



## **Iplayco Corporation Ltd.**

Condensed Consolidated Interim Financial Statements  
Three and Six months ended March 31, 2018  
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.**

## Table of contents

|  |      |
|--|------|
| Condensed Consolidated Interim Statements of Financial Position .....                      | 1    |
| Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss) .. | 2    |
| Condensed Consolidated Interim Statements of Changes in Shareholders' Equity .....         | 3    |
| Condensed Consolidated Interim Statements of Cash Flows .....                              | 4    |
| Notes to the Condensed Consolidated Interim Financial Statements .....                     | 5-14 |

# Iplayco Corporation Ltd.

## Condensed Consolidated Interim Statements of Financial Position

Unaudited (Expressed in Canadian dollars)

|   | <i>Notes</i> | <b>March 31,<br/>2018</b> | September 30,<br>2017 |
|---|--------------|---------------------------|-----------------------|
| <b>Assets</b>                                     |              |                           |                       |
| <b>Current assets</b>                             |              |                           |                       |
| Cash  |              | \$ 2,471,397              | \$ 4,491,700          |
| Restricted cash                                   | 9            | 218,105                   | -                     |
| Finance receivables                               | 7            | 3,952,746                 | 5,734,398             |
| Trade and other receivables                       |              | 8,499,087                 | 7,346,321             |
| Inventories                                       |              | 2,563,900                 | 2,760,565             |
| Prepaid expenses and deposits                     |              | 808,313                   | 435,589               |
|   |              | <b>18,513,548</b>         | <b>20,768,573</b>     |
| <b>Non-current assets</b>                         |              |                           |                       |
| Equipment   |              | 2,110,993                 | 2,244,451             |
| Intangible assets                                 | 9            | 907,758                   | -                     |
| Goodwill  | 9            | 119,000                   | -                     |
| Deferred income tax assets                        |              | 45,320                    | 87,891                |
| <b>Total Assets</b>                               |              | <b>\$ 21,696,619</b>      | <b>\$ 23,100,915</b>  |
| <b>Liabilities and Shareholders' Equity</b>       |              |                           |                       |
| <b>Current liabilities</b>                        |              |                           |                       |
| Operating loans                                   | 6            | \$ 694,987                | \$ -                  |
| Securitization debt                               | 7            | 3,557,703                 | 5,160,958             |
| Trade payables, accrued liabilities and other     |              | 2,329,100                 | 1,923,290             |
| Income taxes payable                              |              | 97,013                    | 449,780               |
| Customer deposits and deferred revenue            |              | 1,307,557                 | 2,001,344             |
| Current portion of rent inducement                |              | 21,731                    | 15,989                |
|   |              | <b>8,008,091</b>          | <b>9,551,361</b>      |
| <b>Non-current liabilities</b>                    |              |                           |                       |
| Rent inducement                                   |              | 131,406                   | 139,405               |
| Deferred income tax liabilities                   |              | 43,763                    | 62,346                |
| <b>Total Liabilities</b>                          |              | <b>8,183,260</b>          | <b>9,753,112</b>      |
| <b>Shareholders' Equity</b>                       |              |                           |                       |
| Share capital                                     |              | 9,859,270                 | 9,859,270             |
| Warrants reserve                                  |              | 450,971                   | 450,971               |
| Share-based payments reserve                      |              | 256,858                   | 256,858               |
| Retained earnings                                 |              | 2,946,260                 | 2,780,704             |
| <b>Total Shareholders' Equity</b>                 |              | <b>13,513,359</b>         | <b>13,347,803</b>     |
| <b>Total Liabilities and Shareholders' Equity</b> |              | <b>\$ 21,696,619</b>      | <b>\$ 23,100,915</b>  |

### Subsequent event (Note 11)

"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 (Loss)

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

|  | Three months ended March 31, |              | Six months ended March 31, |               |
|--|------------------------------|--------------|----------------------------|---------------|
|  | 2018                         | 2017         | 2018                       | 2017          |
| <b>Sales</b>   | <b>\$ 4,009,735</b>          | \$ 3,670,669 | <b>\$ 9,164,070</b>        | \$ 10,899,632 |
| Cost of sales  | <b>2,413,925</b>             | 1,817,220    | <b>5,070,895</b>           | 6,176,820     |
| <b>Gross profit</b>  | <b>1,595,810</b>             | 1,853,449    | <b>4,093,175</b>           | 4,722,812     |
| Selling and administrative expenses                            | <b>2,063,967</b>             | 1,656,149    | <b>3,985,679</b>           | 3,098,962     |
| Foreign exchange loss (gain)                                   | <b>(231,085)</b>             | 13,812       | <b>(247,240)</b>           | 42,673        |
|  | <b>1,832,882</b>             | 1,669,961    | <b>3,738,439</b>           | 3,141,635     |
| <b>Operating income (loss)</b>                                 | <b>(237,072)</b>             | 183,488      | <b>354,736</b>             | 1,581,177     |
| Finance costs  | <b>21,985</b>                | 95,129       | <b>97,374</b>              | 172,643       |
| <b>Income (loss) before income taxes</b>                       | <b>(259,057)</b>             | 88,359       | <b>257,362</b>             | 1,408,534     |
| <b>Income tax provision (recovery)</b>                         |                              |              |                            |               |
| Current  | <b>(37,366)</b>              | 7,384        | <b>67,814</b>              | 356,492       |
| Deferred   | <b>(3,441)</b>               | 22,179       | <b>23,992</b>              | 34,037        |
|  | <b>(40,807)</b>              | 29,563       | <b>91,806</b>              | 390,529       |
| <b>Net income (loss) and total comprehensive income (loss)</b> | <b>(218,250)</b>             | 58,796       | <b>165,556</b>             | 1,018,005     |
| <b>Basic and diluted net income (loss) per common share</b>    | <b>\$ (0.01)</b>             | \$ 0.00      | <b>\$ 0.01</b>             | \$ 0.05       |
| <b>Weighted average number of common shares outstanding :</b>  |                              |              |                            |               |
| <b>Basic and diluted</b>                                       | <b>20,870,187</b>            | 20,870,187   | <b>20,870,187</b>          | 20,870,187    |

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

## Iplayco Corporation Ltd.

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

|  | Share capital <sup>(1)</sup> |                    | Warrants reserve <sup>(2)</sup> | Share-based payments reserve <sup>(3)</sup> | Retained earnings  | Total shareholders' equity |
|--|------------------------------|--------------------|---------------------------------|---|--------------------|----------------------------|
|  | Number of common shares      | Amount             |                                 |   |                    |                            |
| <b>Balance at September 30, 2016</b>             | 20,870,187                   | \$ 9,859,270       | \$ 450,971                      | \$ 256,858                                  | \$ 1,863,418       | \$ 12,430,517              |
| Net income and total comprehensive income        | -                            | -                  | -                               | -   | 1,018,005          | 1,018,005                  |
| <b>Balance at March 31, 2017</b>                 | 20,870,187                   | \$ 9,859,270       | \$ 450,971                      | \$ 256,858                                  | \$ 2,881,423       | \$ 13,448,522              |
| <b>Balance at September 30, 2017</b>             | 20,870,187                   | \$ 9,859,270       | \$ 450,971                      | \$ 256,858                                  | \$ 2,780,704       | \$ 13,347,803              |
| <b>Net income and total comprehensive income</b> | -                            | -                  | -                               | -   | <b>165,556</b>     | <b>165,556</b>             |
| <b>Balance at March 31, 2018</b>                 | <b>20,870,187</b>            | <b>\$9,859,270</b> | <b>\$ 450,971</b>               | <b>\$ 256,858</b>                           | <b>\$2,946,260</b> | <b>\$ 13,513,359</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 warrants reserve is comprised of the grant date fair value of share purchase warrants that have expired unexercised.

<sup>(3)</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)

|  |       | Six months ended March 31, |                     |
|--|-------|----------------------------|---------------------|
|  | Notes | 2018                       | 2017                |
| <b>Operating activities</b>  |       |                            |                     |
| Net income   |       | \$ 165,556                 | \$ 1,018,005        |
| Items not affecting cash   |       |                            |                     |
| Depreciation and amortization  |       | 291,575                    | 208,566             |
| Deferred income tax expense  |       | 23,992                     | 34,037              |
| Rent inducement  |       | (2,257)                    | 807                 |
| Unrealized loss (gain) on foreign exchange derivatives               |       | (31,039)                   | 62,543              |
| Loss on disposal of equipment  |       | 414                        | -                   |
| Unrealized foreign exchange gain                                     |       | (196,463)                  | (78,606)            |
| Finance costs  |       | 97,374                     | 172,643             |
|  |       | <b>349,152</b>             | <b>1,417,995</b>    |
| Change in non-cash operating working capital                         |       |                            |                     |
| Finance receivables  |       | 1,908,567                  | 1,503,130           |
| Trade and other receivables  |       | (987,473)                  | (695,991)           |
| Inventories  |       | 218,701                    | 65,902              |
| Prepaid expenses   |       | (372,724)                  | (76,109)            |
| Trade payables, accrued liabilities and other                        |       | (350,316)                  | (819,260)           |
| Current income tax expense   |       | 67,814                     | 356,492             |
| Customer deposits and deferred revenue                               |       | (693,787)                  | (659,510)           |
|  |       | <b>(209,218)</b>           | <b>(325,346)</b>    |
| Interest paid  |       | (102,058)                  | (172,643)           |
| Income taxes paid  |       | (421,119)                  | -                   |
| <b>Cash provided by (used in) operating activities</b>               |       | <b>(383,243)</b>           | <b>920,006</b>      |
| <b>Investing activities</b>  |       |                            |                     |
| Acquisition of European operations                                   | 9     | (451,425)                  | -                   |
| Purchase of equipment  |       | (155,224)                  | (320,401)           |
| Purchase of intangible assets  |       | (39,229)                   | -                   |
| <b>Cash used in investing activities</b>                             |       | <b>(645,878)</b>           | <b>(320,401)</b>    |
| <b>Financing activities</b>  |       |                            |                     |
| Proceeds from operating loans  | 6     | 1,099,361                  | 3,292,645           |
| Repayment of operating loans   |       | (407,123)                  | (2,013,159)         |
| Proceeds from securitization debt                                    |       | -                          | 1,117,748           |
| Repayment of securitization debt                                     |       | (1,717,486)                | (4,533,702)         |
| <b>Cash used in financing activities</b>                             |       | <b>(1,025,248)</b>         | <b>(2,136,468)</b>  |
| <b>Net decrease in cash</b>  |       | <b>(2,054,369)</b>         | <b>(1,536,863)</b>  |
| Effect of foreign exchange rate changes on cash                      |       | 34,066                     | 5,516               |
| Cash at beginning of the year  |       | 4,491,700                  | 5,109,026           |
| <b>Cash at end of the year</b>                                       |       | <b>\$ 2,471,397</b>        | <b>\$ 3,577,679</b> |
| <b>Supplemental cash flow disclosures - non cash transactions</b>    |       |                            |                     |
| Purchase of equipment  |       | \$ -                       | \$ 8,370            |
| Increase in restricted cash to secure bank guarantees                | 9     | 218,105                    | -                   |
| Acquisition of European operations                                   | 9     | 540,244                    | -                   |
| Settlement of operating loans with proceeds from securitization debt |       | -                          | 1,969,124           |

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 1. Nature of business and corporate information

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

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

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

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

### 2. Basis of preparation

#### *Statement of compliance*

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

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on May 22, 2018.

#### *Basis of measurement*

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

#### *Functional and presentation currency*

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



# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 3. Significant accounting policies

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

### 4. Critical accounting estimates and judgments

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

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

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

#### *Functional currency*

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

#### *Revenue*

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

#### *Allowance for doubtful accounts and sales adjustments*

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 4. Critical accounting estimates and judgments (continued)

#### *Inventory*

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

#### *Equipment*

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

#### *Income taxes*

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

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

### 5. Credit facilities

On January 19, 2018, the Corporation's credit facilities were amended to include bank guarantees of €1,500,000 (\$2,380,000 in Canadian dollars), €500,000 (\$793,000 in Canadian dollars) and U.S. \$1,000,000 (\$1,289,000 in Canadian dollars) to secure credit facilities for the Corporation's subsidiaries, PMI, PP and IREC, respectively.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 6. Operating loans

For the six-month period ended March 31, 2018, the Corporation obtained the following proceeds denominated in U.S. dollars from an operating loan and made the following repayment denominated in U.S. dollars:

|   | Carrying Amounts  |                   |
|---|-------------------|-------------------|
|   | U.S. dollars      | Canadian dollars  |
| Balance at September 30, 2017                   | \$ -              | \$ -              |
| Proceeds from operating loans                   | 856,000           | 1,099,361         |
| Repayment of operating loans                    | (317,000)         | (401,576)         |
| Net realized foreign exchange gain on repayment | -                 | (5,547)           |
| Unrealized foreign exchange gain on balance due | -                 | 2,749             |
| <b>Balance at March 31, 2018</b>                | <b>\$ 539,000</b> | <b>\$ 694,987</b> |

### 7. Finance receivables and securitization debt

The carrying amounts of finance receivables are comprised of U.S. dollar denominated trade receivables, which have been sold to a large Canadian financial institution (the "Bank"), net of a retainer, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses.

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

The following finance receivables, due to the bank on or before January 2, 2018, remain unpaid at March 31, 2018. An entity affiliated with the Corporation has entered into a payment plan to extinguish the balance due to the bank with monthly payments of U.S. \$ 500,000 (\$ 645,000 in Canadian dollars) to U.S. \$1,000,000 (\$ 1,289,000 in Canadian dollars) from April 2018 to September 2018.

|                            | March 31, 2018      |                     |
|----------------------------|---------------------|---------------------|
|                            | U.S. dollars        | Canadian dollars    |
| <b>Finance receivables</b> | <b>\$ 3,065,570</b> | <b>\$ 3,952,746</b> |
| Less: Retainer             | (306,377)           | (395,043)           |
| <b>Securitization debt</b> | <b>\$ 2,759,193</b> | <b>\$ 3,557,703</b> |

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 8. Related party transactions

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

|                                       | Three months ended March 31, |                  | Six months ended March 31, |                  |
|---------------------------------------|------------------------------|------------------|----------------------------|------------------|
|                                       | 2018                         | 2017             | 2018                       | 2017             |
| Sales in U.S. dollars                 | \$ 143,265                   | \$ 1,044,416     | \$ 263,273                 | \$ 2,689,613     |
| <b>Equivalent in Canadian dollars</b> | <b>184,343</b>               | <b>1,373,769</b> | <b>336,992</b>             | <b>3,583,001</b> |

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

|                                       | March 31,<br>2018 | September 30,<br>2017 |
|---------------------------------------|-------------------|-----------------------|
| Balance in U.S. dollars               | \$ 3,065,570      | \$ 4,594,870          |
| <b>Equivalent in Canadian dollars</b> | <b>3,952,746</b>  | <b>5,734,398</b>      |

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

|                                       | March 31,<br>2018 | September 30,<br>2017 |
|---------------------------------------|-------------------|-----------------------|
| Balance in U.S. dollars               | \$ 4,241,544      | \$ 4,867,487          |
| <b>Equivalent in Canadian dollars</b> | <b>5,469,047</b>  | <b>6,074,624</b>      |

### 9. Business combination

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 9. Business combination (continued)

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

|   |    |                |
|---|----|----------------|
| Assets acquired   |    |                |
| Inventories   | \$ | 22,036         |
| Equipment   |    | 1,836          |
| Intangible assets   |    | 870,000        |
| <b>Total assets acquired</b>  |    | <b>893,872</b> |
| Liabilities assumed   |    |                |
| Trade payables and accrued liabilities  |    | 21,203         |
| <b>Total liabilities assumed</b>  |    | <b>21,203</b>  |
| <b>Net assets acquired</b>  | \$ | <b>872,669</b> |
| Cash paid at acquisition date   | \$ | 451,425        |
| Estimated fair value at acquisition date of bank guarantees issued with restricted cash to secure balance of purchase price payable in cash |    | 212,060        |
| Estimated fair value of Contingent Consideration at acquisition date  |    | 328,184        |
| <b>Total estimated purchase price</b>   |    | <b>991,669</b> |
| Less: Net assets acquired   |    | 872,669        |
| <b>Goodwill</b>   | \$ | <b>119,000</b> |

On October 19, 2017, the Corporation paid €300,000 (\$451,425 in Canadian dollars) in cash and issued bank guarantees backed by restricted cash of €150,000 (\$225,714 in Canadian dollars) to secure the balance of purchase price payable in three installments of €50,000 (\$75,238 in Canadian dollars) on April 18, 2018, October 18, 2018 and April 18, 2019, respectively. The restricted cash had an estimated fair value of \$212,060 and \$218,105 at October 19, 2017 and March 31, 2018, respectively.

The purchase price for the acquisition also includes the fair value of the Contingent Consideration, which has been estimated to be \$328,184 at the acquisition date. The Contingent Consideration will be remeasured to fair value at each reporting period with changes recorded in the statement of operations and comprehensive income or loss. The fair value of the Contingent Consideration is dependent on management's forecasts and expectations of the Corporation's European operations' pre-tax earnings over the next five years, currently estimated to aggregate between \$4 million and \$5 million.

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

From October 19, 2017 to March 31, 2018, PMI had operating expenses of \$327,919 and no sales to external customers, and PP had operating expenses of \$105,466 and revenues from franchisees of 46,044.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

### 9. Business combination (continued)

The Corporation incurred \$144,397 of acquisition-related costs of which \$77,148 was recorded in selling and administrative expenses in the year ended September 30, 2017 and \$67,249 was recorded in selling and administrative expenses in the Six months ended March 31, 2018.

At March 31, 2018, the initial accounting for the acquisition of PMI and PP has been provisionally determined. If new information obtained within one year of the date of acquisition results in other identifiable intangible assets, adjustments to the fair value of the assets acquired and liabilities assumed, or additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

### 10. Segment reporting and concentration of sales

#### *Business segments*

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

The accounting policies of the two business segments are the same as those described in Note 3. Inter-segment balances, transactions and revenues and expenses are eliminated upon consolidation.

Information related to the two business segments' operations for the three-month period ended March 31, 2018 is as follows:

|   | Three months ended March 31, 2018 |             |               |
|---|-----------------------------------|-------------|---------------|
|   | MFG                               | FEC         | Total         |
| Sales to external customers                 | \$ 3,555,554                      | \$ 454,181  | \$ 4,009,735  |
| Cost of sales                               | 2,188,777                         | 225,148     | 2,413,925     |
| Gross profit                                | 1,366,777                         | 229,033     | 1,595,810     |
| Selling and administrative expenses         | 1,816,557                         | 247,410     | 2,063,967     |
| Foreign exchange loss (gain)                | (243,691)                         | 12,606      | (231,085)     |
| Finance costs                               | 21,985                            | -           | 21,985        |
| Income taxes                                | (25,933)                          | (14,874)    | (40,807)      |
| Net loss                                    | \$ (202,141)                      | \$ (16,109) | \$ (218,250)  |
| Total assets                                | \$ 20,708,322                     | \$ 988,297  | \$ 21,696,619 |
| Total liabilities                           | \$ 8,013,844                      | \$ 169,416  | \$ 8,183,260  |
| Depreciation expense                        | \$ 101,754                        | \$ 74,757   | \$ 176,511    |
| Purchase of equipment and intangible assets | \$ 123,503                        | \$ 5,082    | \$ 128,585    |

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

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

#### *Business segments (continued)*

Information related to the two business segments' operations for the three-month period ended March 31, 2017 is as follows:

|                                     | Three months ended March 31, 2017 |              |               |
|-------------------------------------|-----------------------------------|--------------|---------------|
|                                     | MFG                               | FEC          | Total         |
| Sales to external customers         | \$ 3,251,759                      | \$ 418,910   | \$ 3,670,669  |
| Cost of sales                       | 1,610,936                         | 206,284      | 1,817,220     |
| Gross profit                        | 1,640,823                         | 212,626      | 1,853,449     |
| Selling and administrative expenses | 1,516,420                         | 139,729      | 1,656,149     |
| Foreign exchange loss               | 13,812                            | -            | 13,812        |
| Finance costs                       | 95,129                            | -            | 95,129        |
| Income taxes                        | 10,611                            | 18,952       | 29,563        |
| Net income                          | \$ 4,851                          | \$ 53,945    | \$ 58,796     |
| Total assets                        | \$ 19,962,483                     | \$ 1,002,191 | \$ 20,964,674 |
| Total liabilities                   | \$ 7,328,274                      | \$ 187,878   | \$ 7,516,152  |
| Depreciation expense                | \$ 72,026                         | \$ 32,737    | \$ 104,763    |
| Purchase of equipment               | \$ 147,123                        | \$ 36,252    | \$ 183,375    |

Information related to the two business segments' operations for the six-month period ended March 31, 2018 is as follows:

|   | Six months ended March 31, 2018 |             |               |
|---|---------------------------------|-------------|---------------|
|   | MFG                             | FEC         | Total         |
| Sales to external customers                 | \$ 8,331,966                    | \$ 832,104  | \$ 9,164,070  |
| Cost of sales                               | 4,621,968                       | 448,927     | 5,070,895     |
| Gross profit                                | 3,709,998                       | 383,177     | 4,093,175     |
| Selling and administrative expenses         | 3,535,062                       | 450,617     | 3,985,679     |
| Foreign exchange loss (gain)                | (261,468)                       | 14,228      | (247,240)     |
| Finance costs                               | 97,374                          | -           | 97,374        |
| Income taxes                                | 110,389                         | (18,583)    | 91,806        |
| Net income (loss)                           | \$ 228,641                      | \$ (63,085) | \$ 165,556    |
| Total assets                                | \$ 20,708,322                   | \$ 988,297  | \$ 21,696,619 |
| Total liabilities                           | \$ 8,013,844                    | \$ 169,416  | \$ 8,183,260  |
| Depreciation expense                        | \$ 183,631                      | \$ 107,944  | \$ 291,575    |
| Purchase of equipment and intangible assets | \$ 180,077                      | \$ 14,376   | \$ 194,453    |

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

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

#### Business segments (continued)

Information related to the two business segments' operations for the six-month period ended March 31, 2017 is as follows:

|                                     | Six months ended March 31, 2017 |              |               |
|-------------------------------------|---------------------------------|--------------|---------------|
|                                     | MFG                             | FEC          | Total         |
| Sales to external customers         | \$ 10,094,087                   | \$ 805,545   | \$ 10,899,632 |
| Cost of sales                       | 5,745,489                       | 431,331      | 6,176,820     |
| Gross profit                        | 4,348,598                       | 374,214      | 4,722,812     |
| Selling and administrative expenses | 2,807,508                       | 291,454      | 3,098,962     |
| Foreign exchange loss               | 42,673                          | -            | 42,673        |
| Finance costs                       | 172,643                         | -            | 172,643       |
| Income taxes                        | 369,013                         | 21,516       | 390,529       |
| Net income                          | \$ 956,761                      | \$ 61,244    | \$ 1,018,005  |
| Total assets                        | \$ 19,962,483                   | \$ 1,002,191 | \$ 20,964,674 |
| Total liabilities                   | \$ 7,328,274                    | \$ 187,878   | \$ 7,516,152  |
| Depreciation expense                | \$ 143,403                      | \$ 65,163    | \$ 208,566    |
| Purchase of equipment               | \$ 283,003                      | \$ 45,768    | \$ 328,771    |

#### Geographic and customer information

At March 31, 2018, 86% of the Corporation's assets were in Canada, 8% in Europe and 6% in the Philippines.

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

|              | Three months ended March 31, |              | Six months ended March 31, |               |
|--------------|------------------------------|--------------|----------------------------|---------------|
|              | 2018                         | 2017         | 2018                       | 2017          |
| <b>Sales</b> |                              |              |                            |               |
| Canada       | \$ 686,197                   | \$ 518,100   | \$ 1,492,967               | \$ 1,294,745  |
| Americas     | 1,707,583                    | 665,460      | 2,796,407                  | 4,778,863     |
| Other        | 1,615,955                    | 2,487,109    | 4,874,696                  | 4,826,024     |
|              | \$ 4,009,735                 | \$ 3,670,669 | \$ 9,164,070               | \$ 10,899,632 |



# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

March 31, 2018

Unaudited (Expressed in Canadian dollars)

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

*Geographic and customer information (continued)*

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

|            | Three months ended March 31, |           | Six months ended March 31, |           |
|------------|------------------------------|-----------|----------------------------|-----------|
|            | 2018                         | 2017      | 2018                       | 2017      |
| Customer A | \$ 1,240,945                 | \$ -      | \$ 1,987,123               | \$ -      |
| Customer B | -                            | 1,373,769 | -                          | 3,583,001 |
| Customer C | -                            | 461,224   | -                          | 1,336,093 |
| Customer D | -                            | 455,410   | -                          | -         |

### 11. Subsequent event

On May 1, 2018, the Corporation received payments totalling U.S. \$500,000 (\$645,000 in Canadian dollars) from an affiliated entity, which as described in Note 7, has entered into a monthly payment plan to extinguish, by September 2018, finance receivables that were due to the Bank on or before January 2, 2018.

## 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 May 22, 2018 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three and six months ended March 31, 2018 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2017 and 2016.

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

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

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

Additional information about Iplayco, including our Management Proxy Circular, are filed with Canadian securities regulatory authorities on SEDAR at [www.sedar.com](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 Iplayco Inc., Iplayco Canada Inc., International Play Company Inc., Outdoor Play Company Inc., IREC Corporation, Play Planet S.r.l and Play Mart International EOOD. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its production plants in Langley, British Columbia, Canada, Subic Bay, Philippines and Sofia, Bulgaria ("Manufacturing" or "MFG"); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada and managing a network of 28 franchisees located throughout Italy under the Play Planet banner (collectively "Family Entertainment Centre" or "FEC").

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

### Related party transactions with controlling shareholder

Iplayco is controlled by FAS Entertainment B.C. Ltd., a wholly-owned subsidiary of Saudi FAS Holding Company (collectively "FAS"), which owns 51.03% of Iplayco's issued and outstanding common shares. FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are beneficially held by three individuals. FAS controls various entities that own and operate Billy Beez family entertainment centres ("Billy Beez"), Iplayco's largest customer over the past four years.

FAS acquired control of Iplayco in November 2014 to secure supply of playgrounds for its planned expansion of Billy Beez throughout the Middle East, Europe and North America. From 2014 to 2017, Iplayco generated sales of U.S. \$21.5 million (\$26.9 million in Canadian dollars) from Billy Beez, an average of U.S. \$5.4 million (\$6.7 million in Canadian dollars) per year during that period.

Sales to Billy Beez declined by 86.6% to U.S. \$143,265 (\$184,343 in Canadian dollars) in Q2-18, from U.S. \$1,044,416 (\$1,373,769 in Canadian dollars) in Q2-17 and have declined by 90.6% to U.S. \$263,273 (\$336,992 in Canadian dollars) during YTD – Q2-18, from U.S. \$2,689,613 (\$3,583,001 in Canadian dollars) during YTD – Q2-17. Sales to Billy Beez during YTD – Q2-18 are substantially comprised of interest charges on overdue accounts and we do not anticipate any playground orders from Billy Beez in our current financial year ending September 30, 2018.

Billy Beez is experiencing some capital constraints and has entered into payment plans with Iplayco and the bank that purchased certain receivables from Billy Beez to finance Iplayco (the "Finance Receivables").

Finance Receivables of U.S. \$3,065,570 (\$3,952,746 in Canadian dollars), due to the bank on or before January 2, 2018, remain unpaid at March 31, 2018. Under the payment plan with the bank, Billy Beez is expected to extinguish the Finance Receivables by making monthly payments to the bank of U.S. \$500,000 (\$645,000 in Canadian dollars) to U.S. \$1,000,000 (\$1,289,000 in Canadian dollars) from April 2018 to September 2018. On May 1, 2018, Billy Beez made its first payment of U.S. \$500,000 (\$645,000 in Canadian dollars) under its payment plan with the bank.

Billy Beez also entered into a payment plan with Iplayco to pay overdue trade receivables of U.S. \$4,241,544 (\$5,469,047 in Canadian dollars) by making monthly aggregate payments of U.S. \$200,000 (\$257,880 in Canadian dollars) to U.S. \$1,000,000 (\$1,289,000 in Canadian dollars) from April 2018 to October 2018. In April and May 2018, Iplayco received payments amounting to U.S. \$300,000 (\$383,190 in Canadian dollars) from Billy Beez.

We expect to collect the entire balance of trade and finance receivables from Billy Beez, which at March 31, 2018, amount to U.S. \$7,307,114 (\$9,421,793 in Canadian dollars). If Billy Beez defaults, Iplayco's third-party insurance provider would pay up to 90% of the unpaid balance, leaving a potentially unrecoverable balance for Iplayco of 10%, or U.S. \$730,711 (\$942,179 in Canadian dollars) at March 31, 2018.

## Consolidated Results

Sales for the three months ended March 31, 2018 ("Q2-18") increased by 9.2% to \$4,009,735 from \$3,670,669 for the three months ended March 31, 2017 ("Q2-17"). Gross profit percentage decreased to 39.8% of sales in Q2-18 from 50.5% in Q2-17. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$1,854,867, or 46.3% of sales, in Q2-18 from \$1,765,090, or 48.1% of sales, in Q2-17. The net loss amounted to \$218,250, or net loss per share of \$0.01, in Q2-18, as compared to net income of \$58,796, or diluted net income per share of \$0.00, in Q2-17.

Sales for the six months ended March 31, 2018 ("YTD – Q2-18") decreased by 15.9% to \$9,164,070 from \$10,899,632 for the six months ended March 31, 2017 ("YTD – Q2-17"). Gross profit percentage increased to 44.7% of sales for YTD – Q2-18 from 43.3% for YTD – Q2-17. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$3,835,813 or 41.9% of sales for YTD – Q2-18 from \$3,314,278 or 30.4% of sales for YTD – Q2-17. Net income amounted to \$165,556, or diluted net income per share of \$0.01, for YTD – Q2-18, as compared to net income of \$1,018,005, or diluted net income per share of \$0.05, for YTD – Q2-17.

## Manufacturing Operations

Sales generated by our Manufacturing operations increased by 9.3% to \$3,555,554 in Q2-18 from \$3,251,759 in Q2-17. This increase is due to higher sales to our customers located in the Americas, including Canada, who accounted for sales of \$1,973,551 (or 55.5% of total Manufacturing sales) in Q2-18 compared to \$764,650, (or 23.5%) in Q2-17, partially offset by lower sales to our customers located outside of the Americas, who accounted for sales of \$1,582,003 (or 44.5% of total Manufacturing sales) in Q2-18 compared to \$2,487,109 (or 76.5%) in Q2-17.

Sales generated by our Manufacturing operations decreased by 17.5% to \$8,331,966 for YTD – Q2-18 from \$10,094,087 for YTD – Q2-17. This decrease is due primarily to lower sales to our customers located in the Americas, including Canada, who accounted for sales of \$3,503,314 (or 42.0% of total Manufacturing sales) for YTD – Q2-18 compared to \$5,268,063 (or 52.2%) for YTD – Q2-17, slightly offset by marginally higher sales to our customers located outside of the Americas, who accounted for sales of \$4,828,652 (or 58.0%) for YTD – Q2-18 compared to \$4,826,024 (or 47.8%) for YTD – Q2-17.

We expected sales generated by our Manufacturing operations in Q2-18 to decrease moderately as compared to sales for the three months ended December 31, 2017 ("Q1-18"). Sales generated by our Manufacturing operations decreased by 25.6% to \$3,555,554 in Q2-18 from \$4,776,412 in Q1-18. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending June 30, 2018 ("Q3-18") to increase moderately as compared to Q2-18.

Gross profit percentage decreased to 38.4% of sales by our Manufacturing operations in Q2-18 from 50.5% in Q2-17. We expected our gross profit percentage to decrease moderately in Q2-18 as compared to Q1-18. Gross profit percentage decreased to 38.4% of sales by our Manufacturing operations in Q2-18 from 49.1% in Q1-18 due primarily to sales mix which yielded lower margin sales in Q2-18 as compared to Q1-18. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations in Q3-18 to increase moderately as compared to Q2-18.

Gross profit percentage increased to 44.5% of sales by our Manufacturing operations for YTD – Q2-18 from 43.1% for YTD – Q2-17 due primarily to decrease in installation costs.

Our Manufacturing operations generated a net loss of \$202,141 in Q2-18 compared to net income of \$4,851 in Q2-17. We expected the net operating results from our Manufacturing operations to decrease moderately in Q2-18 as compared to Q1-18. Our Manufacturing operations generated a net loss of \$202,141 in Q2-18 compared to net income of \$430,782 in Q1-18 due primarily to lower sales and higher selling and administrative expenses in Q2-18 as compared to Q1-18. We are expecting the net income from our Manufacturing operations to increase moderately in Q3-18 as compared to Q2-18 due primarily to higher anticipated sales and higher gross profit percentage.

Our Manufacturing operations generated net income of \$228,641 for YTD – Q2-18 compared to net income of \$956,761 for YTD – Q2-17. This decrease in net operating results is due primarily to the net loss in Q2-18 as compared to the net income in Q1-17 and Q2-17.

### Family Entertainment Centre Operations

Sales generated by our FEC operations increased by 8.4% to \$454,181 in Q2-18 from \$418,910 in Q2-17. We expected sales generated by our FEC operations to increase moderately in Q2-18 as compared to Q1-18. Sales generated by our FEC operations increased by 20.2% to \$454,181 in Q2-18 from \$377,923 in Q1-18 due primarily to seasonality. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to decrease moderately in Q3-18 as compared to Q2-18, due primarily to seasonality resulting in an expected decrease in the number of customer visits.

Sales generated by our FEC operations increased by 3.3% to \$832,104 for YTD – Q2-18 from \$805,545 for YTD – Q2-17, due primarily to royalty income from our network of 28 franchisees located throughout Italy.

Our FEC operations generated a net loss of \$16,109 in Q2-18 compared to a net income of \$53,945 in Q2-17. We expected the net operating results from our FEC operations to improve significantly in Q2-18 as compared to Q1-18. Our FEC operations generated a net loss of \$16,109 in Q2-18 as compared to a net loss of \$46,976 in Q1-18, due primarily to higher sales. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to decrease moderately in Q3-18 as compared to Q2-18, due primarily to lower anticipated sales.

Our FEC operations generated a net loss of \$63,085 for YTD – Q2-18, compared to net income of \$61,244 for YTD – Q2-17. The decrease in net operating results for YTD – Q2-18 as compared to YTD – Q2-17 is due primarily to higher selling and administrative expenses and additional costs incurred from the acquisition of our new franchising operations in Italy.

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 and six months ended March 31, 2018 and 2017, expressed as a percentage of total sales:

|                                     | Three months ended March 31, 2018 |                |                | Three months ended March 31, 2017 |              |              |
|-------------------------------------|-----------------------------------|----------------|----------------|-----------------------------------|--------------|--------------|
|                                     | MFG                               | FEC            | Total          | MFG                               | FEC          | Total        |
| Sales to external customers         | 88.7 %                            | 11.3 %         | 100.0 %        | 88.6 %                            | 11.4 %       | 100.0 %      |
| Cost of sales                       | 54.6                              | 5.6            | 60.2           | 43.9                              | 5.6          | 49.5         |
| Gross profit                        | 34.1                              | 5.7            | 39.8           | 44.7                              | 5.8          | 50.5         |
| Selling and administrative expenses | 45.3                              | 6.2            | 51.5           | 41.3                              | 3.8          | 45.1         |
| Foreign exchange loss               | (6.1)                             | 0.3            | (5.8)          | 0.4                               | -            | 0.4          |
| Finance costs                       | 0.5                               | -              | 0.5            | 2.6                               | -            | 2.6          |
| Income taxes                        | (0.6)                             | (0.4)          | (1.0)          | 0.3                               | 0.5          | 0.8          |
| <b>Net loss</b>                     | <b>(5.0) %</b>                    | <b>(0.4) %</b> | <b>(5.4) %</b> | <b>0.1 %</b>                      | <b>1.5 %</b> | <b>1.6 %</b> |

|                                     | Six months ended March 31, 2018 |                |              | Six months ended March 31, 2017 |              |              |
|-------------------------------------|---------------------------------|----------------|--------------|---------------------------------|--------------|--------------|
|                                     | MFG                             | FEC            | Total        | MFG                             | FEC          | Total        |
| Sales to external customers         | 90.9 %                          | 9.1 %          | 100.0 %      | 92.6 %                          | 7.4 %        | 100.0 %      |
| Cost of sales                       | 50.4                            | 4.9            | 55.3         | 52.7                            | 4.0          | 56.7         |
| Gross profit                        | 40.5                            | 4.2            | 44.7         | 39.9                            | 3.4          | 43.3         |
| Selling and administrative expenses | 38.6                            | 4.9            | 43.5         | 25.8                            | 2.7          | 28.5         |
| Foreign exchange loss               | (2.9)                           | 0.2            | (2.7)        | 0.4                             | -            | 0.4          |
| Finance costs                       | 1.1                             | -              | 1.1          | 1.6                             | -            | 1.6          |
| Income taxes                        | 1.2                             | (0.2)          | 1.0          | 3.4                             | 0.2          | 3.6          |
| <b>Net income (loss)</b>            | <b>2.5 %</b>                    | <b>(0.7) %</b> | <b>1.8 %</b> | <b>8.7 %</b>                    | <b>0.5 %</b> | <b>9.2 %</b> |

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

|              | Three months ended March 31, 2018 |               |                | Three months ended March 31, 2017 |               |                |
|--------------|-----------------------------------|---------------|----------------|-----------------------------------|---------------|----------------|
|              | MFG                               | FEC           | Total          | MFG                               | FEC           | Total          |
| <b>Sales</b> |                                   |               |                |                                   |               |                |
| Canada       | 6.6 %                             | 10.5 %        | 17.1 %         | 2.7 %                             | 11.4 %        | 14.1 %         |
| Americas     | 42.6                              | -             | 42.6           | 18.1                              | -             | 18.1           |
| Other        | 39.5                              | 0.8           | 40.3           | 67.8                              | -             | 67.8           |
|              | <b>88.7 %</b>                     | <b>11.3 %</b> | <b>100.0 %</b> | <b>88.6 %</b>                     | <b>11.4 %</b> | <b>100.0 %</b> |

|              | <u>Six months ended March 31, 2018</u> |              |                | <u>Six months ended March 31, 2017</u> |              |                |
|--------------|--|--------------|----------------|--|--------------|----------------|
|              | <u>MFG</u>                             | <u>FEC</u>   | <u>Total</u>   | <u>MFG</u>                             | <u>FEC</u>   | <u>Total</u>   |
| <b>Sales</b> |  |              |                |  |              |                |
| Canada       | 7.7 %                                  | 8.6 %        | 16.3 %         | 4.5 %                                  | 7.4 %        | 11.9 %         |
| Americas     | 30.5                                   | -            | 30.5           | 43.8                                   | -            | 43.8           |
| Other        | 52.7                                   | 0.5          | 53.2           | 44.3                                   | -            | 44.3           |
|              | <u>90.9 %</u>                          | <u>9.1 %</u> | <u>100.0 %</u> | <u>92.6 %</u>                          | <u>7.4 %</u> | <u>100.0 %</u> |

## Results of Operations – Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

### Sales

Sales increased by \$339,066 (or 9.2%) to \$4,009,735 in Q2-18 from \$3,670,669 in Q2-17 due primarily to an increase in sales of \$303,795 by our Manufacturing operations.

We expected our sales to decrease moderately in Q2-18 as compared to Q1-18. Sales decreased by \$1,144,600 (or 22.2%) to \$4,009,735 in Q2-18 from \$5,154,335 in Q1-18. Based on our updated sales forecasts, we are expecting sales to increase moderately in Q3-18 as compared to Q2-18.

### Gross Profit

Gross profit percentage decreased to 39.8% of sales in Q2-18 from 50.5% in Q2-17. This decrease is due primarily to our Manufacturing operations which generated a gross profit percentage of 38.4% in Q2-18 compared to 50.5% in Q2-17.

We expected our gross profit percentage to decrease moderately in Q2-18 as compared to Q1-18. Gross profit percentage decreased to 39.8% in Q2-18 from 48.5% in Q1-18 due to sales-mix. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to increase moderately in Q3-18 as compared to Q2-18.

### Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$89,777 (or 5.1%) to \$1,854,867 in Q2-18, from \$1,765,090 in Q2-17. This increase is due primarily to additional expenses from the acquisition and start-up of our new European operations.

We expected our operating expenses to increase moderately, as a percentage of sales, in Q2-18 as compared to Q1-18. Our operating expenses increased to 46.3% of sales in Q2-18 from 38.4% in Q1-18. Based on our updated forecasts, we are expecting operating expenses to decrease moderately, as a percentage of sales, in Q3-18 as compared to Q2-18.

### Income Taxes

The income tax recovery of \$40,807 in Q2-18 and income tax expense of \$29,563 in Q2-17 are due primarily to the loss and the taxable income, respectively, generated by our Manufacturing operations.

### Net Operating Results

The net loss and total comprehensive loss amounted to \$218,250, or net loss per share of \$0.01, in Q2-18, compared to net income and total comprehensive income of \$58,796, or diluted net income per share of \$0.00, in Q2-17. The decrease in net operating results is due primarily to higher selling and

administrative expenses resulted from the acquisition and start-up of our European operations in Q2-18 as compared to Q2-17.

We expected our net operating results to decrease moderately in Q2-18 as compared to Q1-18. We incurred a net loss of \$218,250 in Q2-18 compared to net income of \$383,806 in Q1-18. We are expecting our results of operations to improve significantly in Q3-18 as compared to Q2-18 due primarily to higher anticipated sales and higher gross profit percentage.

## **Results of Operations – Six Months Ended March 31, 2018 Compared to Six Months Ended March 31, 2017**

### **Sales**

Sales decreased by \$1,735,562 (or 15.9%) to \$9,164,070 for YTD – Q2-18 from \$10,899,632 for YTD – Q2-17 due primarily to a decrease in sales of \$1,762,121 by our Manufacturing operations.

We are expecting a moderate increase in sales during the second half of our 2018 fiscal year due primarily to an anticipated increase in sales by our Manufacturing operations.

### **Gross Profit**

Gross profit percentage increased to 44.7% of sales for YTD – Q2-18 from 43.3% for YTD – Q2-17 due primarily to an increase in gross profit percentage by our Manufacturing operations.

We expect our gross profit percentage in the second half of our 2018 fiscal year to remain in line with the first half.

### **Operating Expenses**

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$521,535 (or 15.7%) to \$3,835,813 for YTD – Q2-18 from \$3,314,278 for YTD – Q2-17. This increase is due primarily to the additional selling and administrative expenses from the acquisition and start-up of our European operations during YTD – Q2-18 as compared to YTD – Q2-17.

During the second half of our 2018 fiscal year, we expect the following as compared to YTD – Q2-18:

- Moderate decrease in selling and administrative expenses, as a percentage of sales;
- Moderate increase in depreciation expense due to an increase in capital expenditures;
- Significant decrease in the foreign exchange gain;
- Moderate decrease in finance costs due to lower anticipated levels of operating loans and securitization debt.

### **Income Taxes**

The income tax expense of \$91,806 for YTD – Q2-18 is due primarily to the income tax expense on earnings before income taxes generated by our Manufacturing operations, as compared to the income tax expense of \$390,529 for YTD – Q2-17. We expect our effective tax rate for the second half of our 2018 fiscal year to decrease significantly as compared to the effective tax rate of 35.7% during YTD – Q2-18, due primarily to a larger portion of anticipated taxable income being generated in lower tax jurisdictions.

### **Net Operating Results**

Net income and total comprehensive income amounted to \$165,556, or diluted net income per share of \$0.01 for YTD – Q2-18 compared to net income and total comprehensive income of \$1,018,005, or net

income per share of \$0.05, for YTD – Q2-17. The decrease in net operating results is due primarily to our Manufacturing operations.

Based on our updated forecasts, we expect the net operating results by our Manufacturing operations in the second half of our 2018 fiscal year to improve moderately as compared to the first half of the year. We expect the net operating results from our FEC operations to decrease moderately due primarily to seasonality.

## Quarterly Results of Operations

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

|   | Q3-16            | Q4-16               | Q1-17             | Q2-17            | Q3-17             | Q4-17               | Q1-18             | Q2-18               |
|---|------------------|---------------------|-------------------|------------------|-------------------|---------------------|-------------------|---------------------|
| <b>CONSOLIDATED</b>                           | 30-Jun-16        | 30-Sep-16           | 31-Dec-16         | 31-Mar-17        | 30-Jun-17         | 30-Sep-17           | 31-Dec-17         | 31-Mar-18           |
| Sales   | \$ 4,612,437     | \$ 5,488,474        | \$ 7,228,963      | \$ 3,670,669     | \$ 5,513,365      | \$ 3,550,302        | \$ 5,154,335      | \$ 4,009,735        |
| Cost of sales                                 | 3,150,868        | 4,427,299           | 4,359,600         | 1,817,220        | 3,032,595         | 1,963,579           | 2,656,970         | 2,413,925           |
| Gross profit                                  | 1,461,569        | 1,061,175           | 2,869,363         | 1,853,449        | 2,480,770         | 1,586,723           | 2,497,365         | 1,595,810           |
| Selling and administrative expenses           | 1,439,973        | 1,485,654           | 1,442,813         | 1,656,149        | 1,588,624         | 1,828,272           | 1,921,712         | 2,063,967           |
| Foreign exchange loss (gain)                  | (166,555)        | 30,114              | 28,861            | 13,812           | 283,630           | 383,650             | (16,155)          | (231,085)           |
| Finance costs                                 | 38,720           | 74,103              | 77,514            | 95,129           | 4,191             | 22,044              | 75,389            | 21,985              |
| Income taxes                                  | 50,821           | (182,914)           | 360,966           | 29,563           | 165,389           | (107,588)           | 132,613           | (40,807)            |
| <b>Net income (loss)</b>                      | <b>\$ 98,610</b> | <b>\$ (345,782)</b> | <b>\$ 959,209</b> | <b>\$ 58,796</b> | <b>\$ 438,936</b> | <b>\$ (539,655)</b> | <b>\$ 383,806</b> | <b>\$ (218,250)</b> |
| Basic and diluted net income (loss) per share | \$ 0.00          | \$ (0.02)           | \$ 0.05           | \$ 0.00          | \$ 0.02           | \$ (0.03)           | \$ 0.02           | \$ (0.01)           |

|                                     | Q3-16             | Q4-16               | Q1-17             | Q2-17           | Q3-17             | Q4-17               | Q1-18             | Q2-18               |
|-------------------------------------|-------------------|---------------------|-------------------|-----------------|-------------------|---------------------|-------------------|---------------------|
| <b>MANUFACTURING</b>                | 30-Jun-16         | 30-Sep-16           | 31-Dec-16         | 31-Mar-17       | 30-Jun-17         | 30-Sep-17           | 31-Dec-17         | 31-Mar-18           |
| Sales                               | \$ 4,349,998      | \$ 5,194,013        | \$ 6,842,328      | \$ 3,251,759    | \$ 5,266,278      | \$ 3,288,848        | \$ 4,776,412      | \$ 3,555,554        |
| Cost of sales                       | 2,972,236         | 4,250,860           | 4,134,553         | 1,610,936       | 2,862,553         | 1,793,640           | 2,433,191         | 2,188,777           |
| Gross profit                        | 1,377,762         | 943,153             | 2,707,775         | 1,640,823       | 2,403,725         | 1,495,208           | 2,343,221         | 1,366,777           |
| Selling and administrative expenses | 1,293,113         | 1,337,378           | 1,291,088         | 1,516,420       | 1,432,453         | 1,699,677           | 1,718,505         | 1,816,557           |
| Foreign exchange loss (gain)        | (166,555)         | 30,114              | 28,861            | 13,812          | 283,630           | 383,650             | (17,777)          | (243,691)           |
| Finance costs                       | 38,720            | 74,103              | 77,514            | 95,129          | 4,191             | 22,044              | 75,389            | 21,985              |
| Income taxes                        | 63,734            | (171,573)           | 358,402           | 10,611          | 185,961           | (97,948)            | 136,322           | (25,933)            |
| <b>Net income (loss)</b>            | <b>\$ 148,750</b> | <b>\$ (326,869)</b> | <b>\$ 951,910</b> | <b>\$ 4,851</b> | <b>\$ 497,490</b> | <b>\$ (512,215)</b> | <b>\$ 430,782</b> | <b>\$ (202,141)</b> |

|                                     | Q3-16              | Q4-16              | Q1-17           | Q2-17            | Q3-17              | Q4-17              | Q1-18              | Q2-18              |
|-------------------------------------|--------------------|--------------------|-----------------|------------------|--------------------|--------------------|--------------------|--------------------|
| <b>FEC</b>                          | 30-Jun-16          | 30-Sep-16          | 31-Dec-16       | 31-Mar-17        | 30-Jun-17          | 30-Sep-17          | 31-Dec-17          | 31-Mar-18          |
| Sales                               | \$ 262,439         | \$ 294,461         | \$ 386,635      | \$ 418,910       | \$ 247,087         | \$ 261,454         | \$ 377,923         | \$ 454,181         |
| Cost of sales                       | 178,632            | 176,439            | 225,047         | 206,284          | 170,042            | 169,939            | 223,779            | 225,148            |
| Gross profit                        | 83,807             | 118,022            | 161,588         | 212,626          | 77,045             | 91,515             | 154,144            | 229,033            |
| Selling and administrative expenses | 146,860            | 148,276            | 151,725         | 139,729          | 156,171            | 128,595            | 203,207            | 247,410            |
| Foreign exchange loss (gain)        | -                  | -                  | -               | -                | -                  | -                  | 1,622              | 12,606             |
| Income taxes                        | (12,913)           | (11,341)           | 2,564           | 18,952           | (20,572)           | (9,640)            | (3,709)            | (14,874)           |
| <b>Net income (loss)</b>            | <b>\$ (50,140)</b> | <b>\$ (18,913)</b> | <b>\$ 7,299</b> | <b>\$ 53,945</b> | <b>\$ (58,554)</b> | <b>\$ (27,440)</b> | <b>\$ (46,976)</b> | <b>\$ (16,109)</b> |

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



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

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

## Liquidity and Capital Resources

### Operating Activities

Cash provided by operating activities amounted to \$533,780 in Q2-18, compared to \$692,495 in Q2-17. The change is due primarily to the net loss in Q2-18 as compared to net income in Q2-17, partially offset by a higher change in working capital in Q2-18 as compared to Q2-17.

Cash used in operating activities amounted to \$383,243 during YTD – Q2-18, compared to cash provided by operating activities of \$920,006 during YTD – Q2-17. This change is due primarily to the decrease in net income during YTD – Q2-18 as compared to YTD – Q2-17.

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

### Investing Activities

Cash used in investing activities decreased to \$135,801 in Q2-18 from \$213,258 in Q2-17 due primarily to a decrease in the purchase of equipment in Q2-18 as compared to Q2-17.

Cash used in investing activities increased to \$645,878 during YTD – Q2-18 from \$320,401 during YTD – Q2-17 due primarily to the acquisition of European operations.

With our new European operations, we anticipate a significant increase in our capital expenditures in 2018 as compared to 2017.

### Financing Activities

Cash used in financing activities amounted to \$2,124,609 in Q2-18, compared to \$2,095,344 in Q2-17 due primarily to the repayments of securitization debt and operating loans in Q2-18 and Q2-17.

Cash used in financing activities amounted to \$1,025,248 during YTD – Q2-18, compared to \$2,095,344 during YTD – Q2-17. This decrease is due primarily to lower repayments of securitization debt and operating loans during YTD – Q2-18 as compared to YTD – Q2-17.

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

### Cash Requirements

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

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

### Sources and Uses of Cash

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

- Cash of \$2,471,397 at March 31, 2018 (September 30, 2017 – \$4,491,700).
- Trade and other receivables of \$8,499,087 at March 31, 2018 (September 30, 2017 – \$7,346,321).

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

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

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of \$600,000, an Operating Loan Facility of U.S. \$4,000,000 (\$5,158,000 in Canadian dollars), and a Securitization Facility of U.S. \$7,920,000 (\$10,212,000 in Canadian dollars), which are subject to annual renewals (see "Credit Facilities").

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

Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At March 31, 2018, all financial ratios and tests have been met.

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

### Credit Facilities

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

#### (a) Overdraft Facility

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

*(b) Export Loan Facility*

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. \$4,000,000 (\$5,158,000 in Canadian dollars) ("Operating Loan Facility") and a receivables financing facility in the form of a demand revolving line of U.S. \$7,920,000 (\$10,212,000 in Canadian dollars) ("Securitization Facility").

Operating Loan Facility

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

Securitization Facility

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

*(c) Foreign Exchange Loan Facility*

The Foreign Exchange Loan Facility is a demand revolving line of U.S. \$1,840,000 (\$2,372,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$10,315,000 in Canadian dollars), with a maximum maturity of 12 months.

On January 19, 2018, the Corporation's credit facilities were amended to include bank guarantees of €1,500,000 (\$2,380,000 in Canadian dollars), €500,000 (\$793,000 in Canadian dollars) and U.S. \$1,000,000 (\$1,289,000 in Canadian dollars) to secure credit facilities for the Corporation's subsidiaries, Play Mart International EOOD, Play Planet S.r.l and IREC Corporation, respectively.

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

## Market Risk Disclosure

### Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of U.S. \$1,840,000 (\$2,372,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$10,315,000 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 March 31, 2018, we did not have any foreign exchange forward contract 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, trade and finance receivables recorded in the consolidated statements of financial position represent the Corporation's maximum exposure to credit risk.

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

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

As described above in "Related party transactions with controlling shareholder", our most significant credit risk arises from trade and finance receivables from Billy Beez, which at March 31, 2018, amount to U.S. \$7,307,114 (\$9,421,793 in Canadian dollars). If Billy Beez defaults, Iplayco's third-party insurance provider would pay up to 90% of the unpaid balance, leaving a potentially unrecoverable balance for Iplayco of 10%, or U.S. \$730,711 (\$942,179 in Canadian dollars) at March 31, 2018. We expect to collect the entire balance of finance receivables and trade receivables from Billy Beez.

## 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 March 31, 2018, the Corporation's operating loans of \$694,987 (September 30, 2017 – Nil) and securitization debt of \$3,557,703 (September 30, 2017 - \$5,160,958) are subject to variable interest rate obligations ranging from USD LIBOR plus 3.50% to USD LIBOR plus 4.00% per annum.

## Liquidity risk

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

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

## Legal Proceedings

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

## Related Party Transactions

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

|                                       | Three months ended March 31, |              | Six months ended March 31, |              |
|---------------------------------------|------------------------------|--------------|----------------------------|--------------|
|                                       | 2018                         | 2017         | 2018                       | 2017         |
| Sales in U.S. dollars                 | \$ 143,265                   | \$ 1,044,416 | \$ 263,273                 | \$ 2,689,613 |
| <b>Equivalent in Canadian dollars</b> | <b>184,343</b>               | 1,373,769    | <b>336,992</b>             | 3,583,001    |

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

|                                       | <b>March 31,<br/>2018</b> | September 30,<br>2017 |
|---------------------------------------|---------------------------|-----------------------|
| Balance in U.S. dollars               | <b>\$ 3,065,570</b>       | \$ 4,594,870          |
| <b>Equivalent in Canadian dollars</b> | <b>3,952,746</b>          | 5,734,398             |

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

|                                       | <b>March 31,<br/>2018</b> | September 30,<br>2017 |
|---------------------------------------|---------------------------|-----------------------|
| Balance in U.S. dollars               | <b>\$ 4,241,544</b>       | \$ 4,867,487          |
| <b>Equivalent in Canadian dollars</b> | <b>5,469,047</b>          | 6,074,624             |

### **Outstanding Share Capital**

At March 31, 2018, and May 22, 2018, the Corporation had 20,870,187 common shares issued and outstanding, and no warrants or share options outstanding.

## Cautionary Note Regarding Forward-looking Statements

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

