Q2

2014

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three and six months ended March 31, 2014

Unaudited (*Expressed in Canadian dollars*)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsections 4.3(3)(a), if an auditor has not performed a review of these Condensed Consolidated Interim Financial Statements they must be accompanied by a notice indicating that these Condensed Consolidated Interim Financial Statements have not been reviewed by an auditor.

The accompanying unaudited Condensed Consolidated Interim Financial Statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

Unaudited *(Expressed in Canadian dollars)*

	Notes		**March 31, 2014**		September 30, 2013
Assets					
Current assets					
Cash and cash equivalents		**$**	**1,289,972**	$	1,693,876
Finance receivables			**-**		3,535,737
Trade and other receivables			**1,654,646**		1,662,452
Inventories			**1,113,285**		1,069,658
Prepaid expenses			**331,734**		272,919
			4,389,637		8,234,642
Non-current assets					
Equipment			**1,547,310**		1,634,824
Deferred income tax assets			**51,812**		28,283
Total Assets		**$**	**5,988,759**	$	9,897,749
Liabilities and Shareholders' Equity					
Current liabilities					
Securitization debt		**$**	**-**	$	3,480,074
Current portion of subordinate debt	*5*		**185,768**		183,269
Trade payables, accrued charges and other			**1,026,400**		1,532,521
Income taxes payable			**73,447**		29,279
Customer deposits			**255,656**		248,221
Current portion of rent inducement			**6,284**		22,446
Current portion of finance lease liabilities			**-**		1,826
Revolving loans	*6, 8*		**310,000**		310,000
			1,857,555		5,807,636
Non-current liabilities					
Subordinate debt	*5*		**398,378**		541,786
Rent inducement			**132,260**		137,779
Deferred income tax liabilities			**107,760**		101,054
Total Liabilities			**2,495,953**		6,588,255
Shareholders' Equity					
Share capital			**1,757,643**		1,757,643
Share-based payments reserve			**256,858**		256,858
Retained earnings			**1,478,305**		1,294,993
Total Shareholders' Equity			**3,492,806**		3,309,494
Total Liabilities and Shareholders' Equity		**$**	**5,988,759**	$	9,897,749

Subsequent events (Note 8)

"Franco Aquila" ....
Chief Executive Officer

"David A. Perkins" ....
Chairman of the Board

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	**2014**	2013
Sales	**$ 3,370,388**	$ 3,223,754	**$ 6,310,924**	$ 6,719,249
Cost of sales	**1,838,933**	2,065,693	**3,660,603**	4,212,401
Gross profit	**1,531,455**	1,158,061	**2,650,321**	2,506,848
Selling and administrative expenses	**1,272,585**	895,726	**2,346,940**	1,799,557
Foreign exchange loss (gain)	**1,280**	(21,461)	**(71,927)**	(10,394)
	1,273,865	874,265	**2,275,013**	1,789,163
Operating income	**257,590**	283,796	**375,308**	717,685
Finance costs	**41,641**	25,835	**119,851**	56,604
Income before income taxes	**215,949**	257,961	**255,457**	661,081
Income tax provision				
Current	**62,579**	-	**88,968**	-
Deferred	**(5,730)**	65,255	**(16,823)**	168,149
	56,849	65,255	**72,145**	168,149
Net income and total comprehensive income	**159,100**	192,706	**183,312**	492,932
Net income per share				
Basic and diluted	**$ 0.02**	$ 0.02	**$ 0.02**	$ 0.05
Weighted average number of common shares outstanding				
Basic and diluted	**10,220,187**	10,220,187	**10,220,187**	10,220,187

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

	Share capital[1]				
	Number of common shares	Amount	Share-based payments reserve[2]	Retained earnings	Total shareholders' equity
Balance at September 30, 2012	10,220,187	$ 1,757,643	$ 256,858	$ 65,750	$ 2,080,251
Net income and total comprehensive income	-	-	-	492,932	492,932
Balance at March 31, 2013	10,220,187	1,757,643	256,858	558,682	2,573,183
Balance at September 30, 2013	10,220,187	1,757,643	256,858	1,294,993	3,309,494
Net income and total comprehensive income	-	-	-	183,312	183,312
Balance at March 31, 2014	**10,220,187**	**1,757,643**	**256,858**	**1,478,305**	**3,492,806**

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

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

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Cash Flows

Unaudited *(Expressed in Canadian dollars)*

	Six months ended March 31, 2014	Six months ended March 31, 2013
Operating activities		
Net income	**$ 183,312**	$ 492,932
Items not affecting cash		
Depreciation	**148,192**	146,391
Deferred income taxes	**(16,823)**	168,149
Change in fair value of derivatives	**-**	(3,743)
Rent inducement	**(21,681)**	(18,416)
Loss on disposal of equipment	**-**	23,380
Unrealized foreign exchange gain	**(15,032)**	(1,047)
Finance costs	**119,851**	56,604
	397,819	864,250
Change in non-cash operating working capital		
Finance receivables	**3,535,737**	-
Trade and other receivables	**2,092**	(1,205,217)
Inventories	**(43,627)**	(316,890)
Prepaid expenses	**(58,815)**	(7,399)
Trade payables, accrued charges and other	**(501,796)**	(10,687)
Income taxes payable	**88,968**	-
Customer deposits	**7,435**	160,420
	3,029,994	(1,379,773)
Interest paid	**(115,902)**	(52,655)
Income taxes paid	**(44,800)**	-
Cash provided by (used in) operating activities	**3,267,111**	(568,178)
Investing activities		
Decrease in restricted cash	**-**	300,000
Purchase of equipment	**(60,361)**	(95,839)
Cash provided by (used in) investing activities	**(60,361)**	204,161
Financing activities		
Proceeds from packing credit loans	**-**	989,448
Repayment of securitization debt	**(3,480,074)**	-
Repayment of subordinate debt	**(149,500)**	-
Repayment of revolving loans	**-**	(100,000)
Repayment of notes payable	**-**	(300,000)
Repayment of finance lease liabilities	**(1,826)**	(46,727)
Cash provided by (used in) financing activities	**(3,631,400)**	542,721
Net increase (decrease) in cash and cash equivalents	**(424,650)**	178,704
Effect of foreign exchange rate changes on cash and cash equivalents	**20,746**	4,697
Cash and cash equivalents at beginning of the period	**1,693,876**	841,008
Cash and cash equivalents at end of the period	**$ 1,289,972**	$ 1,024,409
Supplemental cash flow disclosures - non cash transactions		
Purchase of equipment	**$ 317**	$ -
Amortization of financing costs - subordinate debt	**8,591**	-

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

1. Nature of business and corporate information

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

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

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

2. Basis of preparation

Statement of compliance

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

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on May 15, 2014.

Basis of measurement

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

Functional and presentation currency

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

3. Significant accounting policies

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's Consolidated Financial Statements for the year ended September 30, 2013.

4. Critical accounting estimates and judgments

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

4. Critical accounting estimates and judgments (continued)

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

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

Functional currency

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

Revenue

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

Inventory

In determining the lower of cost and net realizable value of inventory and in establishing the appropriate impairment amount for inventory obsolescence, management estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in design which could make inventory on hand obsolete or recoverable at less than the recorded value. Management performs regular reviews to assess the impact of changes in design, sales trends and other changes on the carrying value of inventory. Where it is determined that such changes have occurred and will have an impact on the value of inventory on hand, appropriate adjustments are made.

If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions, being required.

Equipment

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

Unaudited (Expressed in Canadian dollars)

4. Critical accounting estimates and judgments (continued)

Income taxes

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

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

5. Subordinate debt

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

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

	Principal payments	Amortization of debt issuance costs	**Amortization of carrying amount**
Due within 1 year	$ 199,000	$ 13,232	**$ 185,768**
1 to 3 years	398,000	11,848	**386,152**
4 to 5 years	12,250	24	**12,226**
	$ 609,250	$ 25,104	**$ 584,146**

6. Related party transactions

As described in Note 8, on April 3, 2014, the Corporation extinguished its revolving loans, in the aggregate principal amount of $310,000, with the Corporation's Chief Executive Officer, President, Chief Financial Officer, and one of its former directors. The revolving loans were unsecured and bore interest at the rate of 15.0% per annum.

During the three and six-month periods ended March 31, 2014, the Corporation purchased raw material inventories of U.S. $86,794 ($96,146 in Canadian dollars) and U.S. $204,540 ($219,324 in Canadian dollars), respectively, from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). During the three and six-month periods ended March 31, 2013, the Corporation purchased raw material inventories of nil and U.S. $18,000 ($18,450 in Canadian dollars), respectively, from the Related Entity. At March 31, 2014 and September 30, 2013, the Corporation's trade payables and accrued charges include balances of U.S. $23,533 ($26,011 in Canadian dollars) and U.S. $39,808 ($41,152 in Canadian dollars), respectively, payable to the Related Entity for the purchase of raw material inventories.

Unaudited (Expressed in Canadian dollars)

7. Segment reporting and concentration of sales

Business segments

The Corporation operates in two business segments: (i) Manufacturing of play structures for children; and (ii) Operating a Family Entertainment Centre.

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

Information related to the two business segments' operations is as follows:

	Three months ended March 31, 2014		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 2,964,634	$ 405,754	$ 3,370,388
Cost of sales	1,637,609	201,324	1,838,933
Gross profit	1,327,025	204,430	1,531,455
Selling and administrative expenses	1,126,327	146,258	1,272,585
Foreign exchange loss	1,280	-	1,280
Finance costs	41,641	-	41,641
Income taxes	41,727	15,122	56,849
Net income	$ 116,050	$ 43,050	$ 159,100
Total assets	$ 4,828,987	$ 1,159,772	$ 5,988,759
Total liabilities	$ 2,303,086	$ 192,867	$ 2,495,953
Depreciation expense	$ 38,220	$ 35,193	$ 73,413
Purchase of equipment	$ 34,825	$ 9,143	$ 43,968

	Six months ended March 31, 2014		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 5,570,328	$ 740,596	$ 6,310,924
Cost of sales	3,243,308	417,295	3,660,603
Gross profit	2,327,020	323,301	2,650,321
Selling and administrative expenses	2,058,478	288,462	2,346,940
Foreign exchange gain	(71,927)	-	(71,927)
Finance costs	119,835	16	119,851
Income taxes	59,046	13,099	72,145
Net income	$ 161,588	$ 21,724	$ 183,312
Total assets	$ 4,828,987	$ 1,159,772	$ 5,988,759
Total liabilities	$ 2,303,086	$ 192,867	$ 2,495,953
Depreciation expense	$ 76,989	$ 71,203	$ 148,192
Purchase of equipment	$ 50,906	$ 9,772	$ 60,678

Unaudited (Expressed in Canadian dollars)

7. Segment reporting and concentration of sales (continued)

Business segments (continued)

	Three months ended March 31, 2013		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 2,777,034	$ 446,720	$ 3,223,754
Cost of sales	1,829,101	236,592	2,065,693
Gross profit	947,933	210,128	1,158,061
Selling and administrative expenses	751,112	144,614	895,726
Foreign exchange gain	(21,461)	-	(21,461)
Finance costs	25,307	528	25,835
Income taxes	1,362	63,893	65,255
Net income	$ 191,613	$ 1,093	$ 192,706
Total assets	$ 4,738,064	$ 1,269,079	$ 6,007,143
Total liabilities	$ 3,254,162	$ 179,798	$ 3,433,960
Depreciation expense	$ 39,689	$ 35,628	$ 75,317
Purchase of equipment	$ 55,390	$ 3,247	$ 58,637

	Six months ended March 31, 2013		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 5,890,920	$ 828,329	$ 6,719,249
Cost of sales	3,722,121	490,280	4,212,401
Gross profit	2,168,799	338,049	2,506,848
Selling and administrative expenses	1,471,641	327,916	1,799,557
Foreign exchange gain	(10,394)	-	(10,394)
Finance costs	55,097	1,507	56,604
Income taxes	117,550	50,599	168,149
Net income (loss)	$ 534,905	$ (41,973)	$ 492,932
Total assets	$ 4,738,064	$ 1,269,079	$ 6,007,143
Total liabilities	$ 3,254,162	$ 179,798	$ 3,433,960
Depreciation expense	$ 70,345	$ 76,046	$ 146,391
Purchase of equipment	$ 86,774	$ 9,065	$ 95,839

7. Segment reporting and concentration of sales (continued)

Geographic and customer information

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

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

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	**2014**	2013
Sales				
Canada	**$ 446,376**	$ 573,067	**$ 892,529**	$ 977,025
Americas	**805,767**	2,247,273	**1,845,450**	3,901,690
Other	**2,118,245**	403,414	**3,572,945**	1,840,534
	$ 3,370,388	$ 3,223,754	**$ 6,310,924**	$ 6,719,249

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,	
	2014	2013	**2014**	2013
Customer A	**$ 603,021**	$ -	**$ 1,162,057**	$ 1,525,201
Customer B	**698,713**	-	**698,713**	-
Customer C	**650,788**	-	**650,788**	-
Customer D	**-**	-	**645,814**	-
Customer E	**-**	791,822	**-**	1,335,784

8. Subsequent events

On April 2, 2014, the Corporation's credit facilities were amended as follows:

- Inclusion of a new overdraft facility in the form of a demand revolving loan of $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.
- The packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,658,000 in Canadian dollars) that bore interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 3.50% per annum, and was used to finance up to 75% of our purchasing, processing, manufacturing and packaging costs for customer purchase orders approved by the bank, was replaced by a manufacturer's advance facility in the form of a demand revolving line of U.S. $1,500,000 ($1,658,000 in Canadian dollars) that bears interest at the USD LIBOR plus 4.00% per annum and can be used to finance up to 60% of the Corporation's customers' purchase orders approved by the bank.

8. Subsequent events (continued)

- The foreign exchange loan facility in the form of a demand revolving line of $1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,000,000, with a maximum maturity of 12 months, was replaced by a demand revolving line of $1,200,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,666,666, with a maximum maturity of 12 months.

On April 3, 2014, the Corporation extinguished its revolving loans, in the aggregate principal amount of $310,000, with the Corporation’s Chief Executive Officer, President, Chief Financial Officer, and one of its former directors. The revolving loans were unsecured and bore interest at the rate of 15.0% per annum.

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 15, 2014 and should be read together in conjunction with our unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended March 31, 2014 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2013 and 2012.

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

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

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

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

Overview

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

Consolidated Results

Sales for the three months ended March 31, 2014 ("Q2-14") increased by 4.5% to $3,370,388 from $3,223,754 for the three months ended March 31, 2013 ("Q2-13"). Gross profit percentage was 45.4% of sales in Q2-14 compared to 35.9% in Q2-13. Operating expenses, including foreign exchange gains and losses and finance costs, were $1,315,506 or 39.0% of sales in Q2-14 compared to $900,100 or 27.9% of sales in Q2-13. Net income in Q2-14 was $159,100, or diluted net income per share of $0.02, compared to net income of $192,706, or diluted net income per share of $0.02, in Q2-13.

Sales for the six months ended March 31, 2014 ("YTD – Q2-14") decreased by 6.1% to $6,310,924 from $6,719,249 for the six months ended March 31, 2013 ("YTD – Q2-13"). Gross profit percentage was 42.0% of sales for YTD – Q2-14 compared to 37.3% for YTD – Q2-13. Operating expenses, including foreign exchange gains and losses and finance costs, were $2,394,864 or 37.9% of sales for YTD – Q2-14 compared to $1,845,767 or 27.5% of sales for YTD – Q2-13. Net income for YTD – Q2-14 was $183,312, or diluted net income per share of $0.02, compared to net income of $492,932, or diluted net income per share of $0.05, for YTD – Q2-13.

Manufacturing Operations

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

Sales generated by our Manufacturing operations increased by 6.8% to $2,964,634 in Q2-14 from $2,777,034 in Q2-13. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for sales of $2,118,245 (or 71.5% of total Manufacturing sales) in Q2-14 compared to $403,414 (or 14.5%) for in Q2-13, partially offset by lower sales to our customers located in the Americas, but excluding Canada, who accounted for sales of $805,767 (or 27.2% of total Manufacturing sales) in Q2-14 compared to $2,247,273 (or 80.9%) in Q2-13.

Sales generated by our Manufacturing operations decreased by 5.4% to $5,570,328 for YTD – Q2-14 from $5,890,920 for YTD – Q2-13. This decrease is due primarily to lower sales to our customers located in the Americas, excluding Canada, who accounted for sales of $1,845,450 (or 33.1% of total Manufacturing sales) for YTD – Q2-14 compared to $3,901,690 (or 66.2%) for YTD – Q2-13, partially offset by higher sales to our customers located outside of the Americas, who accounted for sales of $3,572,945 (or 64.1% of total Manufacturing sales) for YTD – Q2-14 compared to $1,840,534 (or 31.2%) for YTD – Q2-13.

In Q2-14, three significant customers accounted for 65.9% of sales by our Manufacturing operations as compared to one significant customer accounting for 28.5% of sales by our Manufacturing operations in Q2-13. For YTD – Q2-14, four significant customers accounted for 56.7% of total sales by our Manufacturing operations as compared to two significant customers accounting for 48.6% of total sales by our Manufacturing operations for YTD – Q2-13. Should these significant customers end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would decline materially. We expect continued business concentration from one significant customer in the second half of our fiscal year ending September 30, 2014. To manage the credit risk from our customers, we perform ongoing credit evaluations of our customers and we carry third party insurance that limits our exposure to approximately 10% of the bad debt amount from impaired finance and trade receivables.

We expected sales generated by our Manufacturing operations in Q2-14 to increase moderately as compared to sales for the three months ended December 31, 2013 ("Q1-14"). Sales generated by our Manufacturing operations increased by 13.8% to $2,964,634 in Q2-14 from $2,605,694 in Q1-14. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending June 30, 2014 ("Q3-14") to increase significantly as compared to Q2-14.

Gross profit percentage increased to 44.8% of sales by our Manufacturing operations in Q2-14 from 34.1% in Q2-13 due primarily to the combined effect of reductions in manufacturing costs and favourable foreign exchange rates between the U.S. dollar and the Canadian dollar that resulted in higher margins in Q2-14 as compared to Q2-13. We expected our gross profit percentage in Q2-14 to remain in-line with Q1-14. Gross profit percentage increased to 44.8% of sales by our Manufacturing operations in Q2-14 from 38.4% in Q1-14. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations in Q3-14 to remain in-line with Q2-14.

Gross profit percentage increased to 41.8% of sales by our Manufacturing operations for YTD – Q2-14 from 36.8% for YTD – Q2-13 due primarily to the combined effect of reductions in manufacturing costs and favourable foreign exchange rates between the U.S. dollar and the Canadian dollar in Q2-14.

Our Manufacturing operations generated net income of $116,050 in Q2-14 compared to net income of $191,613 in Q2-13. This decrease is due primarily to higher selling and administrative expenses in

Q2-14 as compared to Q2-13. We expected the net operating results from our Manufacturing operations to increase moderately in Q2-14 as compared to Q1-14. Our Manufacturing operations generated net income of $116,050 in Q2-14 compared to net income of $45,538 in Q1-14. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations to increase significantly in Q3-14 as compared to Q2-14.

Our Manufacturing operations generated net income of $161,588 for YTD – Q2-14 compared to net income of $534,905 for YTD – Q2-13. This decrease is due primarily to lower net income in Q1-14 as compared Q1-13.

Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 9.2% to $405,754 in Q2-14 from $446,720 in Q2-13. We expected sales generated by our FEC operations to increase moderately in Q2-14 as compared to Q1-14 due primarily to seasonality. Sales generated by our FEC operations increased by 21.2% to $405,754 in Q2-14 from $334,842 in Q1-14. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to decrease moderately in Q3-14 as compared to Q2-14 due primarily to seasonality.

Sales generated by our FEC operations decreased by 10.6% to $740,596 for YTD – Q2-14 from $828,329 for YTD – Q2-13 due primarily to a decrease in the number of customer visits to our FEC.

Our FEC operations generated net income of $43,050 in Q2-14, compared to net income of $1,093 in Q2-13. We expected the net operating results from our FEC operations to increase moderately in Q2-14 as compared to Q1-14 due primarily to seasonality. Our FEC operations generated net income of $43,050 in Q2-14 as compared to a net loss of $21,326 in Q1-14. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to decrease moderately in Q3-14 as compared to Q2-14 due primarily to lower anticipated sales resulting from seasonality.

Our FEC operations generated net income of $21,724 for YTD – Q2-14, compared to a net loss of $41,973 for YTD – Q2-13. The increase in net operating results for YTD – Q2-14 as compared to YTD – Q2-13 is due primarily to the combined effect of higher gross profit by $14,748 (or 4.4%) resulting primarily from lower staffing costs, and lower selling and administrative expenses by $39,454 (or 12.0%) for YTD – Q2-14 as compared to YTD – Q2-13.

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, 2014 and 2013, expressed as a percentage of total sales:

	Three months ended March 31, 2014						Three months ended March 31, 2013					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**88.0**	**%**	**12.0**	**%**	**100.0**	**%**	86.1	%	13.9	%	100.0	%
Cost of sales	**48.6**		**6.0**		**54.6**		56.7		7.4		64.1	
Gross profit	**39.4**		**6.0**		**45.4**		29.4		6.5		35.9	
Selling and administrative expenses	**33.4**		**4.3**		**37.7**		23.3		4.5		27.8	
Foreign exchange gain	**-**		**-**		**-**		(0.7)		-		(0.7)	
Finance costs	**1.2**		**-**		**1.2**		0.8		-		0.8	
Income taxes	**1.2**		**0.4**		**1.6**		-		2.0		2.0	
Net income	**3.6**	**%**	**1.3**	**%**	**4.9**	**%**	6.0	%	-	%	6.0	%

	Six months ended March 31, 2014						Six months ended March 31, 2013					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**88.3**	**%**	**11.7**	**%**	**100.0**	**%**	87.7	%	12.3	%	100.0	%
Cost of sales	**51.4**		**6.6**		**58.0**		55.4		7.3		62.7	
Gross profit	**36.9**		**5.1**		**42.0**		32.3		5.0		37.3	
Selling and administrative expenses	**32.6**		**4.6**		**37.2**		21.9		4.9		26.8	
Foreign exchange gain	**(1.1)**		**-**		**(1.1)**		(0.2)		-		(0.2)	
Finance costs	**1.9**		**-**		**1.9**		0.8		-		0.8	
Income taxes	**0.9**		**0.2**		**1.1**		1.7		0.8		2.5	
Net income (loss)	**2.6**	**%**	**0.3**	**%**	**2.9**	**%**	8.1	%	(0.7)	%	7.4	%

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

	Three months ended March 31, 2014						Three months ended March 31, 2013					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**1.2**	**%**	**12.0**	**%**	**13.2**	**%**	3.9	%	13.9	%	17.8	%
Americas	**23.9**		**-**		**23.9**		69.7		-		69.7	
Other	**62.9**		**-**		**62.9**		12.5		-		12.5	
	88.0	**%**	**12.0**	**%**	**100.0**	**%**	86.1	%	13.9	%	100.0	%

	Six months ended March 31, 2014						Six months ended March 31, 2013					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**2.4**	**%**	**11.7**	**%**	**14.1**	**%**	2.2	%	12.3	%	14.5	%
Americas	**29.2**		**-**		**29.2**		58.1		-		58.1	
Other	**56.7**		**-**		**56.7**		27.4		-		27.4	
	88.3	**%**	**11.7**	**%**	**100.0**	**%**	87.7	%	12.3	%	100.0	%

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

Sales

Sales increased by $146,634 (or 4.5%) to $3,370,388 in Q2-14 from $3,223,754 in Q2-13 due primarily to an increase in sales of $187,600 by our Manufacturing operations.

In Q2-14, three significant customers accounted for 57.9% of our sales. In Q2-13, one significant customer accounted for 24.6% of our sales. We expect continued business concentration from one significant customer in Q3-14.

We expected our sales to increase moderately in Q2-14 as compared to Q1-14. Sales increased by $429,852 (or 14.6%) to $3,370,388 in Q2-14 from $2,940,536 in Q1-14. Based on our updated sales forecasts, we are expecting sales to increase significantly in Q3-14 as compared to Q2-14 due primarily to an anticipated increase in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage increased to 45.4% of sales in Q2-14 from 35.9% in Q2-13. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 44.8% in Q2-14, compared to 34.1% in Q2-13 due primarily to the combined effect of reductions in manufacturing costs and favourable foreign exchange rates between the U.S. dollar and the Canadian dollar that resulted in higher margins in Q2-14 as compared to Q2-13.

We expected our gross profit percentage in Q2-14 to remain in-line with Q1-14. Gross profit percentage increased to 45.4% in Q2-14, compared to 38.0% in Q1-14. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q3-14 to remain in-line with Q2-14.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $415,406 (or 46.2%) to $1,315,506 in Q2-14, from $900,100 in Q2-13. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations from increased headcount and other overhead expenses in anticipation of higher forecast sales in the second half of our fiscal year ending September 30, 2014.

We expected our operating expenses, as a percentage of sales to decrease moderately in Q2-14 as compared to Q1-14. Our operating expenses increased to 39.0% of sales in Q2-14 from 36.7% in Q1-14 due primarily to higher selling and administrative expenses by our Manufacturing operations in Q2-14 as compared to Q1-14. Based on our updated forecasts, we are expecting operating expenses in Q3-14 to decrease moderately as a percentage of sales, compared to Q2-14.

Income Taxes

The income tax expense of $56,849 in Q2-14 is comprised of a current income tax expense of $62,579 on earnings before income taxes generated by our Manufacturing and FEC operations, and a deferred income tax recovery of $5,730. The income tax expense of $65,255 in Q2-13 is comprised of deferred income tax expenses of $1,362 and $63,893 for our Manufacturing and FEC operations, respectively.

Net Operating Results

Net income and total comprehensive income was $159,100, or diluted net income per share of $0.02, in Q2-14, compared to net income and total comprehensive income of $192,706, or diluted net income per share of $0.02, in Q2-13. The decrease in net operating results is due primarily to the decrease in net income by our Manufacturing operations.

We expected our net operating results to increase moderately in Q2-14 as compared to Q1-14. We generated net income of $159,100 in Q2-14, compared to net income of $24,212 in Q1-14. Based on our updated forecasts, we are expecting net income to increase significantly in Q3-14 as compared to Q2-14, due primarily to anticipated earnings by our Manufacturing operations.

Results of Operations – Six Months Ended March 31, 2014 Compared to Six Months Ended March 31, 2013

Sales

Sales decreased by $408,325 (or 6.1%) to $6,310,924 for YTD – Q2-14 from $6,719,249 for YTD – Q2-13 due primarily to a decrease in sales of $320,592 by our Manufacturing operations.

For YTD – Q2-14, four significant customers accounted for 50.0% of our sales. For YTD – Q2-13, two significant customers accounted for 42.6% of our sales. We expect continued business concentration from one significant customer.

We are expecting significant growth of our sales during the second half of our 2014 fiscal year due primarily to an anticipated increase in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage increased to 42.0% of sales for YTD – Q2-14 from 37.3% for YTD – Q2-13. This increase is due primarily to a higher gross profit percentage by our Manufacturing operations which generated a gross profit percentage of 41.8% for YTD – Q2-14, compared to 36.8% for YTD – Q2-13.

We expect our gross profit percentage in the second half of our 2014 fiscal year to remain in-line with YTD – Q2-14 due primarily to similar anticipated manufacturing costs and impact of the foreign exchange rates between the U.S. dollar and the Canadian dollar on our Manufacturing operations.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $549,097 (or 29.7%) to $2,394,864 for YTD – Q2-14 from $1,845,767 for YTD – Q2-13. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations from increased headcount and other overhead expenses in anticipation of higher forecast sales in the second half of our fiscal year ending September 30, 2014 as compared to YTD – Q2-14.

During the second half of our 2014 fiscal year, we expect the following as compared to YTD – Q2-14:

- Moderate increase in selling and administrative expenses, excluding depreciation, due to anticipated higher wages and benefits, and higher selling and marketing expenses by our Manufacturing operations.
- Depreciation expense to remain in-line with YTD – Q2-14.
- Moderate decrease in net foreign exchange gain due to anticipated lower volatility of the Canadian dollar against the U.S. dollar.
- Decrease in finance costs due to the extinguishment of the revolving loans (see "Related Party Transactions").

Income Taxes

The income tax expense of $72,145 for YTD – Q2-14 is comprised of a current income tax expense of $88,968 on earnings before income taxes generated by our Manufacturing and FEC operations, and a deferred income tax recovery of $16,823. The income tax expense of $168,149 for YTD – Q2-13 is comprised of deferred income tax expenses of $117,550 and $50,599 for our Manufacturing and FEC operations, respectively.

Net Operating Results

Net income and total comprehensive income was $183,312, or diluted net income per share of $0.02, for YTD – Q2-14, compared to net income and total comprehensive income of $492,932, or diluted net income per share of $0.05 for YTD – Q2-13. The decrease in net operating results is due primarily to our Manufacturing operations.

Based on our updated forecasts, we expect sales and net operating results by our Manufacturing operations to increase significantly in the second half of our 2014 fiscal year as compared to the first half of the year due primarily to our sales backlog. We are also expecting sales and 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, 2013 and 2012. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	**Q2-14**
CONSOLIDATED	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	**31-Mar-14**
Sales	$ 2,446,089	$ 3,396,363	$ 3,495,495	$ 3,223,754	$ 4,781,030	$ 3,711,714	$ 2,940,536	**$ 3,370,388**
Cost of sales	1,584,619	1,995,979	2,146,708	2,065,693	2,843,411	2,463,401	1,821,670	**1,838,933**
Gross profit	861,470	1,400,384	1,348,787	1,158,061	1,937,619	1,248,313	1,118,866	**1,531,455**
Selling and administrative expenses	868,537	826,623	903,831	895,726	1,068,066	993,587	1,074,355	**1,272,585**
Foreign exchange loss (gain)	(5,248)	16,253	11,067	(21,461)	(71,466)	54,512	(73,207)	**1,280**
Finance costs	25,078	34,508	30,769	25,835	83,454	72,831	78,210	**41,641**
Income taxes	(6,072)	130,614	102,894	65,255	214,936	33,701	15,296	**56,849**
Net income (loss)	$ (20,825)	$ 392,386	$ 300,226	$ 192,706	$ 642,629	$ 93,682	$ 24,212	**$ 159,100**
Basic and diluted net income (loss) per share	0.00	0.04	0.03	0.02	0.06	0.01	0.00	**0.02**

	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	**Q2-14**
MANUFACTURING	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	**31-Mar-14**
Sales	$ 2,113,724	$ 3,118,263	$ 3,113,886	$ 2,777,034	$ 4,449,413	$ 3,444,070	$ 2,605,694	**$ 2,964,634**
Cost of sales	1,383,124	1,802,634	1,893,020	1,829,101	2,635,152	2,283,822	1,605,699	**1,637,609**
Gross profit	730,600	1,315,629	1,220,866	947,933	1,814,261	1,160,248	999,995	**1,327,025**
Selling and administrative expenses	734,159	668,567	720,529	751,112	935,861	845,513	932,151	**1,126,327**
Foreign exchange loss (gain)	(5,248)	16,253	11,067	(21,461)	(71,466)	54,512	(73,207)	**1,280**
Finance costs	25,121	29,512	29,790	25,307	83,141	72,679	78,194	**41,641**
Income taxes	1,608	161,731	116,188	1,362	265,669	48,741	17,319	**41,727**
Net income (loss)	$ (25,040)	$ 439,566	$ 343,292	$ 191,613	$ 601,056	$ 138,803	$ 45,538	**$ 116,050**

	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	**Q2-14**
FEC	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	**31-Mar-14**
Sales	$ 332,365	$ 278,100	$ 381,609	$ 446,720	$ 331,617	$ 267,644	$ 334,842	**$ 405,754**
Cost of sales	201,495	193,345	253,688	236,592	208,259	179,579	215,971	**201,324**
Gross profit	130,870	84,755	127,921	210,128	123,358	88,065	118,871	**204,430**
Selling and administrative expenses	134,378	158,056	183,302	144,614	132,205	148,074	142,204	**146,258**
Finance costs	(43)	4,996	979	528	313	152	16	**-**
Income taxes	(7,680)	(31,117)	(13,294)	63,893	(50,733)	(15,040)	(2,023)	**15,122**
Net income (loss)	$ 4,215	$ (47,180)	$ (43,066)	$ 1,093	$ 41,573	$ (45,121)	$ (21,326)	**$ 43,050**

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

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

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

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities amounted to $1,428,742 in Q2-14, compared to cash used in operating activities of $391,941 in Q2-13. The change in cash from operating activities is due primarily to the collection of finance receivables in Q2-14.

Cash provided by operating activities amounted to $3,267,111 for YTD – Q2-14, compared to cash used in operating activities of $568,178 for YTD – Q2-13. The change in cash from operating activities is due primarily to the collection of finance receivables during YTD - Q2-14.

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

Investing Activities

Cash used in investing activities amounted to $43,651 in Q2-14, compared to cash provided by investing activities of $232,331 in Q2-13. The change in cash from investing activities is due primarily to the decrease in restricted cash in Q2-13.

Cash used in investing activities amounted to $60,361 for YTD – Q2-14, compared to cash provided by investing activities of $204,161 for YTD – Q2-13. The change in cash from investing activities is due primarily to the decrease in restricted cash during YTD – Q2-13.

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

Financing Activities

Cash used in financing activities amounted to $1,232,164 in Q2-14, compared to cash provided by financing activities of $577,728 in Q2-13. The change in cash from financing activities is due primarily to the repayment of the securitization debt in Q2-14.

Cash used in financing activities amounted to $3,631,400 for YTD – Q2-14, compared to cash provided by financing activities of $542,721 for YTD – Q2-13. The change in cash from financing activities is due primarily to the repayment of the securitization debt during YTD – Q2-14.

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

Cash Requirements

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

Sources and Uses of Cash

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

- At March 31, 2014, cash and cash equivalents amounted to $1,289,972 (September 30, 2013 – $1,693,876).
- At March 31, 2014, trade and other receivables amounted to $1,654,646 (September 30, 2013 – 1,662,452).

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

The Corporation's capital is comprised of securitization debt, subordinate debt and shareholders' equity. The Corporation augments these capital sources with an available Manufacturer's Advance Facility of U.S. $1,500,000 ($1,658,000 in Canadian dollars), which can be used to finance up to 60% of customer purchase orders approved by the bank (see "Credit Facilities"). We intend to extinguish loans from our Manufacturer's Advance Facility with the proceeds from our securitization debt.

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

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

The secured Manufacturer's Advance and securitization facilities are subject to annual renewals. The subordinate debt matures on April 15, 2017. On April 3, 2014, the Corporation exercised its option under the subordinate debt agreement to extinguish its revolving loans of $310,000 (see "Related Party Transactions").

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

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

Credit Facilities

On April 2, 2014, our credit facilities were amended as follows:

- Inclusion of a new overdraft facility in the form of a demand revolving loan of $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.
- Our packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,658,000 in Canadian dollars) that bore interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 3.50% per annum, and was used to finance up to 75% of our purchasing, processing, manufacturing and packaging costs for customer purchase orders approved by the bank, was replaced by a manufacturer's advance facility in the form of a demand revolving line of U.S. $1,500,000 ($1,658,000 in Canadian dollars) that bears interest at the USD LIBOR plus 4.00% per annum and can be used to finance up to 60% of our customers' purchase orders approved by the bank.
- Our foreign exchange loan facility in the form of a demand revolving line of $1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,000,000, with a maximum maturity of 12 months, was replaced by a demand revolving line of $1,200,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,666,666, with a maximum maturity of 12 months.

As of April 2, 2014, our amended credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank") are as follows:

Export Loan Facility

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. $1,500,000 ($1,658,000 in Canadian dollars) ("Manufacturer's Advance Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $4,320,000 ($4,775,000 in Canadian dollars) ("TINRFF Facility").

- <u>Manufacturer's Advance Facility</u>

  Under the Manufacturer's Advance Facility, we may finance up to 60% of our customers' purchase orders approved by the Bank. The Manufacturer's Advance Facility bears interest at the USD LIBOR plus 4.00% per annum and is payable on demand or within 90 days of funding of the Manufacturer's Advance by the Bank for the related purchase orders.

- <u>TINRFF Facility</u>

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

Operating Loan Facility

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

Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of $1,200,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of $6,666,666, with a maximum maturity of 12 months.

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

Market Risk Disclosure

Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of $1,200,000 to purchase foreign exchange forward contracts and options up to an aggregate of $6,666,666, with a maximum maturity of 12 months. We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

During the three and six months ended March 31, 2014, the Corporation recorded net foreign exchange losses of $53,357 and $56,996, respectively, on its foreign exchange forward contracts due to the sudden weakening of the Canadian dollar against the U.S. dollar in Q2-14. At March 31, 2014, we had three foreign exchange forward contracts outstanding under our Foreign Exchange Loan Facility with a remaining aggregate commitment to sell $600,000 U.S. dollars and receive $646,342 Canadian dollars on or before May 16, 2014. At September 30, 2013, there were no foreign exchange forward contracts outstanding.

Credit risk

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

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

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

Trade receivables with five customers represent approximately 94% of the balance of trade receivables as at March 31, 2014 (September 30, 2013 – three customers representing approximately 75%). It is the opinion of management that these accounts do not represent a significant credit risk.

Interest rate risk

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

Liquidity risk

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

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

Legal Proceedings

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

Related Party Transactions

On April 3, 2014, the Corporation extinguished its revolving loans, in the aggregate principal amount of $310,000, with the Corporation's Chief Executive Officer, President, Chief Financial Officer, and one of its former directors. The revolving loans were unsecured and bore interest at the rate of 15.0% per annum.

During the three and six-month periods ended March 31, 2014, the Corporation purchased raw material inventories of U.S. $86,794 ($96,146 in Canadian dollars) and U.S. $204,540 ($219,324 in Canadian dollars), respectively, from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). During the three and six-month periods ended March 31, 2013, the Corporation purchased raw material inventories of nil and U.S. $18,000 ($18,450 in Canadian dollars), respectively, from the Related Entity. At March 31, 2014 and September 30, 2013, the Corporation's trade payables and accrued charges include balances of U.S. $23,533 ($26,011 in Canadian dollars) and U.S. $39,808 ($41,152 in Canadian dollars), respectively, payable to the Related Entity for the purchase of raw material inventories.

Outstanding Share Capital

At March 31, 2014 and May 15, 2014, the Corporation had 10,220,187 common shares issued and outstanding and no share options outstanding.

Cautionary Note Regarding Forward-looking Statements

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

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