CORPORATION LTD (TSX-V: IPC)

Q1

2017

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2016

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, 2016	September 30, 2016
Assets			
Current assets			
Cash		**$ 5,208,798**	$ 5,109,026
Finance receivables	*6*	**4,819,252**	3,725,753
Trade and other receivables		**8,530,321**	9,374,759
Income taxes receivable		**253,849**	585,969
Inventories		**1,977,925**	2,196,019
Prepaid expenses and deposits		**954,745**	446,808
		21,744,890	21,438,334
Non-current assets			
Equipment		**2,040,109**	1,998,516
Deferred income tax assets		**80,951**	97,513
Total Assets		**$ 23,865,950**	$ 23,534,363
Liabilities and Shareholders' Equity			
Current liabilities			
Operating loans	*5*	**$ 2,355,525**	$ 3,238,430
Securitization debt	*6*	**4,337,327**	3,461,314
Trade payables, accrued charges and other		**2,020,139**	2,350,610
Customer deposits and deferred revenue		**1,543,551**	1,830,897
Current portion of rent inducement		**9,993**	5,283
		10,266,535	10,886,534
Non-current liabilities			
Rent inducement		**136,918**	139,837
Deferred income tax liabilities		**72,771**	77,475
Total Liabilities		**10,476,224**	11,103,846
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		**2,822,627**	1,863,418
Total Shareholders' Equity		**13,389,726**	12,430,517
Total Liabilities and Shareholders' Equity		**$ 23,865,950**	$ 23,534,363

"Scott Forbes"
President & CEO

"Muhanad Awad"
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,	
	2016	2015
Sales	**$ 7,228,963**	$ 3,618,561
Cost of sales	**4,359,600**	2,197,420
Gross profit	**2,869,363**	1,421,141
Selling and administrative expenses	**1,442,813**	1,397,892
Foreign exchange loss (gain)	**28,861**	(218,840)
	1,471,674	1,179,052
Operating income	**1,397,689**	242,089
Finance costs	**77,514**	-
Income before income taxes	**1,320,175**	242,089
Income tax provision		
Current	**349,108**	62,225
Deferred	**11,858**	3,091
	360,966	65,316
Net income and total comprehensive income	**959,209**	176,773
Basic and diluted net income per common share	**$ 0.05**	$ 0.01
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	Share-based payments reserve[2]	Retained earnings	Total shareholders' equity
Balance at September 30, 2015	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,818,569	$ 13,385,668
Net income and total comprehensive income	-	-	-	-	176,773	176,773
Balance at December 31, 2015	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,995,342	$ 13,562,441
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**

[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 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)

	Three months ended December 31,	
	2016	2015
Operating activities		
Net income	**$ 959,209**	$ 176,773
Items not affecting cash		
Depreciation	**103,803**	88,932
Deferred income taxes	**11,858**	3,091
Rent inducement	**1,791**	(4,824)
Unrealized loss on foreign exchange derivatives	**145,952**	-
Unrealized foreign exchange gain	**(174,171)**	(425,432)
Finance costs	**77,514**	-
	1,125,956	(161,460)
Change in non-cash operating working capital		
Finance receivables	**(1,045,972)**	-
Trade and other receivables	**984,786**	(1,010,525)
Inventories	**218,094**	145,341
Prepaid expenses	**(507,937)**	(211,413)
Trade payables, accrued charges and other	**(535,322)**	(372,571)
Current income tax expense	**349,108**	62,225
Customer deposits and deferred revenue	**(287,346)**	(842,264)
	(824,589)	(2,229,207)
Interest paid	**(73,856)**	-
Cash provided by (used in) operating activities	**227,511**	(2,390,667)
Investing activities		
Purchase of equipment	**(107,143)**	(25,139)
Cash used in investing activities	**(107,143)**	(25,139)
Financing activities		
Proceeds from operating loans	**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 used in financing activities	**(41,124)**	-
Net increase (decrease) in cash	**79,244**	(2,415,806)
Effect of foreign exchange rate changes on cash	**20,528**	14,191
Cash at beginning of the year	**5,109,026**	4,947,024
Cash at end of the year	**$ 5,208,798**	$ 2,545,409
Supplemental cash flow disclosures - non cash transactions		
Purchase of equipment	**$ 38,253**	$ 6,252
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.

1. Nature of business and corporate information

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

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

The Corporation's head office is located at 215, 27353 – 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.

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 21, 2017.

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, 2016.

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.

4. Critical accounting estimates and judgments (continued)

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

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

Functional currency

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

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)

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, 2016, the Corporation obtained the following proceeds in U.S. dollars from operating loans and made the following repayments in U.S. dollars:

	Carrying Amounts	
	U.S. dollars	**Canadian dollars**
Balance at September 30, 2016	2,468,880	**3,238,430**
Proceeds from operating loans	1,754,320	**2,364,066**
Repayment of operating loans	(967,680)	**(1,269,887)**
Repayment using proceeds from securitization debt	(1,501,200)	**(1,989,446)**
Net realized foreign exchange loss on repayment	-	**20,903**
Unrealized foreign exchange gain on balance due	-	**(8,541)**
Balance at December 31, 2016	1,754,320	**2,355,525**

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 various dates from December 19, 2016 to June 11, 2017 at which time the securitization debt is extinguished and the retainer is remitted to the Corporation.

	December 31, 2016	
	U.S. dollars	**Canadian dollars**
Finance receivables	3,589,225	**4,819,252**
Less: Retainer	(358,923)	**(481,925)**
Securitization debt	3,230,302	**4,337,327**

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.

Finance receivables of U.S. $1,023,000 ($1,373,582 in Canadian dollars) due to the Bank on December 19, 2016 remain uncollected at December 31, 2016. The underlying securitization debt of U.S. $920,700 ($1,236,224 in Canadian dollars) to these uncollected finance receivables remains unpaid at December 31, 2016. The Corporation has accrued an additional interest expense of $3,658 on the unpaid securitization debt from December 19, 2016 to December 31, 2016. This interest expense is contractually recoverable by Corporation from its customer, an affiliated entity. It is the opinion of management that the finance receivables from the affiliated entity do not represent a significant credit risk.

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,	
	2016	2015
Sales in U.S. dollars	**$ 1,645,197**	$ 969,636
Equivalent in Canadian dollars	**2,209,232**	1,312,562

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

	December 31, 2016	September 30, 2016
Balance in U.S. dollars	**$ 5,768,742**	$ 6,659,740
Equivalent in Canadian dollars	**7,745,690**	8,735,580

Unaudited (Expressed in Canadian dollars)

8. Segment reporting and concentration of sales

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 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, 2016 is as follows:

	Three months ended December 31, 2016		
	Manufacturing	Family Entertainment Centre	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

Unaudited (Expressed in Canadian dollars)

8. 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, 2015 is as follows:

	Three months ended December 31, 2015		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 3,264,525	$ 354,036	$ 3,618,561
Cost of sales	1,962,975	234,445	2,197,420
Gross profit	1,301,550	119,591	1,421,141
Selling and administrative expenses	1,248,478	149,414	1,397,892
Foreign exchange gain	(218,840)	-	(218,840)
Income taxes	73,075	(7,759)	65,316
Net income (loss)	$ 198,837	$ (22,064)	$ 176,773
Total assets	$ 14,733,228	$ 884,447	$ 15,617,675
Total liabilities	$ 1,876,337	$ 178,897	$ 2,055,234
Depreciation expense	$ 54,083	$ 34,849	$ 88,932
Purchase of equipment	$ 30,698	$ 693	$ 31,391

Geographic and customer information

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

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

	Three months ended December 31,	
	2016	2015
Sales		
Canada	**$ 776,645**	$ 832,117
Americas	**4,113,403**	2,201,317
Other	**2,338,915**	585,127
	$ 7,228,963	$ 3,618,561

8. 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,	
	2016	2015
Customer A	**$ 2,209,232**	$ 1,312,562
Customer B	**874,869**	-

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 21, 2017 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2016 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2016 and 2015.

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., and IREC Corporation. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its production plants in Langley, British Columbia, Canada and Subic Bay, Philippines ("Manufacturing" or "MFG"); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada ("Family Entertainment Centre" or "FEC").

Iplayco is controlled by FAS Entertainment B.C. Ltd., a wholly-owned subsidiary of Saudi FAS Holding Company (collectively "FAS"), which owns 51.03% of Iplayco's issued and outstanding common shares. FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are beneficially held by three individuals. FAS controls various entities that own and operate Billy Beez family entertainment centres, Iplayco's largest customer over the past five years. FAS is expanding its Billy Beez family entertainment centres throughout the Middle East, Europe and North America. FAS also controls Fawaz Abdulaziz Al Hokair & Co., a retail conglomerate listed on the Saudi stock exchange (Tadawul), with a market capitalization at December 31, 2016 of approximately 7.7 billion Saudi Riyal (or approximately $2.8 billion in Canadian dollars). For more information on FAS, please visit the company's website at: www.fawazalhokair.com.

Consolidated Results

Sales for the three months ended December 31, 2016 ("Q1-17") increased by 99.8% to $7,228,963 from $3,618,561 for the three months ended December 31, 2015 ("Q1-16"). Gross profit percentage increased to 39.7% of sales in Q1-17 from 39.3% in Q1-16. Operating expenses, including foreign exchange gains and losses and finance costs, increased to $1,549,188, or 21.4% of sales, in Q1-17 from $1,179,052, or 32.6% of sales, in Q1-16. Net income amounted to $959,209, or diluted net income per share of $0.05, in Q1-17 as compared to net income of $176,773, or diluted net income per share of $0.01, in Q1-16.

Manufacturing Operations

Sales generated by our Manufacturing operations increased by 109.6% to $6,842,328 in Q1-17 from $3,264,525 in Q1-16. This increase is due to higher sales to our customers located in the Americas, including Canada, who accounted for sales of $4,503,413 (or 65.8% of total Manufacturing sales) in Q1-17 compared to $2,679,398, (or 82.1%) in Q1-16, and higher sales to our customers located outside of the Americas, who accounted for sales of $2,338,915 (or 34.2% of total Manufacturing sales) in Q1-17 compared to $585,127 (or 17.9%) in Q1-16.

Sales to related party, Billy Beez, accounted for 32.3% of sales by our Manufacturing operations in Q1-17 as compared to 40.2% in Q1-16. Should Billy Beez end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would decline materially. We expect continued business concentration from Billy Beez for the foreseeable future.

We expected sales generated by our Manufacturing operations in Q1-17 to decrease significantly as compared to sales for the three months ended September 30, 2016 ("Q4-16"). Sales generated by our Manufacturing operations increased by 31.7% to $6,842,328 in Q1-17 from $5,194,013 in Q4-16. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending March 31, 2017 ("Q2-17") to decrease moderately as compared to Q1-17.

Gross profit percentage decreased to 39.6% of sales by our Manufacturing operations in Q1-17 from 39.9% in Q1-16. We expected our gross profit percentage to increase significantly in Q1-17 as compared to Q4-16. Gross profit percentage increased to 39.6% of sales by our Manufacturing operations in Q1-17 from 18.2% in Q4-16 due primarily to the significant increase in sales in Q1-17 as compared to Q4-16 and the non-recurrence in Q1-17 of cost overruns on fixed-priced sales contracts and integration costs from the acquisition of IREC Corporation in Q4-16. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations in Q2-17 to remain in-line with Q1-17.

Our Manufacturing operations generated net income of $951,910 in Q1-17 compared to net income of $198,837 in Q1-16. We expected the net operating results from our Manufacturing operations to improve significantly in Q1-17 as compared to Q4-16. Our Manufacturing operations generated net income of $951,910 in Q1-17 compared to a net loss of $326,869 in Q4-16 due primarily to the significant increase in sales in Q1-17 as compared to Q4-16 and the non-recurrence in Q1-17 of cost overruns on fixed-priced sales contracts and integration costs from the acquisition of IREC Corporation in Q4-16. We are expecting the net income from our Manufacturing operations to decrease moderately in Q2-17 as compared to Q1-17 due primarily to lower anticipated sales.

Family Entertainment Centre Operations

Sales generated by our FEC operations increased by 9.2% to $386,635 in Q1-17 from $354,036 in Q1-16. We expected sales generated by our FEC operations to increase moderately in Q1-17 as compared to Q4-16. Sales generated by our FEC operations increased by 31.3% to $386,635 in Q1-17 from $294,461 in Q4-16 due primarily to seasonality. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase moderately in Q2-17 as compared to Q1-17, due primarily to seasonality resulting in an expected increase in the number of customer visits.

Our FEC operations generated net income of $7,299 in Q1-17 compared to a net loss of $22,064 in Q1-16. We expected the net operating results from our FEC operations to improve moderately in Q1-17 as compared to Q4-16. Our FEC operations generated net income of $7,299 in Q1-17 as compared to a net loss of $18,913 in Q4-16. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to improve moderately in Q2-17 as compared to Q1-17, 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, 2016 and 2015, expressed as a percentage of total sales:

	Three months ended December 31, 2016			Three months ended December 31, 2015		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales to external customers	**94.7 %**	**5.3 %**	**100.0 %**	90.2 %	9.8 %	100.0 %
Cost of sales	**57.2**	**3.1**	**60.3**	54.2	6.5	60.7
Gross profit	**37.5**	**2.2**	**39.7**	36.0	3.3	39.3
Selling and administrative expenses	**17.9**	**2.1**	**20.0**	34.5	4.1	38.6
Foreign exchange loss (gain)	**0.4**	**-**	**0.4**	(6.0)	-	(6.0)
Finance costs	**1.1**	**-**	**1.1**	-	-	-
Income taxes	**5.0**	**0.0**	**5.0**	2.0	(0.2)	1.8
Net income (loss)	**13.1 %**	**0.1 %**	**13.2 %**	5.5 %	(0.6) %	4.9 %

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

	Three months ended December 31, 2016			Three months ended December 31, 2015		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**5.4 %**	**5.3 %**	**10.7 %**	13.2 %	9.8 %	23.0 %
Americas	**56.9**	**-**	**56.9**	60.8	-	60.8
Other	**32.4**	**-**	**32.4**	16.2	-	16.2
	94.7 %	**5.3 %**	**100.0 %**	90.2 %	9.8 %	100.0 %

Results of Operations – Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015

Sales

Sales increased by $3,610,402 (or 99.8%) to $7,228,963 in Q1-17 from $3,618,561 in Q1-16 due primarily to an increase in sales of $3,577,803 by our Manufacturing operations.

We expected our sales to decrease moderately in Q1-17 as compared to Q4-16. Sales increased by $1,740,489 (or 31.7%) to $7,228,963 in Q1-17 from $5,488,474 in Q4-16. Based on our updated sales forecasts, we are expecting sales to decrease moderately in Q2-17 as compared to Q1-17.

Gross Profit

Gross profit percentage increased to 39.7% of sales in Q1-17 from 39.3% in Q1-16. This increase is due primarily to our FEC operations which generated a gross profit percentage of 41.8% in Q1-17 compared to 33.8% in Q1-16.

We expected our gross profit percentage to increase significantly in Q1-17 as compared to Q4-16. Gross profit percentage increased to 39.7% in Q1-17 from 19.3% in Q4-16 due primarily to the significant increase in sales in Q1-17 as compared to Q4-16 and the non-recurrence in Q1-17 of cost overruns on fixed-priced sales contracts and integration costs from the acquisition of IREC Corporation in Q4-16. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q2-17 to remain in-line with Q1-17.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $370,136 (or 31.4%) to $1,549,188 in Q1-17, from $1,179,052 in Q1-16. This increase is due primarily to the foreign exchange loss of $28,861 in Q1-17 as compared to a foreign exchange gain of $218,840 in Q1-16.

We expected our operating expenses to decrease significantly, as a percentage of sales, in Q1-17 as compared to Q4-16. Our operating expenses decreased to 21.4% of sales in Q1-17 from 29.0% in Q4-16. Based on our updated forecasts, we are expecting operating expenses to increase moderately, as a percentage of sales, in Q2-17 as compared to Q1-17.

Income Taxes

The income tax expense of $360,966 in Q1-17 and $65,316 in Q1-16 are due primarily to the taxable income generated by our Manufacturing operations.

Net Operating Results

Net income and total comprehensive income amounted to $959,209, or diluted net income per share of $0.05, in Q1-17, compared to net income and total comprehensive income of $176,773, or diluted net income per share of $0.01, in Q1-16. The increase in net income is due primarily to the net income generated by our Manufacturing operations in Q1-17.

We expected our net operating results to improve significantly in Q1-17 as compared to Q4-16. We generated net income of $959,209 in Q1-17 compared to a net loss of $345,782 in Q4-16. We are expecting our net income to decrease moderately in Q2-17 as compared to Q1-17 due primarily to lower anticipated sales.

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, 2016 and 2015. 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.

	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	**Q1-17**
CONSOLIDATED	31-Mar-15	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	**31-Dec-16**
Sales	$ 3,198,377	$ 4,410,462	$ 5,244,429	$ 3,618,561	$ 3,304,442	$ 4,612,437	$ 5,488,474	**$ 7,228,963**
Cost of sales	1,911,898	2,973,826	3,448,630	2,197,420	2,351,245	3,150,868	4,427,299	**4,359,600**
Gross profit	1,286,479	1,436,636	1,795,799	1,421,141	953,197	1,461,569	1,061,175	**2,869,363**
Selling and administrative expenses	1,235,993	1,445,286	1,891,170	1,397,892	1,562,281	1,439,973	1,485,654	**1,442,813**
Foreign exchange loss (gain)	(190,275)	(12,099)	(353,522)	(218,840)	575,543	(166,555)	30,114	**28,861**
Finance costs	63,436	48,699	(20,005)	-	1,892	38,720	74,103	**77,514**
Income taxes	46,847	4,884	61,747	65,316	(301,767)	50,821	(182,914)	**360,966**
Net income (loss)	$ 130,478	$ (50,134)	$ 216,409	$ 176,773	$ (884,752)	$ 98,610	$ (345,782)	**$ 959,209**
Basic and diluted net income (loss) per share	$ 0.01	$ (0.00)	$ 0.01	$ 0.01	$ (0.04)	$ 0.00	$ (0.02)	**$ 0.05**

	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	**Q1-17**
MANUFACTURING	31-Mar-15	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	**31-Dec-16**
Sales	$ 2,816,501	$ 4,162,310	$ 4,949,115	$ 3,264,525	$ 2,907,092	$ 4,349,998	$ 5,194,013	**$ 6,842,328**
Cost of sales	1,713,213	2,797,426	3,291,253	1,962,975	2,156,338	2,972,236	4,250,860	**4,134,553**
Gross profit	1,103,288	1,364,884	1,657,862	1,301,550	750,754	1,377,762	943,153	**2,707,775**
Selling and administrative expenses	1,094,054	1,298,976	1,739,126	1,248,478	1,410,792	1,293,113	1,337,378	**1,291,088**
Foreign exchange loss (gain)	(190,275)	(12,099)	(353,522)	(218,840)	575,543	(166,555)	30,114	**28,861**
Finance costs	63,436	48,699	(20,005)	-	1,892	38,720	74,103	**77,514**
Income taxes	36,115	23,872	64,619	73,075	(315,014)	63,734	(171,573)	**358,402**
Net income (loss)	$ 99,958	$ 5,436	$ 227,644	$ 198,837	$ (922,459)	$ 148,750	$ (326,869)	**$ 951,910**

	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	**Q1-17**
FEC	31-Mar-15	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	**31-Dec-16**
Sales	$ 381,876	$ 248,152	$ 295,314	$ 354,036	$ 397,350	$ 262,439	$ 294,461	**$ 386,635**
Cost of sales	198,685	176,400	157,377	234,445	194,907	178,632	176,439	**225,047**
Gross profit	183,191	71,752	137,937	119,591	202,443	83,807	118,022	**161,588**
Selling and administrative expenses	141,939	146,310	152,044	149,414	151,489	146,860	148,276	**151,725**
Income taxes	10,732	(18,988)	(2,872)	(7,759)	13,247	(12,913)	(11,341)	**2,564**
Net income (loss)	$ 30,520	$ (55,570)	$ (11,235)	$ (22,064)	$ 37,707	$ (50,140)	$ (18,913)	**$ 7,299**

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

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

- The decrease in net operating results from Q2-15 to Q3-15 is due primarily to higher administrative expenses in Q3-15 compared to Q2-15.
- The increase in net operating results from Q3-15 to Q4-15 is due primarily to higher sales in Q4-15 compared to Q3-15.
- The decrease in net operating results from Q4-15 to Q1-16 is due primarily to lower sales, partially offset by lower operating expenses, in Q1-16 compared to Q4-15.
- The decrease in net operating results from Q1-16 to Q2-16 is due primarily to lower gross profit margin, a foreign exchange loss and higher selling and administrative expenses, in Q2-16 compared to Q1-16.
- The increase in net operating results from Q2-16 to Q3-16 is due primarily to the foreign exchange loss in Q2-16 as compared to the foreign exchange gain in Q3-16.
- The decrease in net operating results from Q3-16 to Q4-16 is due primarily to lower gross margin profit, a foreign exchange loss and higher selling and administrative expenses, in Q4-16 compared to Q3-16.
- The improvement in net operating results from Q4-16 to Q1-17 is due primarily to the significant improvement in gross profit margin in Q1-17 compared to Q4-16.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities amounted to $227,511 in Q1-17, compared to cash used in operating activities of $2,390,667 in Q1-16. The change is due primarily to the decrease in trade receivables in Q1-17 as compared to an increase in trade receivables in Q1-16.

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

Investing Activities

Cash used in investing activities increased to $107,143 in Q1-17 from $25,139 in Q1-16 due to an increase in purchases of equipment in Q1-17 as compared to Q1-16.

We have not entered into any proposed material asset or business acquisition or disposition agreements, and we do not anticipate to increase significantly our investment in capital expenditures in 2017.

Financing Activities

Cash used in financing activities amounted to $41,124 in Q1-17, compared to NIL in Q1-16 due to repayments exceeding proceeds from operating loans and securitization debt Q1-17.

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 to the anticipated increase in sales orders from related parties for the expansion of the Billy Beez family entertainment centres.

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 and cash equivalents of $5,208,798 at December 31, 2016 (September 30, 2016 – $5,109,026).
- Trade and other receivables of $8,530,321 at December 31, 2016 (September 30, 2016 – $9,374,759).

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

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

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of $600,000, an Operating Loan Facility of U.S. $2,500,000 ($3,357,000 in Canadian dollars), and a Securitization Facility of U.S. $7,920,000 ($10,634,000 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. Finance receivables of U.S. $1,023,000 ($1,373,582 in Canadian dollars) due to the Bank on December 19, 2016 remain uncollected at February 21, 2017. The underlying securitization debt of U.S. $920,700 ($1,236,224 in Canadian dollars) to these uncollected finance receivables remains unpaid at February 21, 2017. The Corporation has accrued an additional interest expense of $3,658 on the unpaid securitization debt from December 19, 2016 to December 31, 2016. This interest expense is contractually recoverable by Corporation from its customer, Billy Beez. It is the opinion of management that the finance receivables from Billy Beez do not represent a significant credit risk.

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, 2016, all financial ratios and tests have been met.

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

Credit Facilities

The Corporation has the following credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank"), as amended on January 26, 2016:

(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. $2,500,000 ($3,357,000 in Canadian dollars) ("Operating Loan Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $7,920,000 ($10,634,000 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. $1,440,000 ($1,933,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($10,742,000 in Canadian dollars), with a maximum maturity of 12 months.

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

Market Risk Disclosure

Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of U.S. $1,440,000 ($1,933,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($10,742,000 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, 2016, we had various foreign exchange forward contracts outstanding with maturity dates from March 27, 2017 to September 29, 2017 and a total commitment to sell $4,000,000 U.S. dollars and purchase $5,212,338 Canadian dollars at exchange rates ranging from $1.29217 to $1.30906. The mark-to-market fair value of the foreign exchange forward contracts outstanding at December 31, 2016 represents a liability of $145,952 for the Corporation and is recorded as an unrealized foreign exchange loss in the condensed consolidated interim 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 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 financial institutions 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, 2016, trade receivables from Billy Beez amount to $7,745,689 (September 30, 2016 - $8,735,580) and represent approximately 91% of the balance of trade receivables (September 30, 2016 – 93%). At December 31, 2016, past due trade receivables from Billy Beez amount to $675,052 (September 30, 2016 - $551,455). 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 operating loans and securitization debt, which are subject to variable interest rates. At December 31, 2016, the Corporation's operating loans of $2,355,525 and securitization debt of $4,337,327 are subject to variable interest rate obligations ranging from USD LIBOR plus 3.50% to USD LIBOR plus 4.00% per annum.

Liquidity risk

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

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

Legal Proceedings

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

Related Party Transactions

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

	Three months ended December 31,	
	2016	2015
Sales in U.S. dollars	**$ 1,645,197**	$ 969,636
Equivalent in Canadian dollars	**2,209,232**	1,312,562

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

	December 31, 2016	September 30, 2016
Balance in U.S. dollars	**$ 5,768,742**	$ 6,659,740
Equivalent in Canadian dollars	**7,745,690**	8,735,580

Outstanding Share Capital

At December 31, 2016, and February 21, 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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CORPORATION LTD (TSX-V: IPC)