a net loss of $27,440 in Q4-17, due primarily to higher selling and administrative expenses and costs incurred from the acquisition of Play Planet's franchising operations. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to improve significantly in Q2-18 as compared to Q1-18, due primarily to higher anticipated sales.

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

Results of Operations

The following tables set forth the operating results of our Manufacturing and our FEC business segments for the three months and years ended December 31, 2017 and 2016, expressed as a percentage of total sales:

	Three months ended December 31, 2017						Three months ended December 31, 2016					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**92.7**	**%**	**7.3**	**%**	**100.0**	**%**	94.7	%	5.3	%	100.0	%
Cost of sales	**47.2**		**4.3**		**51.5**		57.2		3.1		60.3	
Gross profit	**45.5**		**3.0**		**48.5**		37.5		2.2		39.7	
Selling and administrative expenses	**33.3**		**3.9**		**37.2**		17.9		2.1		20.0	
Foreign exchange loss	**(0.3)**		**-**		**(0.3)**		0.4		-		0.4	
Finance costs	**1.5**		**-**		**1.5**		1.1		-		1.1	
Income taxes	**2.6**		**(0.1)**		**2.5**		5.0		-		5.0	
Net loss	**8.4**	**%**	**(0.8)**	**%**	**7.6**	**%**	13.1	%	0.1	%	13.2	%

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

	Three months ended December 31, 2017						Three months ended December 31, 2016					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**8.6**	**%**	**7.1**	**%**	**15.7**	**%**	5.4	%	5.3	%	10.7	%
Americas	**21.1**		**-**		**21.1**		56.9		-		56.9	
Other	**63.0**		**0.2**		**63.2**		32.4		-		32.4	
	92.7	**%**	**7.3**	**%**	**100.0**	**%**	94.7	%	5.3	%	100.0	%

Results of Operations – Three Months Ended December 31, 2017 Compared to Three Months Ended December 31, 2016

Sales

Sales decreased by $2,074,628 (or 28.7%) to $5,154,335 in Q1-18 from $7,228,963 in Q1-17 due primarily to a decrease in sales of $2,065,916 by our Manufacturing operations.

We expected our sales to increase significantly in Q1-18 as compared to Q4-17. Sales increased by $1,604,033 (or 45.2%) to $5,154,335 in Q1-18 from $3,550,302 in Q4-17. Based on our updated sales forecasts, we are expecting sales to decrease moderately in Q2-18 as compared to Q1-18.

Gross Profit

Gross profit percentage increased to 48.5% of sales in Q1-18 from 39.7% in Q1-17. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 49.1% in Q1-18 compared to 39.6% in Q1-17.

We expected our gross profit percentage to decrease moderately in Q1-18 as compared to Q4-17. Gross profit percentage increased to 48.5% in Q1-18 from 44.7% in Q4-17 due primarily to the significant increase in sales in Q1-18 as compared to Q4-17 and the non-recurrence in Q1-18 of the significant unrealized foreign exchange loss recorded in Q4-17. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q2-18 to decrease moderately as compared to Q1-18.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $431,758 (or 27.9%) to $1,980,946 in Q1-18, from $1,549,188 in Q1-17. This increase is due primarily to additional expenses from the acquisition and start-up of the new European operations.

We expected our operating expenses to decrease significantly, as a percentage of sales, in Q1-18 as compared to Q4-17. Our operating expenses decreased to 38.4% of sales in Q1-18 from 62.9% in Q4-17. Based on our updated forecasts, we are expecting operating expenses to increase moderately, as a percentage of sales, in Q2-18 as compared to Q1-18.

Income Taxes

The income tax expense of $132,613 in Q1-18 and $360,966 in Q1-17 are due primarily to the taxable income generated by our Manufacturing operations.

Net Operating Results

Net income and total comprehensive income amounted to $383,806, or diluted net income per share of $0.02, in Q1-18, compared to net income and total comprehensive income of $959,209, or diluted net income per share of $0.05, in Q1-17. The decrease in net income is due primarily to lower sales in Q1-18 as compared to Q1-17.

We expected our net operating results to improve significantly in Q1-18 as compared to Q4-17. We generated net income of $383,806 in Q1-18 compared to a net loss of $539,655 in Q4-17. We are expecting our net income to decrease moderately in Q2-18 as compared to Q1-18 due primarily to lower anticipated sales and lower gross profit percentage.

Quarterly Results of Operations

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

CONSOLIDATED	Q2-16 31-Mar-16	Q3-16 30-Jun-16	Q4-16 30-Sep-16	Q1-17 31-Dec-16	Q2-17 31-Mar-17	Q3-17 30-Jun-17	Q4-17 30-Sep-17	**Q1-18** **31-Dec-17**
Sales	$ 3,304,442	$ 4,612,437	$ 5,488,474	$ 7,228,963	$ 3,670,669	$ 5,513,365	$ 3,550,302	**$ 5,154,335**
Cost of sales	2,351,245	3,150,868	4,427,299	4,359,600	1,817,220	3,032,595	1,963,579	**2,656,970**
Gross profit	953,197	1,461,569	1,061,175	2,869,363	1,853,449	2,480,770	1,586,723	**2,497,365**
Selling and administrative expenses	1,562,281	1,439,973	1,485,654	1,442,813	1,656,149	1,588,624	1,828,272	**1,921,712**
Foreign exchange loss (gain)	575,543	(166,555)	30,114	28,861	13,812	283,630	383,650	**(16,155)**
Finance costs	1,892	38,720	74,103	77,514	95,129	4,191	22,044	**75,389**
Income taxes	(301,767)	50,821	(182,914)	360,966	29,563	165,389	(107,588)	**132,613**
Net income (loss)	$ (884,752)	$ 98,610	$ (345,782)	$ 959,209	$ 58,796	$ 438,936	$ (539,655)	**$ 383,806**
Basic and diluted net income (loss) per share	$ (0.04)	$ 0.00	$ (0.02)	$ 0.05	$ 0.00	$ 0.02	$ (0.03)	**$ 0.02**

MANUFACTURING	Q2-16 31-Mar-16	Q3-16 30-Jun-16	Q4-16 30-Sep-16	Q1-17 31-Dec-16	Q2-17 31-Mar-17	Q3-17 30-Jun-17	Q4-17 30-Sep-17	**Q1-18** **31-Dec-17**
Sales	$ 2,907,092	$ 4,349,998	$ 5,194,013	$ 6,842,328	$ 3,251,759	$ 5,266,278	$ 3,288,848	**$ 4,776,412**
Cost of sales	2,156,338	2,972,236	4,250,860	4,134,553	1,610,936	2,862,553	1,793,640	**2,433,191**
Gross profit	750,754	1,377,762	943,153	2,707,775	1,640,823	2,403,725	1,495,208	**2,343,221**
Selling and administrative expenses	1,410,792	1,293,113	1,337,378	1,291,088	1,516,420	1,432,453	1,699,677	**1,718,505**
Foreign exchange loss (gain)	575,543	(166,555)	30,114	28,861	13,812	283,630	383,650	**(17,777)**
Finance costs	1,892	38,720	74,103	77,514	95,129	4,191	22,044	**75,389**
Income taxes	(315,014)	63,734	(171,573)	358,402	10,611	185,961	(97,948)	**136,322**
Net income (loss)	$ (922,459)	$ 148,750	$ (326,869)	$ 951,910	$ 4,851	$ 497,490	$ (512,215)	**$ 430,782**

FEC	Q2-16 31-Mar-16	Q3-16 30-Jun-16	Q4-16 30-Sep-16	Q1-17 31-Dec-16	Q2-17 31-Mar-17	Q3-17 30-Jun-17	Q4-17 30-Sep-17	**Q1-18** **31-Dec-17**
Sales	$ 397,350	$ 262,439	$ 294,461	$ 386,635	$ 418,910	$ 247,087	$ 261,454	**$ 377,923**
Cost of sales	194,907	178,632	176,439	225,047	206,284	170,042	169,939	**223,779**
Gross profit	202,443	83,807	118,022	161,588	212,626	77,045	91,515	**154,144**
Selling and administrative expenses	151,489	146,860	148,276	151,725	139,729	156,171	128,595	**203,207**
Foreign exchange loss (gain)	-	-	-	-	-	-	-	**1,622**
Income taxes	13,247	(12,913)	(11,341)	2,564	18,952	(20,572)	(9,640)	**(3,709)**
Net income (loss)	$ 37,707	$ (50,140)	$ (18,913)	$ 7,299	$ 53,945	$ (58,554)	$ (27,440)	**$ (46,976)**

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

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

- The increase in net operating results from Q2-16 to Q3-16 is due primarily to the foreign exchange loss in Q2-16 as compared to the foreign exchange gain in Q3-16.
- The decrease in net operating results from Q3-16 to Q4-16 is due primarily to lower gross margin profit, a foreign exchange loss and higher selling and administrative expenses, in Q4-16 compared to Q3-16.
- The improvement in net operating results from Q4-16 to Q1-17 is due primarily to the significant improvement in gross profit margin in Q1-17 compared to Q4-16.
- The decrease in net operating results from Q1-17 to Q2-17 is due primarily to significantly lower sales in Q2-17 compared to Q1-17.
- The increase in net operating results from Q2-17 to Q3-17 is due primarily to higher sales in Q3-17 compared to Q2-17.
- The decrease in net operating results from Q3-17 to Q4-17 is due primarily to lower sales and higher selling and administrative expenses in Q4-17 compared to Q3-17.
- The increase in net operating results from Q4-17 to Q1-18 is due primarily to higher manufacturing sales and the non-recurrence of unrealized foreign exchange loss in Q1-18 as compared to Q4-17.

Liquidity and Capital Resources

Operating Activities

Cash used in operating activities amounted to $917,023 in Q1-18, compared to cash provided by operating activities of $227,511 in Q1-17. The change is due primarily to the decrease in net income, increase in trade receivables and income taxes paid in Q1-18 as compared to Q1-17.

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

Investing Activities

Cash used in investing activities increased to $510,077 in Q1-18 from $107,143 in Q1-17 due primarily to the acquisition of the European operations.

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

Financing Activities

Cash provided by financing activities amounted to $1,099,361 in Q1-18, compared to cash used in financing activities of $41,124 in Q1-17 due to the proceeds from new operating loans in Q1-18.

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

Cash Requirements

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

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

Sources and Uses of Cash

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

- Cash of $4,144,996 at December 31, 2017 (September 30, 2017 – $4,491,700).
- Trade and other receivables of $7,981,977 at December 31, 2017 (September 30, 2017 – $7,346,321).

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

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

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of $600,000, an Operating Loan Facility of U.S. $4,000,000 ($5,018,000 in Canadian dollars), and a Securitization Facility of U.S. $7,920,000 ($9,936,000 in Canadian dollars), which are subject to annual renewals (see "Credit Facilities").

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

Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At December 31, 2017, all financial ratios and tests have been met.

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

Credit Facilities

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

(a) Overdraft Facility

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

(b) Export Loan Facility

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. $4,000,000 ($5,018,000 in Canadian dollars) ("Operating Loan Facility") and a receivables financing facility in the form of a demand revolving line of U.S. $7,920,000 ($9,936,000 in Canadian dollars) ("Securitization Facility").

Operating Loan Facility

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

Securitization Facility

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

(c) Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of U.S. $1,840,000 ($2,308,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($10,036,000 in Canadian dollars), with a maximum maturity of 12 months.

On January 19, 2018, the Corporation's credit facilities were amended to include bank guarantees of €1,500,000 ($2,287,000 in Canadian dollars), €500,000 ($762,000 in Canadian dollars) and U.S. $1,000,000 ($1,246,000 in Canadian dollars) to secure credit facilities for the Corporation's subsidiaries, Play Mart International EOOD, Play Planet S.r.l and IREC Corporation, respectively

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

Market Risk Disclosure

Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of U.S. $1,840,000 ($2,308,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($10,036,000 in Canadian dollars), with a maximum maturity of 12 months. We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

At December 31, 2017, we had one foreign exchange forward contract outstanding with maturity date on February 9, 2018 and a total commitment to sell $1,000,000 U.S. dollars and purchase $1,211,129 Canadian dollars at the exchange rate of 1.211129. The mark-to-market fair value of the foreign exchange forward contracts outstanding at December 31, 2017 represents a liability of $40,509 for the Corporation and is recorded as an unrealized foreign exchange loss in the consolidated statements of operations and comprehensive income.

Credit risk

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

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

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

At December 31, 2017, finance receivables from entities affiliated with the Corporation amount to $5,764,264 (September 30, 2017 - $5,734,398) and represent the entire balance of finance receivables (September 30, 2017 – 100%). As at February 20, 2018, finance receivables of U.S. $3,979,870 ($4,992,747 in Canadian dollars) that were due to the Bank on or before January 2, 2018 remain uncollected from an entity affiliated to the Corporation and the underlying securitization debt of U.S. $3,581,883 ($4,493,472 in Canadian dollars) to these uncollected finance receivables remains unpaid by the Corporation to the Bank. It is the opinion of management that the finance receivables will be collected from the affiliated entity at which point the underlying securitization debt will be extinguished.

At December 31, 2017, trade and other receivables from entities affiliated with the Corporation amount to $5,441,629 (September 30, 2017 - $6,074,624) and represent approximately 68% of the balance of trade receivables (September 30, 2017 – 83%). At December 31, 2017, past due trade receivables from entities affiliated with the Corporation amount to $5,441,193 (September 30, 2017 - $2,353,961).

Management expects collection of the entire balance of finance receivables and trade receivables from the affiliates, which amount to $11,205,893 at December 31, 2017 (September 30, 2017 - $11,809,022). Should the affiliates default on payment due to insolvency, the Corporation's third-party insurance coverage would pay 90% of the unpaid balance from the affiliates, leaving an unrecoverable balance of 10%, or $1,120,589 at December 31, 2017.

Interest rate risk

Interest rate risk refers to the risk that the fair value of a financial instrument or the future cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation's interest rate risk arises primarily from its operating loans and securitization debt, which are subject to variable interest rates. At December 31, 2017, the Corporation's operating loans of $1,073,852 (September 30, 2017 – Nil) and securitization debt of $5,187,838 (September 30, 2017 - $5,160,958) are subject to variable interest rate obligations ranging from USD LIBOR plus 3.50% to USD LIBOR plus 4.00% per annum.

Liquidity risk

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

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

Legal Proceedings

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

Related Party Transactions

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

	Three months ended December 31,	
	2017	2016
Sales in U.S. dollars	**$ 120,008**	$ 1,645,197
Equivalent in Canadian dollars	**152,649**	2,209,232

Our finance receivables include the following amounts denominated in U.S. dollars that are due from the Affiliates:

	December 31, 2017	September 30, 2017
Balance in U.S. dollars	**$ 4,594,870**	$ 4,594,870
Equivalent in Canadian dollars	**5,764,264**	5,734,398

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

	December 31, 2017	September 30, 2017
Balance in U.S. dollars	**$ 4,337,687**	$ 4,867,487
Equivalent in Canadian dollars	**5,441,629**	6,074,624

Outstanding Share Capital

At December 31, 2017, and February 20, 2017, the Corporation had 20,870,187 common shares issued and outstanding, and no warrants or share options outstanding.

Cautionary Note Regarding Forward-looking Statements

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

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