Q1

2016

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2015

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)*

	December 31, 2015	September 30, 2015
Assets		
Current assets		
Cash and cash equivalents	**$ 2,545,409**	$ 4,947,024
Trade and other receivables	**8,294,917**	6,873,151
Income taxes receivable	**162,675**	224,900
Inventories	**1,862,969**	2,008,310
Prepaid expenses and deposits	**952,177**	740,764
	13,818,147	14,794,149
Non-current assets		
Equipment	**1,659,985**	1,717,526
Deferred income tax assets	**139,543**	150,393
Total Assets	**$ 15,617,675**	$ 16,662,068
Liabilities and Shareholders' Equity		
Current liabilities		
Trade payables, accrued charges and other	**$ 1,710,416**	$ 2,076,735
Customer deposits and deferred revenue	**133,474**	975,738
Current portion of rent inducement	**-**	15,791
	1,843,890	3,068,264
Non-current liabilities		
Rent inducement	**132,079**	121,112
Deferred income tax liabilities	**79,265**	87,024
Total Liabilities	**2,055,234**	3,276,400
Shareholders' Equity		
Share capital	**9,859,270**	9,859,270
Warrants reserve	**450,971**	450,971
Share-based payments reserve	**256,858**	256,858
Retained earnings	**2,995,342**	2,818,569
Total Shareholders' Equity	**13,562,441**	13,385,668
Total Liabilities and Shareholders' Equity	**$ 15,617,675**	$ 16,662,068

Subsequent events (Note 7)

"Scott Forbes" .... President & CEO

"Muhanad Awad" .... Chairman of the Board

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended December 31,	
	2015	2014
Sales	**$ 3,618,561**	$ 4,349,720
Cost of sales	**2,197,420**	2,541,972
Gross profit	**1,421,141**	1,807,748
Selling and administrative expenses	**1,397,892**	1,308,498
Foreign exchange gain	**(218,840)**	(30,129)
	1,179,052	1,278,369
Operating income	**242,089**	529,379
Finance costs	**-**	227,929
Income before income taxes	**242,089**	301,450
Income tax provision		
Current	**62,225**	75,840
Deferred	**3,091**	5,301
	65,316	81,141
Net income and total comprehensive income	**176,773**	220,309
Net income per common share		
Basic	**$ 0.01**	$ 0.01
Diluted	**$ 0.01**	$ 0.01
Weighted average number of common shares outstanding		
Basic	**20,870,187**	15,135,572
Diluted	**20,870,187**	15,627,110

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

	Share capital[1]					
	Number of common shares	Amount	Warrants reserve	Share-based payments reserve[2]	Retained earnings	Total shareholders' equity
Balance at September 30, 2014	10,220,187	$ 1,757,643	$ -	$ 256,858	$ 2,301,507	$ 4,316,008
Proceeds from private placement, less share issuance costs net of tax	10,650,000	8,101,627	450,971	-	-	8,552,598
Net income and total comprehensive income	-	-	-	-	220,309	220,309
Balance at December 31, 2014	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,521,816	$ 13,088,915
Balance at September 30, 2015	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,818,569	$ 13,385,668
Net income and total comprehensive income	**-**	**-**	**-**	**-**	**176,773**	**176,773**
Balance at December 31, 2015	**20,870,187**	**$9,859,270**	**$ 450,971**	**$ 256,858**	**$2,995,342**	**$ 13,562,441**

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

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

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Cash Flows

Unaudited *(Expressed in Canadian dollars)*

	Three months ended December 31, 2015	2014
Operating activities		
Net income	**$ 176,773**	$ 220,309
Items not affecting cash		
Depreciation	**88,932**	79,941
Deferred income taxes	**3,091**	5,301
Rent inducement	**(4,824)**	1,806
Unrealized foreign exchange gain	**(425,432)**	(59,888)
Finance costs	**-**	227,929
	(161,460)	475,398
Change in non-cash operating working capital		
Trade and other receivables	**(1,010,525)**	(692,648)
Inventories	**145,341**	(363,910)
Prepaid expenses	**(211,413)**	49,165
Trade payables, accrued charges and other	**(372,571)**	(543,315)
Current income tax expense	**62,225**	75,840
Customer deposits and deferred revenue	**(842,264)**	(445,232)
	(2,229,207)	(1,920,100)
Interest paid	**-**	(227,929)
Income taxes paid	**-**	(500,000)
Cash used in operating activities	**(2,390,667)**	(2,172,631)
Investing activities		
Purchase of equipment	**(25,139)**	(178,637)
Cash used in investing activities	**(25,139)**	(178,637)
Financing activities		
Proceeds from operating loans	**-**	1,698,614
Repayment of operating loans	**-**	(784,560)
Repayment of subordinate debt	**-**	(557,517)
Increase in share issuance costs	**-**	(17,093)
Proceeds from issuance of shares and warrants	**-**	8,839,500
Cash provided by financing activities	**-**	9,178,944
Net increase (decrease) in cash and cash equivalents	**(2,415,806)**	6,827,676
Effect of foreign exchange rate changes on cash and cash equivalents	**14,191**	29,939
Cash and cash equivalents at beginning of the period	**4,947,024**	2,090,251
Cash and cash equivalents at end of the period	**$ 2,545,409**	$ 8,947,866
Cash and cash equivalents comprised of:		
Cash	**$ 2,545,409**	$ 8,747,866
Cash equivalents	**-**	200,000
Supplemental cash flow disclosures - non cash transactions		
Purchase of equipment	**$ 6,252**	$ 24,280
Amortization of financing costs - subordinate debt	**-**	15,731

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

1. Nature of business and corporate information

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

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

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

2. Basis of preparation

Statement of compliance

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

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on February 10, 2016.

Basis of measurement

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

Functional and presentation currency

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

3. Significant accounting policies

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's Consolidated Financial Statements for the year ended September 30, 2015.

4. Critical accounting estimates and judgments

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

4. Critical accounting estimates and judgments (continued)

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

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

Functional currency

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

Revenue

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

Allowance for doubtful accounts and sales adjustments

In determining whether trade receivables are collectible from customers, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from management's estimates, future earnings would be affected.

Inventory

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

4. Critical accounting estimates and judgments (continued)

Equipment

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

Income taxes

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

The Corporation estimates deferred income taxes based upon temporary differences between the assets and liabilities that it reports in its consolidated financial statements and the tax bases of its assets and liabilities as determined under applicable tax laws. The amount of deferred tax assets recognized is generally limited to the extent that it is probable that taxable profit will be available against which the related deductible temporary differences can be utilized. Therefore, the amount of the deferred income tax asset recognized and considered realizable could be reduced if projected income is not achieved.

5. Related party transactions

Transactions with affiliated companies

Pursuant to the private placement completed on November 19, 2014, 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,	
	2015	2014
Sales in U.S. dollars	**$ 969,636**	$ 1,475,549
Equivalent in Canadian dollars	**1,312,562**	1,675,618

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

	December 31, 2015	September 30, 2015
Balance in U.S. dollars	**$ 5,464,838**	$ 4,641,192
Equivalent in Canadian dollars	**7,563,336**	6,216,413

5. Related party transactions (continued)

Transactions with a related entity

The Corporation recorded the following sales in U.S. dollars to an entity controlled by a party related to the President & CEO of the Corporation (the “Related Entity”):

	Three months ended December 31,			
		2015		2014
Sales in U.S. dollars	**$**	**56,151**	$	-
Equivalent in Canadian dollars		**73,967**		-

The Corporation recorded the following purchases in U.S. dollars of raw material inventories from the Related Entity:

	Three months ended December 31,			
		2015		2014
Purchases in U.S. dollars	**$**	**32,197**	$	242,949
Equivalent in Canadian dollars		**42,237**		275,274

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, 2015		September 30, 2015
Balance in U.S. dollars	**$**	**368,327**	$	331,697
Equivalent in Canadian dollars		**457,536**		406,986

6. 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.

Unaudited (Expressed in Canadian dollars)

6. Segment reporting and concentration of sales (continued)

Business segments (continued)

Information related to the two business segments' operations for the three-month periods ended December 31, 2015 and 2014 is as follows:

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

	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

Unaudited (Expressed in Canadian dollars)

6. 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,	
	2015	2014
Sales		
Canada	**$ 832,117**	$ 743,819
Americas	**2,201,317**	2,782,409
Other	**585,127**	823,492
	$ 3,618,561	$ 4,349,720

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

	Three months ended December 31,	
	2015	2014
Customer A	**$ 1,312,562**	$ 1,675,618
Customer B	**-**	457,853

7. Subsequent events

On January 26, 2016, the Corporation's credit facilities were amended as follows:

- Under its Operating Loan Facility, the Corporation may finance up to 60% of customer purchase orders approved by the Bank. Operating Loans bear interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 4.00% per annum and are payable on demand or within 160 days (previously 90 days) of funding; and

- Under its Foreign Exchange Loan Facility, the Corporation has access to a demand revolving line of U.S. $1,440,000 (previously $1,200,000 Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 (previously $8,000,000 Canadian dollars), with a maximum maturity of 12 months.

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 10, 2016 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2015 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2015 and 2014.

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

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

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

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

Overview

Iplayco is incorporated under the Alberta Business Corporations Act and its common shares trade on the TSX Venture Exchange under the trading symbol "IPC". Iplayco's business is carried out through its wholly owned subsidiaries Iplayco Inc., Iplayco Canada Inc., International Play Company Inc. and Outdoor Play Company Inc. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its plant in Langley, British Columbia, Canada ("Manufacturing" or "MFG"); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada ("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 beneficially held by three individuals. FAS controls Arabian Centres Company Limited ("ACCL") and Retail Group of America ("RGA"), 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 of approximately 15 billion Saudi Riyal (or approximately $6 billion in Canadian dollars). Through ACCL and RGA, FAS is planning to expand its chain of Billy Beez family entertainment centres in the Middle East and North America. 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.

Consolidated Results

Sales for the three months ended December 31, 2015 ("Q1-16") decreased by 16.8% to $3,618,561 from $4,349,720 for the three months ended December 31, 2014 ("Q1-15"). Gross profit percentage decreased to 39.3% of sales in Q1-16 from 41.6% in Q1-15. Operating expenses, including foreign exchange gains and losses and finance costs, decreased to $1,179,052, or 32.6% of sales, in Q1-16 from $1,506,298, or 34.6% of sales, in Q1-15. Net income decreased to $176,773, or diluted net income per share of $0.01, in Q1-16 from $220,309, or diluted net income per share of $0.01, in Q1-15.

Manufacturing Operations

Sales generated by our Manufacturing operations decreased by 18.8% to $3,264,525 in Q1-16 from $4,022,711 in Q1-15. This decrease is due to lower sales to our customers located in the Americas, including Canada, who accounted for sales of $2,679,398 (or 82.1% of total Manufacturing sales) in Q1-16 compared to $3,199,219 (or 79.5%) in Q1-15, and lower sales to our customers located outside of the Americas, who accounted for sales of $585,127 (or 17.9% of total Manufacturing sales) in Q1-16 compared to $823,492 (or 20.5%) in Q1-15.

Sales to related parties, ACCL and RGA, accounted for 40.2% of sales by our Manufacturing operations in Q1-16 as compared to 41.7% in Q1-15. 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 Q1-16 to decrease significantly as compared to sales for the three months ended September 30, 2015 ("Q4-15"). Sales generated by our Manufacturing operations decreased by 34.0% to $3,264,525 in Q1-16 from $4,949,115 in Q4-15. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending March 31, 2016 ("Q2-16") to increase moderately as compared to Q1-16.

Gross profit percentage decreased to 39.9% of sales by our Manufacturing operations in Q1-16 from 42.1% in Q1-15. We expected our gross profit percentage in Q1-16 to remain in-line with Q4-15. Gross profit percentage increased to 39.9% of sales by our Manufacturing operations in Q1-16 from 33.5% in Q4-15 due primarily to favourable sales-mix. Based on our updated sales-mix forecast, we are expecting gross profit percentage from our Manufacturing operations to decrease moderately in Q2-16 as compared to Q1-16.

Our Manufacturing operations generated net income of $198,837 in Q1-16 compared to net income of $244,970 in Q1-15. We expected the net operating results from our Manufacturing operations to decrease moderately in Q1-16 as compared to Q4-15. Our Manufacturing operations generated net income of $198,837 in Q1-16 compared to net income of $227,644 in Q4-15. We are expecting net income from our Manufacturing operations to increase moderately in Q2-16 as compared to Q1-16 due primarily to higher anticipated sales in Q2-16 as compared to Q1-16.

Family Entertainment Centre Operations

Sales generated by our FEC operations increased by 8.3% to $354,036 in Q1-16 from $327,009 in Q1-15. We expected sales generated by our FEC operations in Q1-16 to remain in-line with Q4-15. Sales generated by our FEC operations increased by 19.9% to $354,036 in Q1-16 from $295,314 in Q4-15. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase significantly in Q2-16 as compared to Q1-16, due primarily to seasonality.

Our FEC operations generated a net loss of $22,064 in Q1-16 compared to a net loss of $24,661 in Q1-15. We expected the net operating results from our FEC operations in Q1-16 to remain in-line with Q4-15. Our FEC operations generated a net loss of $22,064 in Q1-16 as compared to a net loss of $11,235 in Q4-15. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to improve significantly in Q2-16 as compared to Q1-16, due primarily to anticipated higher sales 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, 2015 and 2014, expressed as a percentage of total sales:

	Three months ended December 31, 2015			Three months ended December 31, 2014		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales to external customers	**90.2 %**	**9.8 %**	**100.0 %**	92.5 %	7.5 %	100.0 %
Cost of sales	**54.2**	**6.5**	**60.7**	53.5	4.9	58.4
Gross profit	**36.0**	**3.3**	**39.3**	39.0	2.6	41.6
Selling and administrative expenses	**34.5**	**4.1**	**38.6**	26.7	3.4	30.1
Foreign exchange gain	**(6.0)**	**-**	**(6.0)**	(0.7)	-	(0.7)
Finance costs	**-**	**-**	**-**	5.2	-	5.2
Income taxes	**2.0**	**(0.2)**	**1.8**	2.1	(0.2)	1.9
Net income (loss)	**5.5 %**	**(0.6) %**	**4.9 %**	5.7 %	(0.6) %	5.1 %

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

	Three months ended December 31, 2015			Three months ended December 31, 2014		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**13.2 %**	**9.8 %**	**23.0 %**	9.6 %	7.5 %	17.1 %
Americas	**60.8**	**-**	**60.8**	64.0	-	64.0
Other	**16.2**	**-**	**16.2**	18.9	-	18.9
	90.2 %	**9.8 %**	**100.0 %**	92.5 %	7.5 %	100.0 %

Results of Operations – Three Months Ended December 31, 2015 Compared to Three Months Ended December 31, 2014

Sales

Sales decreased by $731,159 (or 16.8%) to $3,618,561 in Q1-16 from $4,349,720 in Q1-15 due primarily to a decrease in sales of $758,186 by our Manufacturing operations.

We expected our sales to decrease moderately in Q1-16 as compared to Q4-15. Sales decreased by $1,625,868 (or 31.0%) to $3,618,561 in Q1-16 from $5,244,429 in Q4-15. Based on our updated sales forecasts, we are expecting sales to increase moderately in Q2-16 as compared to Q1-16.

Gross Profit

Gross profit percentage decreased to 39.3% of sales in Q1-16 from 41.6% in Q1-15. This decrease is due primarily to our Manufacturing operations which generated a gross profit percentage of 39.9% in Q1-16 compared to 42.1% in Q1-15.

We expected our gross profit percentage in Q1-16 to remain in-line with Q4-15. Gross profit percentage increased to 39.3% in Q1-16 compared to 34.2% in Q4-15 due primarily to favourable sales-mix. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to decrease moderately in Q2-16 as compared to Q1-16.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, decreased by $327,246 (or 21.7%) to $1,179,052 in Q1-16, from $1,506,298 in Q1-15. This decrease is due primarily to the foreign exchange gain of $218,840 in Q1-16 as compared to the foreign exchange gain of $30,129 in Q1-15.

We expected our operating expenses to increase moderately, as a percentage of sales, in Q1-16 as compared to Q4-15. Our operating expenses increased to 32.6% of sales in Q1-16 from 28.9% in Q4-15. Based on our updated forecasts, we are expecting operating expenses to decrease moderately, as a percentage of sales, in Q2-16 as compared to Q1-16.

Income Taxes

The income tax expense of $65,316 in Q1-16 is due to the income tax expense of $73,075 on earnings before income taxes generated by our Manufacturing operations, partially offset by the deferred income tax recovery of 7,759 on the loss before income taxes from our FEC operations. 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.

Net Operating Results

Net income and total comprehensive income amounted to $176,773, or diluted net income per share of $0.01, in Q1-16, compared to net income of $220,309, or diluted net income per share of $0.01, in Q1-15. The decrease in net operating results is due primarily to the decrease in net income by our Manufacturing operations.

We expected our net operating results to decrease moderately in Q1-16 as compared to Q4-15. We generated net income of $176,773 in Q1-16 compared to a net income of $216,409 in Q4-15. We are expecting our net operating results to increase moderately in Q2-16 as compared to Q1-16 due primarily to anticipated higher sales.

Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements for the years ended September 30, 2015 and 2014. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

CONSOLIDATED	Q2-14 31-Mar-14	Q3-14 30-Jun-14	Q4-14 30-Sep-14	Q1-15 31-Dec-14	Q2-15 31-Mar-15	Q3-15 30-Jun-15	Q4-15 30-Sep-15	**Q1-16 31-Dec-15**
Sales	$ 3,370,388	$ 4,449,842	$ 5,777,206	$ 4,349,720	$ 3,198,377	$ 4,410,462	$ 5,244,429	**$ 3,618,561**
Cost of sales	1,838,933	2,764,902	3,753,472	2,541,972	1,911,898	2,973,826	3,448,630	**2,197,420**
Gross profit	1,531,455	1,684,940	2,023,734	1,807,748	1,286,479	1,436,636	1,795,799	**1,421,141**
Selling and administrative expenses	1,272,585	1,119,544	1,332,559	1,308,498	1,235,993	1,445,286	1,891,170	**1,397,892**
Foreign exchange loss (gain)	1,280	79,930	(47,228)	(30,129)	(190,275)	(12,099)	(353,522)	**(218,840)**
Finance costs	41,641	45,666	60,735	227,929	63,436	48,699	(20,005)	**-**
Income taxes	56,849	115,630	178,636	81,141	46,847	4,884	61,747	**65,316**
Net income (loss)	$ 159,100	$ 324,170	$ 499,032	$ 220,309	$ 130,478	$ (50,134)	$ 216,409	**$ 176,773**
Basic and diluted net income (loss) per share	$ 0.02	$ 0.03	$ 0.05	$ 0.01	$ 0.01	$ (0.00)	$ 0.01	**$ 0.01**

MANUFACTURING	Q2-14 31-Mar-14	Q3-14 30-Jun-14	Q4-14 30-Sep-14	Q1-15 31-Dec-14	Q2-15 31-Mar-15	Q3-15 30-Jun-15	Q4-15 30-Sep-15	**Q1-16 31-Dec-15**
Sales	$ 2,964,634	$ 4,188,700	$ 5,555,143	$ 4,022,711	$ 2,816,501	$ 4,162,310	$ 4,949,115	**$ 3,264,525**
Cost of sales	1,637,609	2,605,953	3,612,897	2,330,379	1,713,213	2,797,426	3,291,253	**1,962,975**
Gross profit	1,327,025	1,582,747	1,942,246	1,692,332	1,103,288	1,364,884	1,657,862	**1,301,550**
Selling and administrative expenses	1,126,327	975,906	1,181,034	1,159,772	1,094,054	1,298,976	1,739,126	**1,248,478**
Foreign exchange loss (gain)	1,280	79,930	(47,228)	(30,129)	(190,275)	(12,099)	(353,522)	**(218,840)**
Finance costs	41,641	45,666	60,735	227,929	63,436	48,699	(20,005)	**-**
Income taxes	41,727	126,405	196,844	89,790	36,115	23,872	64,619	**73,075**
Net income	$ 116,050	$ 354,840	$ 550,861	$ 244,970	$ 99,958	$ 5,436	$ 227,644	**$ 198,837**

FEC	Q2-14 31-Mar-14	Q3-14 30-Jun-14	Q4-14 30-Sep-14	Q1-15 31-Dec-14	Q2-15 31-Mar-15	Q3-15 30-Jun-15	Q4-15 30-Sep-15	**Q1-16 31-Dec-15**
Sales	$ 405,754	$ 261,142	$ 222,063	$ 327,009	$ 381,876	$ 248,152	$ 295,314	**$ 354,036**
Cost of sales	201,324	158,949	140,575	211,593	198,685	176,400	157,377	**234,445**
Gross profit	204,430	102,193	81,488	115,416	183,191	71,752	137,937	**119,591**
Selling and administrative expenses	146,258	143,638	151,525	148,726	141,939	146,310	152,044	**149,414**
Finance costs	-	-	-	-	-	-	-	**-**
Income taxes	15,122	(10,775)	(18,208)	(8,649)	10,732	(18,988)	(2,872)	**(7,759)**
Net income (loss)	$ 43,050	$ (30,670)	$ (51,829)	$ (24,661)	$ 30,520	$ (55,570)	$ (11,235)	**$ (22,064)**

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 Q2-14 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.

- The decrease in net operating results from Q1-15 to Q2-15 is due primarily to lower sales in Q2-15 compared to Q1-15.
- The decrease in net operating results from Q2-15 to Q3-15 is due primarily to higher administrative expenses in Q3-15 compared to Q2-15.
- The increase in net operating results from Q3-15 to Q4-15 is due primarily to higher sales in Q4-15 compared to Q3-15.
- The decrease in net operating results from Q4-15 to Q1-16 is due primarily to lower sales, partially offset by lower operating expenses, in Q1-16 compared to Q4-15.

Liquidity and Capital Resources

Operating Activities

Cash used in operating activities amounted to $2,390,667 in Q1-16 as compared to $2,172,631 in Q1-15. This increase is due primarily to the change in non-cash operating working capital, and an increase in unrealized foreign exchange gain in Q1-16 as compared to Q1-15.

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 decreased to $25,139 in Q1-16 from $178,637 in Q1-15 due to a decrease in purchases of equipment in Q1-16 as compared to Q1-15.

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 2016.

Financing Activities

Cash provided by (used in) financing activities amounted to Nil in Q1-16 as compared to cash provided by financing activities of $9,178,944 in Q1-15. This change is due primarily to the proceeds from issuance of shares in Q1-15.

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

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repaying our operating loans, and funding our capital expenditures. We expect our working capital requirements to continue to increase due to the anticipated increase in sales orders from related parties for the expansion of the Billy Beez® family entertainment centres.

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

Sources and Uses of Cash

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

- Cash and cash equivalents of $2,545,409 at December 31, 2015 (September 30, 2015 – $4,947,024).
- Trade and other receivables of $8,294,917 at December 31, 2015 (September 30, 2015 – $6,873,151).

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

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

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of $600,000, an Operating Loan Facility of U.S. $2,500,000 ($3,460,000 in Canadian dollars), and a Securitization Facility of U.S. $7,920,000 ($10,961,000 in Canadian dollars), which are 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.

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, 2015, all financial ratios and tests have been met.

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

Credit Facilities

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

(a) Overdraft Facility

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

(b) Export Loan Facility

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. $2,500,000 ($3,460,000 in Canadian dollars) ("Operating Loan Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $7,920,000 ($10,961,000 in Canadian dollars) ("Securitization Facility").

Operating Loan Facility

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

Securitization Facility

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

(c) *Foreign Exchange Loan Facility*

The Foreign Exchange Loan Facility is a demand revolving line of U.S. $1,440,000 ($1,993,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($11,072,000 in Canadian dollars), with a maximum maturity of 12 months.

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

Market Risk Disclosure

Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of U.S. $1,440,000 ($1,993,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($11,072,000 in Canadian dollars), with a maximum maturity of 12 months. We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

At December 31, 2015 and September 30, 2015, 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 a large Canadian financial institution with a high investment grade rating.

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 91% of the balance of trade receivables at December 31, 2015 (September 30, 2015 – 90%). It is the opinion of management that these accounts do not represent a significant credit risk.

Interest rate risk

Interest rate risk refers to the risk that the fair value of a financial instrument or the future cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation's interest rate risk arises primarily from its operating loans and securitization debt, which are subject to variable interest rates. At December 31, 2015, the Corporation had no fixed or variable interest rate obligations outstanding.

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 due primarily to personal injury claims from the use of play structure equipment we have supplied to various family entertainment centres. We carry commercial general liability insurance and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Related Party Transactions

During the three months ended December 31, 2015 and 2014, the Corporation recorded sales of U.S. $969,636 ($1,312,562 in Canadian dollars) and U.S. $1,475,549 ($1,675,618 in Canadian dollars), respectively, to related parties ACCL and RGA. At December 31, 2015 and September 30, 2015, the Corporation's trade receivables include U.S. $5,464,838 ($7,563,336 in Canadian dollars) and U.S. $4,641,192 ($6,216,413 in Canadian dollars), respectively, due from related parties ACCL and RGA.

During the three months ended December 31, 2015 and 2014, the Corporation recorded sales of U.S. $56,151 ($73,967 in Canadian dollars) and U.S. Nil, respectively, from an entity controlled by a party related to the President & Chief Executive Officer of the Corporation (the "Related Entity"). During the three months ended December 31, 2015 and 2014, the Corporation purchased raw material inventories of U.S. $32,197 ($42,237 in Canadian dollars) and U.S. $242,949 ($275,274 in Canadian dollars), respectively, from the Related Entity. At December 31, 2015 and September 30, 2015, the Corporation's prepaid expenses and deposits include U.S. $368,327 ($457,536 in Canadian dollars) and U.S. $331,697 ($406,986 in Canadian dollars), respectively, on deposit with the Related Entity for the purchase of raw material inventories.

Outstanding Share Capital

At December 31, 2015 and February 10, 2016, the Corporation has 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.

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