



## **Iplayco Corporation Ltd.**

Condensed Consolidated Interim Financial Statements  
Three months ended December 31, 2014  
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,<br>2014 | September 30,<br>2014 |
|---|-------|----------------------|-----------------------|
| <b>Assets</b>                               |       |                      |                       |
| <b>Current assets</b>                       |       |                      |                       |
| Cash and cash equivalents                   |       | \$ 8,947,866         | \$ 2,090,251          |
| Finance receivables                         | 7     | 3,507,061            | 3,388,255             |
| Trade and other receivables                 |       | 3,421,949            | 2,674,568             |
| Inventories                                 |       | 1,724,361            | 1,360,451             |
| Prepaid expenses and deposits               |       | 695,766              | 677,099               |
|   |       | <b>18,297,003</b>    | <b>10,190,624</b>     |
| <b>Non-current assets</b>                   |       |                      |                       |
| Equipment                                   |       | 1,692,149            | 1,569,173             |
| Deferred share issuance costs               | 10    | -                    | 370,613               |
| Deferred income tax assets                  |       | 128,277              | 41,423                |
|   |       | <b>\$ 20,117,429</b> | <b>\$ 12,171,833</b>  |
| <b>Liabilities and Shareholders' Equity</b> |       |                      |                       |
| <b>Current liabilities</b>                  |       |                      |                       |
| Operating loans                             | 6     | \$ 1,735,278         | \$ 784,560            |
| Securitization debt                         | 7     | 3,156,355            | 3,049,429             |
| Current portion of subordinate debt         | 8     | -                    | 188,237               |
| Trade payables, accrued charges and other   |       | 1,482,131            | 2,016,897             |
| Income taxes payable                        |       | -                    | 356,328               |
| Customer deposits and deferred revenue      |       | 424,124              | 869,356               |
| Current portion of rent inducement          |       | 15,791               | -                     |
|   |       | <b>6,813,679</b>     | <b>7,264,807</b>      |
| <b>Non-current liabilities</b>              |       |                      |                       |
| Subordinate debt                            | 8     | -                    | 353,549               |
| Rent inducement                             |       | 129,660              | 143,645               |
| Deferred income tax liabilities             |       | 85,175               | 93,824                |
|   |       | <b>7,028,514</b>     | <b>7,855,825</b>      |
| <b>Shareholders' Equity</b>                 |       |                      |                       |
| Share capital                               | 10    | 9,859,270            | 1,757,643             |
| Warrants reserve                            | 10    | 450,971              | -                     |
| Share-based payments reserve                |       | 256,858              | 256,858               |
| Retained earnings                           |       | 2,521,816            | 2,301,507             |
|   |       | <b>13,088,915</b>    | <b>4,316,008</b>      |
|   |       | <b>\$ 20,117,429</b> | <b>\$ 12,171,833</b>  |

"Franco Aquila"  
 .....  
 Chief Executive Officer

"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, |              |
|---|---------------------------------|--------------|
|   | 2014                            | 2013         |
| <b>Sales</b>  | <b>\$ 4,349,720</b>             | \$ 2,940,536 |
| Cost of sales   | <b>2,541,972</b>                | 1,821,670    |
| <b>Gross profit</b>   | <b>1,807,748</b>                | 1,118,866    |
| Selling and administrative expenses                         | <b>1,308,498</b>                | 1,074,355    |
| Foreign exchange gain                                       | <b>(30,129)</b>                 | (73,207)     |
|   | <b>1,278,369</b>                | 1,001,148    |
| <b>Operating income</b>                                     | <b>529,379</b>                  | 117,718      |
| Finance costs   | <b>227,929</b>                  | 78,210       |
| <b>Income before income taxes</b>                           | <b>301,450</b>                  | 39,508       |
| <b>Income tax provision</b>                                 |                                 |              |
| Current   | <b>75,840</b>                   | 26,389       |
| Deferred  | <b>5,301</b>                    | (11,093)     |
|   | <b>81,141</b>                   | 15,296       |
| <b>Net income and total comprehensive income</b>            | <b>220,309</b>                  | 24,212       |
| <b>Net income per share</b>                                 |                                 |              |
| Basic   | <b>\$ 0.01</b>                  | \$ 0.00      |
| Diluted   | <b>\$ 0.01</b>                  | \$ 0.00      |
| <b>Weighted average number of common shares outstanding</b> |                                 |              |
| Basic   | <b>15,135,572</b>               | 10,220,187   |
| Diluted   | <b>15,627,110</b>               | 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 <sup>(1)</sup>  |                     | Share-based<br>payments<br>reserve <sup>(2)</sup> | Warrants<br>reserve | Retained<br>earnings | Total<br>shareholders'<br>equity |
|--|-------------------------------|---------------------|---|---------------------|----------------------|----------------------------------|
|  | Number of<br>common<br>shares | Amount              |   |                     |                      |                                  |
| <b>Balance at September 30, 2013</b>   | 10,220,187                    | \$ 1,757,643        | \$ 256,858  | \$ -                | \$ 1,294,993         | \$ 3,309,494                     |
| Net income and total comprehensive income                                    | -                             | -                   | -   | -                   | 24,212               | 24,212                           |
| <b>Balance at December 31, 2013</b>  | 10,220,187                    | \$ 1,757,643        | \$ 256,858  | \$ -                | \$ 1,319,205         | \$ 3,333,706                     |
| <b>Balance at September 30, 2014</b>   | 10,220,187                    | \$ 1,757,643        | \$ 256,858  | \$ -                | \$ 2,301,507         | \$ 4,316,008                     |
| Proceeds from private placement, less issuance costs<br>net of tax (Note 10) | 10,650,000                    | 8,101,627           | -   | 450,971             | -                    | 8,552,598                        |
| Net income and total comprehensive income                                    | -                             | -                   | -   | -                   | 220,309              | 220,309                          |
| <b>Balance at December 31, 2014</b>  | <b>20,870,187</b>             | <b>\$ 9,859,270</b> | <b>\$ 256,858</b>                                 | <b>\$ 450,971</b>   | <b>\$ 2,521,816</b>  | <b>\$ 13,088,915</b>             |

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

<sup>(2)</sup> The 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, |                     |
|--|-------|---------------------------------|---------------------|
|  | Notes | 2014                            | 2013                |
| <b>Operating activities</b>  |       |                                 |                     |
| Net income   |       | \$ 220,309                      | \$ 24,212           |
| Items not affecting cash   |       |                                 |                     |
| Depreciation   |       | 79,941                          | 74,779              |
| Deferred income taxes  |       | 5,301                           | (11,093)            |
| Rent inducement  |       | 1,806                           | (12,932)            |
| Unrealized foreign exchange gain                                     |       | (59,888)                        | (19,316)            |
| Finance costs  |       | 227,929                         | 78,210              |
|  |       | <b>475,398</b>                  | <b>133,860</b>      |
| Change in non-cash operating working capital                         |       |                                 |                     |
| Finance receivables  |       | -                               | 2,301,755           |
| Trade and other receivables  |       | (692,648)                       | 203,867             |
| Inventories  |       | (363,910)                       | (127,207)           |
| Prepaid expenses   |       | 49,165                          | (1,028)             |
| Trade payables, accrued charges and other                            |       | (543,315)                       | (551,914)           |
| Current income tax expense   |       | 75,840                          | 26,389              |
| Customer deposits and deferred revenue                               |       | (445,232)                       | (33,084)            |
|  |       | <b>(1,920,100)</b>              | <b>1,818,778</b>    |
| Interest paid  |       | (227,929)                       | (76,936)            |
| Income taxes paid  |       | (500,000)                       | (37,333)            |
| <b>Cash provided by (used in) operating activities</b>               |       | <b>(2,172,631)</b>              | <b>1,838,369</b>    |
| <b>Investing activities</b>  |       |                                 |                     |
| Purchase of equipment  |       | (178,637)                       | (16,710)            |
| <b>Cash used in investing activities</b>                             |       | <b>(178,637)</b>                | <b>(16,710)</b>     |
| <b>Financing activities</b>  |       |                                 |                     |
| Proceeds from operating loans  | 6     | 1,698,614                       | -                   |
| Repayment of operating loans   | 6     | (784,560)                       | -                   |
| Repayment of securitization debt                                     |       | -                               | (2,372,660)         |
| Repayment of subordinate debt  | 8     | (557,517)                       | (24,750)            |
| Increase in share issuance costs                                     | 10    | (17,093)                        | -                   |
| Proceeds from share issuance   | 10    | 8,839,500                       | -                   |
| Repayment of finance lease liabilities                               |       | -                               | (1,826)             |
| <b>Cash provided by (used in) financing activities</b>               |       | <b>9,178,944</b>                | <b>(2,399,236)</b>  |
| <b>Net increase (decrease) in cash and cash equivalents</b>          |       | <b>6,827,676</b>                | <b>(577,577)</b>    |
| Effect of foreign exchange rate changes on cash and cash equivalents |       | 29,939                          | 13,688              |
| Cash and cash equivalents at beginning of the period                 |       | 2,090,251                       | 1,693,876           |
| <b>Cash and cash equivalents at end of the period</b>                |       | <b>\$ 8,947,866</b>             | <b>\$ 1,129,987</b> |
| <b>Cash and cash equivalents comprised of:</b>                       |       |                                 |                     |
| Cash   |       | \$ 8,747,866                    | \$ 1,029,987        |
| Cash equivalents   |       | 200,000                         | 100,000             |
| <b>Supplemental cash flow disclosures - non cash transactions</b>    |       |                                 |                     |
| Purchase of equipment  |       | \$ 24,280                       | \$ -                |
| Amortization of financing costs - subordinate debt                   |       | 15,731                          | 4,576               |

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited *(Expressed in Canadian dollars)*

### 1. Nature of business and corporate information

Iplayco Corporation Ltd. (the "Corporation") is incorporated under the Alberta Business Corporations Act and its 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, 58<sup>th</sup> Crescent, Langley, British Columbia, Canada V4W 3W7, and its registered office is located at 1600, 421 – 7<sup>th</sup> Avenue, SW, Calgary, Alberta, Canada T2P 4K9.

### 2. Basis of preparation

#### *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 11, 2015.

#### *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, 2014.

### 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.



# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 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 of the primary and secondary factors with respect to functional currency for each subsidiary and noted that the majority of operating expenditures were either denominated in Canadian dollars or determined by the Canadian dollar and that revenues are primarily denominated in U.S. dollars. The Corporation also considers secondary factors such as receipt of proceeds from financing activities denominated in Canadian dollars from the issuance of common shares, and receipts from operating activities denominated in U.S. dollars that are usually converted and retained in Canadian dollars. 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.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 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 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. New accounting pronouncements

#### (i) Issued and adopted

##### *Financial Instruments: Presentation*

In December 2011, the IASB issued *IAS 32, Financial Instruments: Presentation* ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The standard is effective for annual periods beginning on or after July 1, 2014, with early adoption permitted. The adoption of this new standard did not have an impact on the Condensed Consolidated Interim Financial Statements of the Corporation.

#### (ii) Issued and not yet adopted

The following applicable pronouncements issued by the IASB are effective for the Corporation's annual accounting periods after September 30, 2015. The Corporation is currently assessing the impact of these new standard on its Consolidated Financial Statements:

##### *Revenues recognition*

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") which supersedes current revenue recognition guidance, including IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and related interpretations. IFRS 15 establishes a single five-step model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 5. New accounting pronouncements (continued)

(ii) Issued and not yet adopted (continued)

#### *Financial instruments*

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

### 6. Operating loans

For the three months ended December 31, 2014 and 2013, 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, 2013 and December 31, 2013 | -                | -                |
| Balance at September 30, 2014                       | 700,000          | <b>784,560</b>   |
| Proceeds from operating loans                       | 1,495,800        | <b>1,698,614</b> |
| Repayment of operating loans                        | (700,000)        | <b>(789,740)</b> |
| Net realized foreign exchange loss on repayment     | -                | <b>5,180</b>     |
| Unrealized foreign exchange loss on balance due     | -                | <b>36,664</b>    |
| <b>Balance at December 31, 2014</b>                 | <b>1,495,800</b> | <b>1,735,278</b> |

The balance at December 31, 2014 is comprised of one operating loan of U.S. \$562,800 (\$652,904 in Canadian dollars) maturing on February 19, 2015 and two operating loans totalling U.S. \$933,000 (\$1,082,373 in Canadian dollars) maturing on February 26, 2015.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 7. Finance receivables and securitization debt

The carrying amounts of finance receivables are comprised of U.S. dollar denominated trade receivables described below, which have been sold to a large Canadian financial institution (the "Bank"), net of holdbacks of 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses. Upon collection of the finance receivables, the securitization debt is extinguished and the holdbacks are remitted to the Corporation:

|                            | December 31, 2014 |                  |
|----------------------------|-------------------|------------------|
|                            | U.S. dollars      | Canadian dollars |
| <b>Finance receivables</b> | 3,023,068         | <b>3,507,061</b> |
| Less: Holdbacks            | (302,307)         | <b>(350,706)</b> |
| <b>Securitization debt</b> | 2,720,761         | <b>3,156,355</b> |

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

### 8. Subordinate debt

On November 24, 2014, the Corporation extinguished its subordinate debt for \$734,036, including interest and fees.

### 9. Related party transactions

#### *Transactions with affiliated companies*

Pursuant to the private placement described in Note 10, the Corporation became affiliated with various entities controlled by Saudi FAS Holding Company (the "Affiliates"), which are also customers of the Corporation. The Corporation recorded the following sales in U.S. dollars to the Affiliates:

|                                       | Three months ended December 31, |            |
|---------------------------------------|---------------------------------|------------|
|                                       | 2014                            | 2013       |
| Sales in U.S. dollars                 | \$ 1,475,549                    | \$ 532,694 |
| <b>Equivalent in Canadian dollars</b> | <b>1,675,618</b>                | 559,024    |

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 9. Related party transactions (continued)

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

|                                       | December 31,<br>2014 | September 30,<br>2014 |
|---------------------------------------|----------------------|-----------------------|
| Balance in U.S. dollars               | \$ 2,217,602         | \$ 1,111,832          |
| <b>Equivalent in Canadian dollars</b> | <b>2,572,624</b>     | <b>1,246,141</b>      |

#### *Transactions with a related entity*

The Corporation recorded the following purchases in U.S. dollars of raw material inventories from an entity controlled by a party related to the President of the Corporation (the "Related Entity"):

|                                       | Three months ended December 31, |                |
|---------------------------------------|---------------------------------|----------------|
|                                       | 2014                            | 2013           |
| Purchases in U.S. dollars             | \$ 242,949                      | \$ 117,746     |
| <b>Equivalent in Canadian dollars</b> | <b>275,274</b>                  | <b>123,178</b> |

The Corporation's trade payables and accrued charges include the following amounts denominated in U.S. dollars that are payable to the Related Entity for the purchase of raw material inventories:

|                                       | December 31,<br>2014 | September 30,<br>2014 |
|---------------------------------------|----------------------|-----------------------|
| Balance in U.S. dollars               | \$ 35,878            | \$ 42,520             |
| <b>Equivalent in Canadian dollars</b> | <b>41,622</b>        | <b>47,656</b>         |

The Corporation's prepaid expenses and deposits include the following amounts denominated in U.S. dollars on deposit with the Related Entity for the purchase of raw material inventories:

|                                       | December 31,<br>2014 | September 30,<br>2014 |
|---------------------------------------|----------------------|-----------------------|
| Balance in U.S. dollars               | \$ 305,719           | \$ 159,774            |
| <b>Equivalent in Canadian dollars</b> | <b>354,662</b>       | <b>173,713</b>        |

# **Iplayco Corporation Ltd.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**December 31, 2014**

Unaudited *(Expressed in Canadian dollars)*

### **10. Share capital**

On November 19, 2014, the Corporation completed a non-brokered private placement, with Saudi FAS Holding Company and its wholly-owned British Columbia subsidiary, FAS Entertainment B.C. Ltd., (collectively "FAS") pursuant to which FAS purchased 10,650,000 units of the Corporation (the "Units") at a purchase price of \$0.83 per Unit for gross proceeds to the Corporation of \$8,839,500. Each Unit consists of one common share of the Corporation and one tenth of a share purchase warrant, with each whole warrant being exercisable until October 1, 2016 to acquire one additional common share at a price of \$0.85 per common share.

Total net proceeds of \$8,552,598 from the private placement is comprised of gross proceeds of \$8,839,500 less share issuance costs of \$286,902 net of tax, and has been allocated to share capital and the warrants reserve based on the relative fair values of the common shares and the warrants. The grant date fair value of the warrants amounts to \$681,748 and was determined by using a Black-Scholes pricing model with the following input assumptions: expected life of 1.9 years; risk-free interest rate of 1.4%; expected volatility of 92.0%; and expected dividend yield of nil.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 11. 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, 2014 |                             |               |
|-------------------------------------|--------------------------------------|-----------------------------|---------------|
|                                     | Manufacturing                        | Family Entertainment Centre | Total         |
| Sales to external customers         | \$ 4,022,711                         | \$ 327,009                  | \$ 4,349,720  |
| Cost of sales                       | 2,330,379                            | 211,593                     | 2,541,972     |
| Gross profit                        | 1,692,332                            | 115,416                     | 1,807,748     |
| Selling and administrative expenses | 1,159,772                            | 148,726                     | 1,308,498     |
| Foreign exchange gain               | (30,129)                             | -                           | (30,129)      |
| Finance costs                       | 227,929                              | -                           | 227,929       |
| Income taxes                        | 89,790                               | (8,649)                     | 81,141        |
| Net income (loss)                   | \$ 244,970                           | \$ (24,661)                 | \$ 220,309    |
| Total assets                        | \$ 19,010,543                        | \$ 1,106,886                | \$ 20,117,429 |
| Total liabilities                   | \$ 6,883,280                         | \$ 145,234                  | \$ 7,028,514  |
| Depreciation expense                | \$ 44,516                            | \$ 35,425                   | \$ 79,941     |
| Purchase of equipment               | \$ 194,045                           | \$ 8,872                    | \$ 202,917    |

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 11. Segment reporting and concentration of sales (continued)

*Business segments (continued)*

|                                     | Three months ended December 31, 2013 |                                |              |
|-------------------------------------|--------------------------------------|--------------------------------|--------------|
|                                     | Manufacturing                        | Family Entertainment<br>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    |



# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2014

Unaudited (Expressed in Canadian dollars)

### 11. 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, |                     |
|--------------|---------------------------------|---------------------|
|              | 2014                            | 2013                |
| <b>Sales</b> |                                 |                     |
| Canada       | \$ 743,819                      | \$ 446,153          |
| Americas     | 2,782,409                       | 1,039,683           |
| Other        | 823,492                         | 1,454,700           |
|              | <b>\$ 4,349,720</b>             | <b>\$ 2,940,536</b> |

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

|            | Three months ended December 31, |            |
|------------|---------------------------------|------------|
|            | 2014                            | 2013       |
| Customer A | \$ 1,675,618                    | \$ 559,024 |
| Customer B | 457,853                         | -          |
| Customer C | -                               | 640,448    |



## 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 11, 2015 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2014 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2014 and 2013.

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

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

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

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

### Overview

Iplayco is incorporated under the Alberta Business Corporations Act and its common shares trade on the TSX Venture Exchange under the trading symbol "IPC". Iplayco's business is carried out through its wholly owned subsidiaries International Play Company Inc. and Outdoor Play Company Inc. Iplayco operates in two business segments: (1) designer-manufacturer of customized play structures for children, from its production plant in Langley, British Columbia ("Manufacturing" or "MFG"); and (2) owner-operator of a family entertainment centre in Langley, British Columbia ("Family Entertainment Centre" or "FEC").

On November 19, 2014, the Corporation completed a non-brokered private placement, with Saudi FAS Holding Company and its wholly-owned British Columbia subsidiary, FAS Entertainment B.C. Ltd., (collectively "FAS") pursuant to which FAS purchased 10,650,000 units of the Corporation (the "Units") at a purchase price of \$0.83 per Unit for gross proceeds to the Corporation of \$8,839,500. Each Unit consists of one common share of the Corporation and one tenth of a share purchase warrant, with each whole warrant being exercisable until October 1, 2016 to acquire one additional common share at a price of \$0.85 per common share. FAS owns 51.03% of Iplayco's issued and outstanding common shares, and 53.41% on a fully diluted basis, assuming full conversion of the warrants.

FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are held beneficially by three individuals. FAS controls Arabian Centres Company Limited ("ACCL") and Retail Group of America ("RGA"), which have been Iplayco's largest customers over the past three years. FAS also controls Fawaz Abdulaziz Al Hokair & Co., a retail conglomerate listed on the Saudi stock exchange (Tadawul), with a market capitalization in excess of 20 billion Saudi Riyal (or \$7 billion in Canadian dollars). Through ACCL and RGA, FAS is planning to expand its chain of Billy Beez family entertainment centres to hundreds of locations worldwide and build a globally recognizable brand. With its private placement, FAS has invested in Iplayco to secure supply of play structures for its Billy Beez expansion. In addition to supplying ACCL and RGA, Iplayco will continue to service and grow its existing customer base. For more information on FAS, please visit the company's website at: [www.fawazalhokair.com](http://www.fawazalhokair.com).



## Consolidated Results

Sales for the three months ended December 31, 2014 ("Q1-15") increased by 47.9% to \$4,349,720 from \$2,940,536 for the three months ended December 31, 2013 ("Q1-14"). Gross profit percentage increased to 41.6% of sales in Q1-15 from 38.0% in Q1-14. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$1,506,298, or 34.6% of sales, in Q1-15 from \$1,079,358, or 36.7% of sales, in Q1-14. Net income increased to \$220,309, or diluted net income per share of \$0.01, in Q1-15 from \$24,212, or diluted net income per share of \$0.00, in Q1-14.

## Manufacturing Operations

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

Sales generated by our Manufacturing operations increased by 54.4% to \$4,022,711 in Q1-15 from \$2,605,694 in Q1-14. This increase is due to higher sales to our customers located in the Americas, including Canada, who accounted for sales of \$3,199,219 (or 79.5% of total Manufacturing sales) in Q1-15 compared to \$1,150,994 (or 44.2%) in Q1-14, offset by lower sales to our customers located outside of the Americas, who accounted for sales of \$823,492 (or 20.5% of total Manufacturing sales) in Q1-15 compared to \$1,454,700 (or 55.8%) in Q1-14.

Sales to related parties, ACCL and RGA, accounted for 41.7% of sales by our Manufacturing operations in Q1-15 as compared to 21.5% of sales by our Manufacturing operations in Q1-14. Should ACCL and RGA 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 ACCL and RGA for the foreseeable future.

We expected sales generated by our Manufacturing operations in Q1-15 to decrease significantly as compared to sales for the three months ended September 30, 2014 ("Q4-14"). Sales generated by our Manufacturing operations decreased by 27.6% to \$4,022,711 in Q1-15 from \$5,555,143 in Q4-14. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending March 31, 2015 ("Q2-15") to decrease moderately as compared to Q1-15.

Gross profit percentage increased to 42.1% of sales by our Manufacturing operations in Q1-15 from 38.4% in Q1-14 due primarily to favourable foreign exchange rates between the U.S. dollar and the Canadian dollar, which contributed to higher margins in Q1-15 as compared to Q1-14. We expected our gross profit percentage in Q1-15 to remain in-line with Q4-14. Gross profit percentage increased to 42.1% of sales by our Manufacturing operations in Q1-15 from 35.0% in Q4-14 due primarily to the combined effect of favourable sales-mix and favourable foreign exchange rates between the U.S. dollar and the Canadian dollar in Q1-15 as compared to Q4-14. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations to decrease moderately in Q2-15 as compared to Q1-15.

Our Manufacturing operations generated net income of \$244,970 in Q1-15 compared to net income of \$45,538 in Q1-14. This increase is due primarily to significantly higher sales and gross profit percentage in Q1-15 as compared to Q1-14. We expected the net operating results from our Manufacturing operations to decrease significantly in Q1-15 as compared to Q4-14. Our Manufacturing operations generated net income of \$244,970 in Q1-15 compared to net income of \$550,861 in Q4-14. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations to decrease moderately in Q2-15 as compared to Q1-15.



### Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 2.3% to \$327,009 in Q1-15 from \$334,842 in Q1-14. We expected sales generated by our FEC operations to increase moderately in Q1-15 as compared to Q4-14 due primarily to seasonality. Sales generated by our FEC operations increased by 47.3% to \$327,009 in Q1-15 from \$222,063 in Q4-14. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase moderately in Q2-15 as compared to Q1-15 due primarily to seasonality.

Our FEC operations generated a net loss of \$24,661 in Q1-15 compared to a net loss of \$21,326 in Q1-14. We expected the net operating results from our FEC operations to increase moderately in Q1-15 as compared to Q4-14 due primarily to seasonality. Our FEC operations generated a net loss of \$24,661 in Q1-15 as compared to a net loss of \$51,829 in Q4-14. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to increase moderately in Q2-15 as compared to Q1-15 due primarily to higher anticipated 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, 2014 and 2013, expressed as a percentage of total sales:

|                                     | Three months ended December 31, 2014 |                |              | Three months ended December 31, 2013 |                |              |
|-------------------------------------|--------------------------------------|----------------|--------------|--------------------------------------|----------------|--------------|
|                                     | MFG                                  | FEC            | Total        | MFG                                  | FEC            | Total        |
| Sales to external customers         | 92.5 %                               | 7.5 %          | 100.0 %      | 88.6 %                               | 11.4 %         | 100.0 %      |
| Cost of sales                       | 53.5                                 | 4.9            | 58.4         | 54.6                                 | 7.4            | 62.0         |
| Gross profit                        | 39.0                                 | 2.6            | 41.6         | 34.0                                 | 4.0            | 38.0         |
| Selling and administrative expenses | 26.7                                 | 3.4            | 30.1         | 31.7                                 | 4.8            | 36.5         |
| Foreign exchange loss (gain)        | (0.7)                                | -              | (0.7)        | (2.5)                                | -              | (2.5)        |
| Finance costs                       | 5.2                                  | -              | 5.2          | 2.7                                  | -              | 2.7          |
| Income taxes                        | 2.1                                  | (0.2)          | 1.9          | 0.6                                  | (0.1)          | 0.5          |
| <b>Net income (loss)</b>            | <b>5.7 %</b>                         | <b>(0.6) %</b> | <b>5.1 %</b> | <b>1.5 %</b>                         | <b>(0.7) %</b> | <b>0.8 %</b> |

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

|              | Three months ended December 31, 2014 |              |                | Three months ended December 31, 2013 |               |                |
|--------------|--------------------------------------|--------------|----------------|--------------------------------------|---------------|----------------|
|              | MFG                                  | FEC          | Total          | MFG                                  | FEC           | Total          |
| <b>Sales</b> |                                      |              |                |                                      |               |                |
| Canada       | 9.6 %                                | 7.5 %        | 17.1 %         | 3.8 %                                | 11.4 %        | 15.2 %         |
| Americas     | 64.0                                 | -            | 64.0           | 35.4                                 | -             | 35.4           |
| Other        | 18.9                                 | -            | 18.9           | 49.4                                 | -             | 49.4           |
|              | <b>92.5 %</b>                        | <b>7.5 %</b> | <b>100.0 %</b> | <b>88.6 %</b>                        | <b>11.4 %</b> | <b>100.0 %</b> |



## Results of Operations – Three Months Ended December 31, 2014 Compared to Three Months Ended December 31, 2013

### Sales

Sales increased by \$1,409,184 (or 47.9%) to \$4,349,720 in Q1-15 from \$2,940,536 in Q1-14 due primarily to an increase in sales of \$1,417,017 by our Manufacturing operations.

We expected our sales to decrease significantly in Q1-15 as compared to Q4-14. Sales decreased by \$1,427,486 (or 24.7%) to \$4,349,720 in Q1-15 from \$5,777,206 in Q4-14. Based on our updated sales forecasts, we are expecting sales to decrease moderately in Q2-15 as compared to Q1-15 due primarily to an anticipated decrease in sales by our Manufacturing operations.

### Gross Profit

Gross profit percentage increased to 41.6% of sales in Q1-15 from 38.0% in Q1-14. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 42.1% in Q1-15 compared to 38.4% in Q1-14 due primarily to favourable sales-mix and favourable foreign exchange that resulted in higher margins in Q1-15 as compared to Q1-14.

We expected our gross profit percentage in Q1-15 to remain in-line with Q4-14. Gross profit percentage increased to 41.6% in Q1-15 compared to 35.0% in Q4-14 due primarily to favourable sales-mix and favourable foreign exchange that resulted in higher margins in Q1-15 as compared to Q4-14. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to decrease moderately in Q2-15 as compared to Q1-15.

### Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$426,940 (or 39.6%) to \$1,506,298 in Q1-15, from \$1,079,358 in Q1-14. This increase is due primarily to higher wages and benefits from increased headcount and additional finance costs of \$192,250 from the extinguishment of our subordinate debt in Q1-15.

We expected our operating expenses to increase as a percentage of sales in Q1-15 as compared to Q4-14. Our operating expenses increased to 34.6% of sales in Q1-15 from 23.3% in Q4-14 due primarily to lower sales by our Manufacturing operations in Q1-15 as compared to Q4-14. Based on our updated forecasts, we are expecting operating expenses in Q2-15 to decrease moderately, as a percentage of sales, compared to Q1-15.

### Income Taxes

The income tax expense of \$81,141 in Q1-15 is due primarily to the current income tax expense on earnings before income taxes generated by our Manufacturing operations. The income tax expense of \$15,296 in Q1-14 is due primarily to the current income tax expense on earnings before income taxes generated by our Manufacturing operations. We expect our effective tax rate in Q2-15 to remain in-line with our effective tax rate of 26.9% in Q1-15.

### Net Operating Results

Net income and total comprehensive income increased to \$220,309, or diluted net income per share of \$0.01, in Q1-15 from \$24,212, or diluted net income per share of \$0.00, in Q1-14. The increase in net operating results is due primarily to the increase in net income by our Manufacturing operations.

We expected our net operating results to decrease significantly in Q1-15 as compared to Q4-14. We generated net income of \$220,309 in Q1-15 compared to net income of \$499,032 in Q4-14. Based on



our updated forecasts, we are expecting net income to decrease moderately in Q2-15 as compared to Q1-15, due primarily to lower 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, 2014 and 2013. 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.

|  | Q2-13        | Q3-13        | Q4-13        | Q1-14        | Q2-14        | Q3-14        | Q4-14        | Q1-15        |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 31-Mar-13    | 30-Jun-13    | 30-Sep-13    | 31-Dec-13    | 31-Mar-14    | 30-Jun-14    | 30-Sep-14    | 31-Dec-14    |
| <b>CONSOLIDATED</b>                    |              |              |              |              |              |              |              |              |
| Sales                                  | \$ 3,223,754 | \$ 4,781,030 | \$ 3,711,714 | \$ 2,940,536 | \$ 3,370,388 | \$ 4,449,842 | \$ 5,777,206 | \$ 4,349,720 |
| Cost of sales                          | 2,065,693    | 2,843,411    | 2,463,401    | 1,821,670    | 1,838,933    | 2,764,902    | 3,753,472    | 2,541,972    |
| Gross profit                           | 1,158,061    | 1,937,619    | 1,248,313    | 1,118,866    | 1,531,455    | 1,684,940    | 2,023,734    | 1,807,748    |
| Selling and administrative expenses    | 895,726      | 1,068,066    | 993,587      | 1,074,355    | 1,272,585    | 1,119,544    | 1,332,559    | 1,308,498    |
| Foreign exchange loss (gain)           | (21,461)     | (71,466)     | 54,512       | (73,207)     | 1,280        | 79,930       | (47,228)     | (30,129)     |
| Finance costs                          | 25,835       | 83,454       | 72,831       | 78,210       | 41,641       | 45,666       | 60,735       | 227,929      |
| Income taxes                           | 65,255       | 214,936      | 33,701       | 15,296       | 56,849       | 115,630      | 178,636      | 81,141       |
| <b>Net income</b>                      | \$ 192,706   | \$ 642,629   | \$ 93,682    | \$ 24,212    | \$ 159,100   | \$ 324,170   | \$ 499,032   | \$ 220,309   |
| Basic and diluted net income per share | \$ 0.02      | \$ 0.06      | \$ 0.01      | \$ 0.00      | \$ 0.02      | \$ 0.03      | \$ 0.05      | \$ 0.01      |

|                                     | Q2-13        | Q3-13        | Q4-13        | Q1-14        | Q2-14        | Q3-14        | Q4-14        | Q1-15        |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                     | 31-Mar-13    | 30-Jun-13    | 30-Sep-13    | 31-Dec-13    | 31-Mar-14    | 30-Jun-14    | 30-Sep-14    | 31-Dec-14    |
| <b>MANUFACTURING</b>                |              |              |              |              |              |              |              |              |
| Sales                               | \$ 2,777,034 | \$ 4,449,413 | \$ 3,444,070 | \$ 2,605,694 | \$ 2,964,634 | \$ 4,188,700 | \$ 5,555,143 | \$ 4,022,711 |
| Cost of sales                       | 1,829,101    | 2,635,152    | 2,283,822    | 1,605,699    | 1,637,609    | 2,605,953    | 3,612,897    | 2,330,379    |
| Gross profit                        | 947,933      | 1,814,261    | 1,160,248    | 999,995      | 1,327,025    | 1,582,747    | 1,942,246    | 1,692,332    |
| Selling and administrative expenses | 751,112      | 935,861      | 845,513      | 932,151      | 1,126,327    | 975,906      | 1,181,034    | 1,159,772    |
| Foreign exchange loss (gain)        | (21,461)     | (71,466)     | 54,512       | (73,207)     | 1,280        | 79,930       | (47,228)     | (30,129)     |
| Finance costs                       | 25,307       | 83,141       | 72,679       | 78,194       | 41,641       | 45,666       | 60,735       | 227,929      |
| Income taxes                        | 1,362        | 265,669      | 48,741       | 17,319       | 41,727       | 126,405      | 196,844      | 89,790       |
| <b>Net income</b>                   | \$ 191,613   | \$ 601,056   | \$ 138,803   | \$ 45,538    | \$ 116,050   | \$ 354,840   | \$ 550,861   | \$ 244,970   |

|                                     | Q2-13      | Q3-13      | Q4-13       | Q1-14       | Q2-14      | Q3-14       | Q4-14       | Q1-15       |
|-------------------------------------|------------|------------|-------------|-------------|------------|-------------|-------------|-------------|
|                                     | 31-Mar-13  | 30-Jun-13  | 30-Sep-13   | 31-Dec-13   | 31-Mar-14  | 30-Jun-14   | 30-Sep-14   | 31-Dec-14   |
| <b>FEC</b>                          |            |            |             |             |            |             |             |             |
| Sales                               | \$ 446,720 | \$ 331,617 | \$ 267,644  | \$ 334,842  | \$ 405,754 | \$ 261,142  | \$ 222,063  | \$ 327,009  |
| Cost of sales                       | 236,592    | 208,259    | 179,579     | 215,971     | 201,324    | 158,949     | 140,575     | 211,593     |
| Gross profit                        | 210,128    | 123,358    | 88,065      | 118,871     | 204,430    | 102,193     | 81,488      | 115,416     |
| Selling and administrative expenses | 144,614    | 132,205    | 148,074     | 142,204     | 146,258    | 143,638     | 151,525     | 148,726     |
| Finance costs                       | 528        | 313        | 152         | 16          | -          | -           | -           | -           |
| Income taxes                        | 63,893     | (50,733)   | (15,040)    | (2,023)     | 15,122     | (10,775)    | (18,208)    | (8,649)     |
| <b>Net income (loss)</b>            | \$ 1,093   | \$ 41,573  | \$ (45,121) | \$ (21,326) | \$ 43,050  | \$ (30,670) | \$ (51,829) | \$ (24,661) |

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



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

- The increase in net operating results from Q2-13 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.
- The increase in net operating results from Q1-14 to Q2-14 is due primarily to higher gross profit in Q2-14 compared to Q1-14.
- The increase in net operating results from Q2-14 to Q3-14 is due primarily to higher sales and gross profit in Q3-14 compared to Q2-14.
- The increase in net operating results from Q3-14 to Q4-14 is due primarily to higher sales in Q4-14 compared to Q3-14.
- The decrease in net operating results from Q4-14 to Q1-15 is due primarily to lower sales in Q1-15 compared to Q4-14.

## **Liquidity and Capital Resources**

### **Operating Activities**

Cash used by operating activities amounted to \$2,172,631 in Q1-15 as compared to cash provided by operating activities of \$1,838,369 in Q1-14. This change is due primarily to cash received from 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 support growth in our sales.

### **Investing Activities**

Cash used in investing activities increased to \$178,637 in Q1-15 from \$16,710 in Q1-14 due to higher purchases of equipment in Q1-15 as compared to Q1-14.

We have not entered into any proposed material asset or business acquisition or disposition agreements, and we do not anticipate to significantly increase our investment in capital expenditures in 2015.

### **Financing Activities**

Cash provided by financing activities amounted to \$9,178,944 in Q1-15 as compared to cash used by financing activities of \$2,399,236 in Q1-14. This change is due primarily to the proceeds from share issuance in Q1-15.

Our off-balance sheet financing is comprised of long-term operating lease arrangements concluded in the normal course of business for premises. 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 ACCL and RGA 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 \$8,947,866 at December 31, 2014 (September 30, 2014 – \$2,090,251).
- Trade and other receivables of \$3,421,949 at December 31, 2014 (September 30, 2014 – \$2,674,568).

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 has an available Overdraft Facility of \$600,000, an Operating Loan Facility of U.S. \$1,500,000 (\$1,740,000 in Canadian dollars), and a Securitization Facility of U.S. \$4,320,000 (\$5,011,000 in Canadian dollars), which are all subject to annual renewals (see "Credit Facilities").

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.

On November 24, 2014, the Corporation extinguished its subordinate debt for \$734,036, including interest and fees.

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, 2014, all financial ratios and tests have been met.

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

## Credit Facilities

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

### (a) Overdraft Facility

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





*(b) Export Loan Facility*

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. \$1,500,000 (\$1,740,000 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. \$4,320,000 (\$5,011,000 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 90 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 \$1,200,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of \$6,666,666, 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 \$1,200,000 to purchase foreign exchange forward contracts and options up to an aggregate of \$6,666,666, 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, 2014 and September 30, 2014, there were no foreign exchange forward contracts outstanding.

### 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 receivables and insured trade receivables.

Trade receivables with related parties ACCL and RGA represent approximately 75% of the balance of trade receivables at December 31, 2014 (September 30, 2014 – three customers representing approximately 74%). 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.

## 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

During the three months ended December 31, 2014 and 2013, the Corporation recorded sales of U.S. \$1,475,549 (\$1,675,618 in Canadian dollars) and U.S. \$532,694 (\$559,024 in Canadian dollars), respectively, to related parties ACCL and RGA. At December 31, 2014 and September 30, 2014, the Corporation's trade receivables include U.S. \$2,217,602 (\$2,572,624 in Canadian dollars) and U.S. \$1,111,832 (\$1,246,141 in Canadian dollars), respectively, due from related parties ACCL and RGA.

During the three months ended December 31, 2014 and 2013, the Corporation purchased raw material inventories of U.S. \$242,949 (\$275,274 in Canadian dollars) and U.S. \$117,746 (\$123,178 in Canadian dollars), respectively, from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). At December 31, 2014 and September 30, 2014, the Corporation's trade payables and accrued charges include U.S. \$35,878 (\$41,622 in Canadian dollars) and U.S. \$42,520 (\$47,656 in Canadian dollars), respectively, payable to the Related Entity for the purchase of raw material inventories. At December 31, 2014 and September 30, 2014, the Corporation's prepaid expenses and deposits include U.S. \$305,719 (\$354,662 in Canadian dollars) and U.S. \$159,774 (\$173,713 in Canadian dollars), respectively, on deposit with the Related Entity for the purchase of raw material inventories.

## Outstanding Share Capital

At December 31, 2014 and February 11, 2015, the Corporation had 20,870,187 common shares and 1,065,000 warrants 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.

