Q1
2014

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2013

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, 2013	September 30, 2013
Assets			
Current assets			
Cash and cash equivalents		**$ 1,129,987**	$ 1,693,876
Finance receivables	*5*	**1,265,684**	3,535,737
Trade and other receivables		**1,464,213**	1,662,452
Inventories		**1,196,865**	1,069,658
Prepaid expenses		**273,947**	272,919
		5,330,696	8,234,642
Non-current assets			
Equipment		**1,576,755**	1,634,824
Deferred income tax assets		**37,353**	28,283
Total Assets		**$ 6,944,804**	$ 9,897,749
Liabilities and Shareholders' Equity			
Current liabilities			
Securitization debt	*5*	**$ 1,139,116**	$ 3,480,074
Current portion of subordinate debt	*6*	**184,522**	183,269
Trade payables, accrued charges and other		**977,305**	1,532,521
Income taxes payable		**18,335**	29,279
Customer deposits		**215,137**	248,221
Current portion of rent inducement		**11,085**	22,446
Current portion of finance lease liabilities		**-**	1,826
Revolving loans	*7*	**310,000**	310,000
		2,855,500	5,807,636
Non-current liabilities			
Subordinate debt	*6*	**520,359**	541,786
Rent inducement		**136,208**	137,779
Deferred income tax liabilities		**99,031**	101,054
Total Liabilities		**3,611,098**	6,588,255
Shareholders' Equity			
Share capital		**1,757,643**	1,757,643
Share-based payments reserve		**256,858**	256,858
Retained earnings		**1,319,205**	1,294,993
Total Shareholders' Equity		**3,333,706**	3,309,494
Total Liabilities and Shareholders' Equity		**$ 6,944,804**	$ 9,897,749

"Franco Aquila"
....
Chief Executive Officer

"David A. Perkins"
....
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,	
	2013	2012
Sales	**$ 2,940,536**	$ 3,495,495
Cost of sales	**1,821,670**	2,146,708
Gross profit	**1,118,866**	1,348,787
Selling and administrative expenses	**1,074,355**	903,831
Foreign exchange loss (gain)	**(73,207)**	11,067
	1,001,148	914,898
Operating income	**117,718**	433,889
Finance costs	**78,210**	30,769
Income before income taxes	**39,508**	403,120
Income tax provision		
Current	**26,389**	-
Deferred	**(11,093)**	102,894
	15,296	102,894
Net income and total comprehensive income	**24,212**	300,226
Net income per share		
Basic and diluted	**$ 0.00**	$ 0.03
Weighted average number of common shares outstanding		
Basic and diluted	**10,220,187**	10,220,187

The accompanying notes form an integral part of these 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	Share-based payments reserve[2]	Retained earnings	Total shareholders' equity
Balance at September 30, 2012	10,220,187	$ 1,757,643	$ 256,858	$ 65,750	$ 2,080,251
Net income and total comprehensive income	-	-	-	300,226	300,226
Balance at December 31, 2012	10,220,187	1,757,643	256,858	365,976	2,380,477
Balance at September 30, 2013	10,220,187	1,757,643	256,858	1,294,993	3,309,494
Net income and total comprehensive income	-	-	-	24,212	24,212
Balance at December 31, 2013	**10,220,187**	**1,757,643**	**256,858**	**1,319,205**	**3,333,706**

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

(2) The share-based payments reserve is comprised of the grant date fair value of share options that have expired unexercised.

The accompanying notes form an integral part of these 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,	
	2013	2012
Operating activities		
Net income	**$ 24,212**	$ 300,226
Items not affecting cash		
Depreciation	**74,779**	71,074
Deferred income taxes	**(11,093)**	102,894
Rent inducement	**(12,932)**	(7,513)
Loss on disposal of equipment	**-**	23,380
Unrealized foreign exchange gain	**(19,316)**	(3,526)
Finance costs	**78,210**	30,769
	133,860	517,304
Change in non-cash operating working capital		
Finance receivables	**2,301,755**	-
Trade and other receivables	**203,867**	(842,476)
Inventories	**(127,207)**	(195,321)
Prepaid expenses	**(1,028)**	18,106
Trade payables, accrued charges and other	**(551,914)**	259,878
Income taxes payable	**26,389**	-
Customer deposits	**(33,084)**	73,344
	1,818,778	(686,469)
Interest paid	**(76,936)**	(7,072)
Income taxes paid	**(37,333)**	-
Cash provided by (used in) operating activities	**1,838,369**	(176,237)
Investing activities		
Purchase of equipment	**(16,710)**	(28,170)
Cash used in investing activities	**(16,710)**	(28,170)
Financing activities		
Repayment of securitization debt	**(2,372,660)**	-
Repayment of subordinate debt	**(24,750)**	-
Repayment of finance lease liabilities	**(1,826)**	(35,007)
Cash used in financing activities	**(2,399,236)**	(35,007)
Net decrease in cash and cash equivalents	**(577,577)**	(239,414)
Effect of foreign exchange rate changes on cash and cash equivalents	**13,688**	1,010
Cash and cash equivalents at beginning of the period	**1,693,876**	841,008
Cash and cash equivalents at end of the period	**$ 1,129,987**	$ 602,604
Supplemental cash flow disclosures - non cash transactions		
Purchase of equipment	**$ -**	$ 9,032
Amortization of financing costs - subordinate debt	**4,576**	-

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 shares trade on the TSX Venture Exchange (TSX-V: IPC).

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

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

2. Basis of preparation

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 13, 2014.

Basis of measurement

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

Functional and presentation currency

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

3. Significant accounting policies

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, 2013.

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

Revenue

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

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.

4. Critical accounting estimates and judgments (continued)

Income taxes

The Corporation's manufacturing operations generate 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. Finance receivables and securitization debt

Finance receivables are comprised of the following U.S. dollar denominated trade receivables, which have been sold to a large Canadian financial institution (the "Bank"), net of a holdback of 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses:

		December 31, 2013
	Carrying amount in U.S. dollars	**Carrying amount in Canadian dollars**
Finance receivables	1,190,000	**1,265,684**
Less: Holdback	(119,000)	**(126,568)**
Securitization debt	1,071,000	**1,139,116**

Upon completion of the sale, the finance receivables are not derecognized since the Corporation does not transfer substantially all risks and rewards relevant to the sale of the finance receivables. The servicing of the finance receivables remains the responsibility of the Corporation and the holdback represents the Corporation's maximum exposure to impaired finance receivables.

The finance receivables are due to the Bank on or before February 5, 2014 at which time the securitization debt would be extinguished and the holdback would be remitted to the Corporation.

6. Subordinate debt

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

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

	Principal payments	Amortization of debt issuance costs	**Amortization of carrying amount**
Due within 1 year	$ 199,000	$ 14,478	**$ 184,522**
1 to 3 years	398,000	14,253	**383,747**
4 to 5 years	137,000	388	**136,612**
	$ 734,000	$ 29,119	**$ 704,881**

7. Related party transactions

On February 1, 2013, the Corporation renewed its revolving loans with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders of the Revolving Loans"), to borrow the aggregate principal amount of $310,000 at an interest rate of 15.00% per annum (the "Revolving Loans"). As part of the Subordinate Debt financing with BDCC described in Note 6, the Lenders of the Revolving Loans agreed to limit principal payments by the Corporation for the Revolving Loans to the lesser of 25% of the Excess Cash Flow Sweep or $25,000 per annum, and to postpone any other principal payments until the earlier of: (i) the Corporation obtaining a line of credit on terms satisfactory to BDCC with sufficient margining to cover the principal payments for the Revolving Loans; or (ii) extinguishment of the Subordinate Debt.

During the three-month period ended December 31, 2013, the Corporation purchased raw material inventories of U.S. $117,746 ($123,178 in Canadian dollars) from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). At December 31, 2013, the Corporation's trade payables and accrued charges include a balance of U.S. $50,861 ($54,096 in Canadian dollars) payable to the Related Entity for the purchase of raw material inventories. There were no transactions with the Related Entity in 2012.

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 is as follows:

	Three months ended December 31, 2013		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 2,605,694	$ 334,842	$ 2,940,536
Cost of sales	1,605,699	215,971	1,821,670
Gross profit	999,995	118,871	1,118,866
Selling and administrative expenses	932,151	142,204	1,074,355
Foreign exchange gain	(73,207)	-	(73,207)
Finance costs	78,194	16	78,210
Income taxes	17,319	(2,023)	15,296
Net income (loss)	$ 45,538	$ (21,326)	$ 24,212
Total assets	$ 5,871,025	$ 1,073,779	$ 6,944,804
Total liabilities	$ 3,435,823	$ 175,275	$ 3,611,098
Depreciation expense	$ 38,769	$ 36,010	$ 74,779
Purchase of equipment	$ 16,081	$ 629	$ 16,710

Unaudited (Expressed in Canadian dollars)

8. Segment reporting and concentration of sales (continued)

Business segments (continued)

	Three months ended December 31, 2012		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 3,113,886	$ 381,609	$ 3,495,495
Cost of sales	1,893,020	253,688	2,146,708
Gross profit	1,220,866	127,921	1,348,787
Selling and administrative expenses	720,529	183,302	903,831
Foreign exchange loss	11,067	-	11,067
Finance costs	29,790	979	30,769
Income taxes	116,188	(13,294)	102,894
Net income (loss)	$ 343,292	$ (43,066)	$ 300,226
Total assets	$ 4,214,629	$ 1,248,995	$ 5,463,624
Total liabilities	$ 2,910,814	$ 172,333	$ 3,083,147
Depreciation expense	$ 30,656	$ 40,418	$ 71,074
Purchase of equipment	$ 31,384	$ 5,818	$ 37,202

Unaudited (Expressed in Canadian dollars)

8. Segment reporting and concentration of sales (continued)

Geographic and customer information

All of the Corporation's assets are located in Canada.

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

	Three months ended December 31,	
	2013	2012
Sales		
Canada	**$ 446,153**	$ 403,958
Americas	**1,039,683**	1,654,417
Other	**1,454,700**	1,437,120
	$ 2,940,536	$ 3,495,495

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

	Three months ended December 31,	
	2013	2012
Customer A	**$ 559,024**	$ 1,212,502
Customer B	**640,448**	-
Customer C	**-**	543,963

INTERNATIONAL PLAY

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 13, 2014 and should be read together in conjunction with our unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2013 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2013 and 2012.

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

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

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

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

Overview

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

Consolidated Results

Sales for the three months ended December 31, 2013 ("Q1-14") decreased by 15.9% to $2,940,536 from $3,495,495 for the three months ended December 31, 2012 ("Q1-13"). Gross profit percentage was 38.0% of sales in Q1-14 compared to 38.6% in Q1-13. Operating expenses, including foreign exchange gains and losses and finance costs, were $1,079,358 or 36.7% of sales in Q1-14 compared to $945,667 or 27.1% of sales in Q1-13. Net income in Q1-14 was $24,212, or diluted net income per share of $0.00, compared to net income of $300,226, or diluted net income per share of $0.03, in Q1-13.

Manufacturing Operations

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

Sales generated by our Manufacturing operations decreased by 16.3% to $2,605,694 in Q1-14 from $3,113,886 in Q1-13. This decrease is due primarily to lower sales to our customers located in the Americas, but excluding Canada, who accounted for sales of $1,039,683 (or 39.9% of total Manufacturing sales) in Q1-14 compared to $1,654,417 (or 53.1%) in Q1-13.

In Q1-14, two customers accounted for 46.0% of sales by our Manufacturing operations as compared to two customers accounting for 56.4% of sales by our Manufacturing operations in Q1-13. Should these significant customers end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would decline materially. We expect continued business concentration from one significant customer in 2014. To manage the credit risk from our customers, we perform ongoing credit evaluations of our customers and we carry third party insurance that limits our exposure to approximately 10% of the bad debt amount from impaired finance and trade receivables.

We expected sales generated by our Manufacturing operations in Q1-14 to decrease moderately as compared to sales for the three months ended September 30, 2013 ("Q4-13"). Sales generated by our Manufacturing operations decreased by 24.3% to $2,605,694 in Q1-14 from $3,444,070 in Q4-13. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ended March 31, 2014 ("Q2-14") to increase moderately as compared to Q1-14.

Gross profit percentage decreased to 38.4% of sales by our Manufacturing operations in Q1-14 from 39.2% in Q1-13 due to sales mix that yielded lower margins in Q1-14 as compared to Q1-13. We expected our gross profit percentage to increase in Q1-14 as compared to Q4-13. Gross profit percentage increased to 38.4% of sales by our Manufacturing operations in Q1-14 from 33.7% in Q4-13. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations in Q2-14 to remain in-line with Q1-14.

Our Manufacturing operations generated net income of $45,538 in Q1-14 compared to net income of $343,292 in Q1-13. This decrease is due primarily to the combined effect of lower sales and higher selling and administrative expenses in Q1-14 as compared to Q1-13. We expected the net operating results from our Manufacturing operations in Q1-14 to remain in-line with Q4-13. Our Manufacturing operations generated net income of $45,538 in Q1-14 compared to net income of $138,803 in Q4-13. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations to increase moderately in Q2-14 as compared to Q1-14.

Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 12.3% to $334,842 in Q1-14 from $381,609 in Q1-13. We expected sales generated by our FEC operations to increase moderately in Q1-14 as compared to Q4-13 due primarily to seasonality. Sales generated by our FEC operations increased by 25.1% to $334,842 in Q1-14 from $267,644 in Q4-13. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase moderately in Q2-14 as compared to Q1-14 due primarily to seasonality.

Our FEC operations generated a net loss of $21,326 in Q1-14, compared to a net loss of $43,066 in Q1-13. We expected the net operating results from our FEC operations to increase moderately in Q1-14 as compared to Q4-13 due primarily to seasonality. Our FEC operations generated a net loss of $21,326 in Q1-14 as compared to a net loss of $45,121 in Q4-13. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to increase moderately in Q2-14 as compared to Q1-14 due primarily to anticipated higher sales resulting from seasonality.

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 ended December 31, 2013 and 2012, expressed as a percentage of total sales:

	Three months ended December 31, 2013						Three months ended December 31, 2012					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**88.6**	**%**	**11.4**	**%**	**100.0**	**%**	89.1	%	10.9	%	100.0	%
Cost of sales	**54.6**		**7.4**		**62.0**		54.2		7.2		61.4	
Gross profit	**34.0**		**4.0**		**38.0**		34.9		3.7		38.6	
Selling and administrative expenses	**31.7**		**4.8**		**36.5**		20.6		5.3		25.9	
Foreign exchange loss (gain)	**(2.5)**		**-**		**(2.5)**		0.3		-		0.3	
Finance costs	**2.7**		**-**		**2.7**		0.9		-		0.9	
Income taxes	**0.6**		**(0.1)**		**0.5**		3.3		(0.4)		2.9	
Net income (loss)	**1.5**	**%**	**(0.7)**	**%**	**0.8**	**%**	9.8	%	(1.2)	%	8.6	%

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

	Three months ended December 31, 2013						Three months ended December 31, 2012					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**3.8**	**%**	**11.4**	**%**	**15.2**	**%**	0.6	%	10.9	%	11.5	%
Americas	**35.4**		**-**		**35.4**		47.4		-		47.4	
Other	**49.4**		**-**		**49.4**		41.1		-		41.1	
	88.6	**%**	**11.4**	**%**	**100.0**	**%**	89.1	%	10.9	%	100.0	%

Results of Operations – Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012

Sales

Sales decreased by $554,959 (or 15.9%) to $2,940,536 in Q1-14 from $3,495,495 in Q1-13 due primarily to a decrease in sales of $508,192 by our Manufacturing operations.

In Q1-14, two significant customers accounted for 40.8% of our sales. In Q1-13, two significant customers accounted for 50.2% of our sales. We expect continued business concentration from one significant customer in Q2-14.

We expected our sales in Q1-14 to decrease moderately as compared to Q4-13. Sales decreased by $771,178 (or 20.8%) to $2,940,536 in Q1-14 from $3,711,714 in Q4-13. Based on our updated sales forecasts, we are expecting sales to increase moderately in Q2-14 as compared to Q1-14 due primarily to an anticipated increase in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage decreased to 38.0% of sales in Q1-14 from 38.6% in Q1-13. This decrease is due primarily to our Manufacturing operations which generated a gross profit percentage of 38.4% in Q1-14, compared to 39.2% in Q1-13 resulting primarily from lower margin sales in Q1-14 as compared to Q1-13.

We expected our gross profit percentage to increase moderately in Q1-14 as compared to Q4-13. Gross profit percentage increased to 38.0% in Q1-14, compared to 33.6% in Q4-13. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q2-14 to remain in-line with Q1-14.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $133,691 (or 14.1%) to $1,079,358 in Q1-14, from $945,667 in Q1-13. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations in Q1-14 as compared to Q1-13.

We expected our operating expenses, as a percentage of sales to increase moderately in Q1-14 as compared to Q4-13. Our operating expenses increased to 36.7% of sales in Q1-14 from 30.2% in Q4-13. Based on our updated forecasts, we are expecting operating expenses in Q2-14 to decrease moderately as a percentage of sales, compared to Q1-14.

Income Taxes

The income tax expense of $15,296 in Q1-14 is comprised of a current income tax expense of $26,389 on earnings before income taxes generated by our Manufacturing operations and a deferred income tax recovery of $11,093. The income tax expense of $102,894 in Q1-13 is comprised of a deferred income tax expense of $116,188 on the earnings before income taxes generated by our Manufacturing operations and a deferred income tax recovery of $13,294 on the loss before income taxes incurred by our FEC operations.

Net Operating Results

Net income and total comprehensive income was $24,212, or diluted net income per share of $0.00, in Q1-14, compared to net income and total comprehensive income of $300,226, or diluted net income per share of $0.03, in Q1-13. The decrease in net operating results is due primarily to the decrease in net income by our Manufacturing operations.

We expected our net operating results in Q1-14 to remain in-line with Q4-13. We generated net income of $24,212 in Q1-14, compared to net income of $93,682 in Q4-13. Based on our updated forecasts, we are expecting net income to increase moderately in Q2-14 as compared to Q1-14, due primarily to anticipated earnings by our Manufacturing operations.

Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements for the years ended September 30, 2013 and 2012. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	**Q1-14**
CONSOLIDATED	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	**31-Dec-13**
Sales	$ 2,762,665	$ 2,446,089	$ 3,396,363	$ 3,495,495	$ 3,223,754	$ 4,781,030	$ 3,711,714	**$ 2,940,536**
Cost of sales	1,762,257	1,584,619	1,995,979	2,146,708	2,065,693	2,843,411	2,463,401	**1,821,670**
Gross profit	1,000,408	861,470	1,400,384	1,348,787	1,158,061	1,937,619	1,248,313	**1,118,866**
Selling and administrative expenses	866,369	868,537	826,623	903,831	895,726	1,068,066	993,587	**1,074,355**
Foreign exchange loss (gain)	(4,484)	(5,248)	16,253	11,067	(21,461)	(71,466)	54,512	**(73,207)**
Finance costs	22,547	25,078	34,508	30,769	25,835	83,454	72,831	**78,210**
Income taxes	29,869	(6,072)	130,614	102,894	65,255	214,936	33,701	**15,296**
Net income (loss)	$ 86,107	$ (20,825)	$ 392,386	$ 300,226	$ 192,706	$ 642,629	$ 93,682	**$ 24,212**
Basic and diluted net income (loss) per share	0.01	0.00	0.04	0.03	0.02	0.06	0.01	**0.00**

	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	**Q1-14**
MANUFACTURING	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	**31-Dec-13**
Sales	$ 2,355,745	$ 2,113,724	$ 3,118,263	$ 3,113,886	$ 2,777,034	$ 4,449,413	$ 3,444,070	**$ 2,605,694**
Cost of sales	1,554,501	1,383,124	1,802,634	1,893,020	1,829,101	2,635,152	2,283,822	**1,605,699**
Gross profit	801,244	730,600	1,315,629	1,220,866	947,933	1,814,261	1,160,248	**999,995**
Selling and administrative expenses	728,641	734,159	668,567	720,529	751,112	935,861	845,513	**932,151**
Foreign exchange loss (gain)	(4,484)	(5,248)	16,253	11,067	(21,461)	(71,466)	54,512	**(73,207)**
Finance costs	20,053	25,121	29,512	29,790	25,307	83,141	72,679	**78,194**
Income taxes	24,108	1,608	161,731	116,188	1,362	265,669	48,741	**17,319**
Net income (loss)	$ 32,926	$ (25,040)	$ 439,566	$ 343,292	$ 191,613	$ 601,056	$ 138,803	**$ 45,538**

	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	**Q1-14**
FEC	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	**31-Dec-13**
Sales	$ 406,920	$ 332,365	$ 278,100	$ 381,609	$ 446,720	$ 331,617	$ 267,644	**$ 334,842**
Cost of sales	207,756	201,495	193,345	253,688	236,592	208,259	179,579	**215,971**
Gross profit	199,164	130,870	84,755	127,921	210,128	123,358	88,065	**118,871**
Selling and administrative expenses	137,728	134,378	158,056	183,302	144,614	132,205	148,074	**142,204**
Finance costs	2,494	(43)	4,996	979	528	313	152	**16**
Income taxes	5,761	(7,680)	(31,117)	(13,294)	63,893	(50,733)	(15,040)	**(2,023)**
Net income (loss)	$ 53,181	$ 4,215	$ (47,180)	$ (43,066)	$ 1,093	$ 41,573	$ (45,121)	**$ (21,326)**

Our quarterly results fluctuate because our operating expenses are determined based on anticipated sales, however these operating expenses are generally fixed and are incurred throughout each quarter. The impact of significant items incurred during these interim periods is discussed in more detail in our condensed consolidated interim financial statements and MD&A.

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

- The decrease in net operating results from Q2-12 to Q3-12 is due primarily to lower sales and gross profit in Q3-12 compared to Q2-12.
- The increase in net operating results from Q3-12 to Q4-12 is due primarily to higher sales and gross profit in Q4-12 compared to Q3-12.
- The decrease in net operating results from Q4-12 to Q1-13 is due primarily to lower gross profit in Q1-13 compared to Q4-12.
- The decrease in net operating results from Q1-13 to Q2-13 is due primarily to lower gross profit in Q2-13 compared to Q1-13.
- The increase in net operating results from Q2-13 to Q3-13 is due primarily to higher sales and gross profit in Q3-13 compared to Q2-13.
- The decrease in net operating results from Q3-13 to Q4-13 is due primarily to lower sales and gross profit in Q4-13 compared to Q3-13.
- The decrease in net operating results from Q4-13 to Q1-14 is due primarily to lower sales in Q1-14 compared to Q4-13.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities amounted to $1,838,369 in Q1-14, compared to cash used in operating activities of $176,237 in Q1-13. The change in cash from operating activities is due primarily to the collection of finance receivables in Q1-14.

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

Investing Activities

Cash used in investing activities amounted to $16,710 in Q1-14, compared to $28,170 in Q1-13. The decrease in cash used in investing activities is due to lower purchases of equipment in Q1-14 as compared to Q1-13.

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

Financing Activities

Cash used in financing activities amounted to $2,399,236 in Q1-14, compared to $35,007 in Q1-13. The increase in cash used in financing activities is due primarily to repayment of the securitization debt.

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

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repayment of our loans, subordinate debt, and leases, and funding of capital expenditures. Our sources of cash include cash on hand, trade receivables, customer deposits, cash from operations, and proceeds from our credit facilities (see "Credit Facilities") and subordinate debt (see "Sources and Uses of Cash"). We expect our sources of cash to be sufficient to fund our forecast cash outflows for at least the next twelve months.

Sources and Uses of Cash

The source of funds for our future capital expenditures and commitments includes cash on hand, trade receivables, borrowings, and cash from operations, as follows:

- At December 31, 2013, cash and cash equivalents amounted to $1,129,987 (September 30, 2013 – $1,693,876).
- At December 31, 2013, trade and other receivables amounted to $1,464,213 (September 30, 2013 – 1,662,452).
- On May 1, 2013, we obtained from BDC Capital Inc. ("BDCC") subordinate debt financing of $758,297, net of issuance costs of $41,703 ("Subordinate Debt"). The Subordinate Debt bears interest at BDCC's floating base rate (currently at 5.00%) plus 7.00% per annum. In addition, BDCC receives four annual royalty payments of 2.00% of the Corporation's consolidated earnings before interest (finance costs), income taxes and depreciation expenses ("EBITDA") to a maximum of $1,000,000, plus 1.00% of EBITDA over $1,000,000. The Subordinate Debt matures on April 15, 2017 and the principal is payable in 47 monthly instalments of $8,250 (the "Monthly Instalments") and one instalment of $412,250. In addition to the scheduled Monthly Instalments, the principal is payable by way of four annual payments, commencing on January 15, 2014, to a maximum of $100,000 per annum (the "Excess Cash Flow Sweep"). The Subordinate Debt is secured by a general security agreement creating a first rank security interest in all intellectual property of the Corporation and subordinated in rank to any other security granted on all other property of the Corporation. The conditions of credit include compliance with various covenants.
- Finance receivables are comprised of U.S. dollar denominated trade receivables of $1,190,000 ($1,265,684 in Canadian dollars), which have been sold to a large Canadian financial institution (the "Bank"), net of a holdback of 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses. Upon completion of the sale, the finance receivables are not derecognized since the Corporation does not transfer substantially all risks and rewards relevant to the sale of the finance receivables. The servicing of the finance receivables remains the responsibility of the Corporation and the holdback represents the Corporation's maximum exposure to impaired finance receivables. The finance receivables are due to the Bank on or before February 5, 2014 at which time the securitization debt would be extinguished and the holdback would be remitted to the Corporation.

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

The Corporation's capital is comprised of securitization debt, subordinate debt and shareholders' equity. The Corporation augments these capital sources with an available packing credit facility of U.S. $1,500,000 ($1,595,000 in Canadian dollars), which can be used to finance up to 75% of the Corporation's purchasing, processing, manufacturing and packaging costs for select customer purchase orders approved by the bank (see "Credit Facilities"). We intend to continue to extinguish packing credit loans with proceeds from securitization debt.

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

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

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

Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At December 31, 2013, all financial ratios and tests have been met.

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

Credit Facilities

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

Export Loan Facility

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,595,000 in Canadian dollars) ("Packing Credit Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $4,320,000 ($4,595,000 in Canadian dollars) ("TINRFF Facility").

- Packing Credit Facility

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

- TINRFF Facility

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

Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of $1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,000,000, with a maximum maturity of 12 months.

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

Market Risk Disclosure

Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of $1,800,000 to purchase foreign exchange forward contracts and options up to an aggregate of $6,000,000, with a maximum maturity of 12 months (the "Foreign Exchange Loan Facility"). We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

During the three months ended December 31, 2013, the Corporation recorded a net foreign exchange loss of $3,639 on its foreign exchange forward contracts. The Corporation did not enter into any foreign exchange forward contracts during the three months ended December 31, 2012 and there were no foreign exchange forward contracts outstanding at December 31, 2013 and 2012.

Credit risk

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

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

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

Trade receivables with three customers represent approximately 81% of the balance of trade receivables as at December 31, 2013 (September 30, 2013 – three customers representing approximately 75%). It is the opinion of management that these accounts do not represent a significant credit risk.

Interest rate risk

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

We manage interest rate risk on our debt portfolio by controlling the mix of liabilities with fixed and variable interest rate obligations and attempting to ensure access to diverse sources of funding.

Liquidity risk

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

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

Legal Proceedings

We are engaged in certain legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Related Party Transactions

On February 1, 2013, the Corporation renewed its revolving loans with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders of the Revolving Loans"), to borrow the aggregate principal amount of $310,000 at an interest rate of 15.00% per annum (the "Revolving Loans"). As part of the Subordinate Debt financing with BDCC, the Lenders of the Revolving Loans agreed to limit principal payments by the Corporation for the Revolving Loans to the lesser of 25% of the Excess Cash Flow Sweep or $25,000 per annum, and to postpone any other principal payments until the earlier of: (i) the Corporation obtaining a line of credit on terms satisfactory to BDCC with sufficient margining to cover the principal payments for the Revolving Loans; or (ii) extinguishment of the Subordinate Debt.

During the three-month period ended December 31, 2013, the Corporation purchased raw material inventories of U.S. $117,746 ($123,178 in Canadian dollars) from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). At December 31, 2013, the Corporation's trade payables and accrued charges include a balance of U.S. $50,861 ($54,096 in Canadian dollars) payable to the Related Entity for the purchase of raw material inventories. There were no transactions with the Related Entity in 2012.

Outstanding Share Capital

At December 31, 2013 and February 13, 2014, the Corporation had 10,220,187 common shares issued and outstanding and no share options outstanding.

Cautionary Note Regarding Forward-looking Statements

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

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