



## **Iplayco Corporation Ltd.**

Condensed Consolidated Interim Financial Statements  
Three and nine months ended June 30, 2017  
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	June 30, 2017	September 30, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 3,972,443	\$ 5,109,026
Finance receivables	7	2,159,665	3,725,753
Trade and other receivables		12,049,728	9,374,759
Income taxes receivable		-	585,969
Inventories		2,369,701	2,196,019
Prepaid expenses and deposits		480,229	446,808
		<b>21,031,766</b>	<b>21,438,334</b>
<b>Non-current assets</b>			
Equipment		2,289,042	1,998,516
Deferred income tax assets		48,013	97,513
<b>Total Assets</b>		<b>\$ 23,368,821</b>	<b>\$ 23,534,363</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Operating loans	5, 6	\$ 3,248,432	\$ 3,238,430
Securitization debt	7	1,943,698	3,461,314
Trade payables, accrued charges and other		1,760,407	2,350,610
Income taxes payable		503,980	-
Customer deposits and deferred revenue		1,806,276	1,830,897
Current portion of rent inducement		13,673	5,283
		<b>9,276,466</b>	<b>10,886,534</b>
<b>Non-current liabilities</b>			
Rent inducement		129,082	139,837
Deferred income tax liabilities		75,815	77,475
<b>Total Liabilities</b>		<b>9,481,363</b>	<b>11,103,846</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		3,320,359	1,863,418
<b>Total Shareholders' Equity</b>		<b>13,887,458</b>	<b>12,430,517</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 23,368,821</b>	<b>\$ 23,534,363</b>

"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 June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
<b>Sales</b>	<b>\$ 5,513,365</b>	\$ 4,612,437	<b>\$ 16,412,997</b>	\$ 11,535,440
Cost of sales	<b>3,032,595</b>	3,150,868	<b>9,209,415</b>	7,699,533
<b>Gross profit</b>	<b>2,480,770</b>	1,461,569	<b>7,203,582</b>	3,835,907
Selling and administrative expenses	<b>1,588,624</b>	1,439,973	<b>4,687,586</b>	4,400,146
Foreign exchange loss (gain)	<b>283,630</b>	(166,555)	<b>326,303</b>	190,148
	<b>1,872,254</b>	1,273,418	<b>5,013,889</b>	4,590,294
<b>Operating income (loss)</b>	<b>608,516</b>	188,151	<b>2,189,693</b>	(754,387)
Finance costs	<b>4,191</b>	38,720	<b>176,834</b>	40,612
<b>Income (loss) before income taxes</b>	<b>604,325</b>	149,431	<b>2,012,859</b>	(794,999)
<b>Income tax provision</b>				
Current	<b>151,586</b>	59,101	<b>508,078</b>	(195,742)
Deferred	<b>13,803</b>	(8,280)	<b>47,840</b>	10,112
	<b>165,389</b>	50,821	<b>555,918</b>	(185,630)
<b>Net income (loss) and total comprehensive income (loss)</b>	<b>438,936</b>	98,610	<b>1,456,941</b>	(609,369)
<b>Basic and diluted net income (loss) per common share</b>	<b>\$ 0.02</b>	\$ 0.00	<b>\$ 0.07</b>	\$ (0.03)
<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	Share-based payments reserve <sup>(2)</sup>	Retained earnings	Total shareholders' equity
	Number of common shares	Amount				
<b>Balance at September 30, 2015</b>	20,870,187	\$ 9,859,270	\$ 450,971	\$ 256,858	\$ 2,818,569	\$ 13,385,668
Net loss and total comprehensive loss	-	-	-	-	(609,369)	(609,369)
<b>Balance at June 30, 2016</b>	20,870,187	\$ 9,859,270	\$ 450,971	\$ 256,858	\$ 2,209,200	\$ 12,776,299
<b>Balance at September 30, 2016</b>	20,870,187	\$ 9,859,270	\$ 450,971	\$ 256,858	\$ 1,863,418	\$ 12,430,517
<b>Net income and total comprehensive income</b>	-	-	-	-	<b>1,456,941</b>	<b>1,456,941</b>
<b>Balance at June 30, 2017</b>	<b>20,870,187</b>	<b>\$9,859,270</b>	<b>\$ 450,971</b>	<b>\$ 256,858</b>	<b>\$3,320,359</b>	<b>\$ 13,887,458</b>

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

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

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

# Iplayco Corporation Ltd.

## Condensed Consolidated Interim Statements of Cash Flows

Unaudited (Expressed in Canadian dollars)

	Nine months ended June 30,	
	2017	2016
<b>Operating activities</b>		
Net income (loss)	\$ 1,456,941	\$ (609,369)
Items not affecting cash		
Depreciation	321,596	271,302
Deferred income taxes	47,840	10,112
Rent inducement	(2,365)	5,832
Unrealized gain on foreign exchange derivatives	(81,896)	(37,372)
Unrealized foreign exchange loss	396,618	110,055
Finance costs	176,834	40,612
	<b>2,315,568</b>	<b>(208,828)</b>
Change in non-cash operating working capital		
Finance receivables	1,487,438	(3,808,961)
Trade and other receivables	(3,102,933)	947,574
Inventories	(173,682)	(197,301)
Prepaid expenses	(33,421)	191,716
Trade payables, accrued charges and other	(565,585)	(30,409)
Current income tax expense	508,078	(195,742)
Customer deposits and deferred revenue	(24,621)	(870,277)
	<b>(1,904,726)</b>	<b>(3,963,400)</b>
Interest paid	(176,834)	(40,612)
Income taxes recovered	599,012	-
<b>Cash provided by (used in) operating activities</b>	<b>833,020</b>	<b>(4,212,840)</b>
<b>Investing activities</b>		
Acquisition of IREC Corporation, net of cash acquired	-	(172,800)
Purchase of equipment	(572,542)	(489,803)
<b>Cash used in investing activities</b>	<b>(572,542)</b>	<b>(662,603)</b>
<b>Financing activities</b>		
Proceeds from operating loans	4,814,299	2,965,174
Repayment of operating loans	(2,726,476)	-
Proceeds from securitization debt	1,117,748	1,145,120
Repayment of securitization debt	(4,533,702)	-
<b>Cash provided by (used in) financing activities</b>	<b>(1,328,131)</b>	<b>4,110,294</b>
<b>Net decrease in cash</b>	<b>(1,067,653)</b>	<b>(765,149)</b>
Effect of foreign exchange rate changes on cash	(68,930)	(15,253)
Cash at beginning of the period	5,109,026	4,947,024
<b>Cash at end of the period</b>	<b>\$ 3,972,443</b>	<b>\$ 4,166,622</b>
<b>Supplemental cash flow disclosures - non cash transactions</b>		
Purchase of equipment	\$ 39,580	\$ 3,788
Settlement of operating loans with proceeds from securitization debt	1,969,124	2,282,945

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

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

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

### 2. Basis of preparation

#### *Statement of compliance*

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

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on August 22, 2017.

#### *Basis of measurement*

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

#### *Functional and presentation currency*

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

### 3. Significant accounting policies

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's Consolidated Financial Statements for the year ended September 30, 2016.

### 4. Critical accounting estimates and judgments

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



# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

Unaudited (Expressed in Canadian dollars)

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

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

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

#### *Functional currency*

The Corporation has performed an analysis 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 subsidiary IREC, its 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.

#### *Inventory*

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

Unaudited (Expressed in Canadian dollars)

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

#### *Equipment*

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

#### *Income taxes*

The Corporation's manufacturing operations 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 May 17, 2017, the Corporation's credit facilities were amended to increase the demand revolving line of its operating loan facility to U.S. \$4,000,000 (\$5,191,000 in Canadian dollars) from \$2,500,000 (\$3,244,000 in Canadian dollars) and to increase the demand revolving line of its foreign exchange loan facility to U.S. \$1,840,000 (\$2,388,000 in Canadian dollars) from \$1,440,000 (\$1,869,000 in Canadian dollars).

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

Unaudited (Expressed in Canadian dollars)

### 6. Operating loans

For the nine-month period ended June 30, 2017, the Corporation obtained the following proceeds in U.S. dollars from operating loans and made the following repayments in U.S. dollars:

	Carrying Amounts	
	U.S. dollars	Canadian dollars
Balance at September 30, 2016	\$ 2,468,880	\$ 3,238,430
Proceeds from operating loans	3,588,543	4,814,299
Repayment of operating loans	(2,053,000)	(2,699,364)
Repayment using proceeds from securitization debt	(1,501,200)	(1,989,446)
Net realized foreign exchange gain on repayment	-	(6,790)
Unrealized foreign exchange gain on balance due	-	(108,697)
<b>Balance at June 30, 2017</b>	<b>\$ 2,503,223</b>	<b>\$ 3,248,432</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. The finance receivables are due to the Bank at which time the securitization debt is extinguished and the retainer is remitted to the Corporation.

	June 30, 2017	
	U.S. dollars	Canadian dollars
<b>Finance receivables</b>	\$ 1,664,225	\$ 2,159,665
Less: Retainer	(166,422)	(215,967)
<b>Securitization debt</b>	<b>\$ 1,497,803</b>	<b>\$ 1,943,698</b>

Upon completion of the sale, the finance receivables are not derecognized since the Corporation does not transfer substantially all risks and rewards relevant to the sale of the finance receivables. The servicing of the finance receivables remains the responsibility of the Corporation and the 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.

Finance receivables of U.S. \$1,664,225 (\$2,159,665 in Canadian dollars) due to the Bank on June 11, 2017 remain uncollected as of August 22, 2017, date these Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors. The underlying securitization debt of U.S. \$1,497,803 (\$1,943,698 in Canadian dollars) to these uncollected finance receivables remains unpaid as of August 22, 2017. The overdue finance receivables carry an additional interest expense of U.S. \$29,546 (\$38,341 in Canadian dollars), which is contractually recoverable by the Corporation from its customer, an affiliated entity. It is the opinion of management that the finance receivables, including additional interest, will be collected by the bank from the affiliated entity, however management is reassessing the credit risk of the affiliated entity and the credit terms offered to the affiliated entity on future sales agreements.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

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 June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Sales in U.S. dollars	\$ 1,219,887	\$ 1,388,094	\$ 3,909,500	\$ 3,079,594
<b>Equivalent in Canadian dollars</b>	<b>1,633,321</b>	<b>1,781,516</b>	<b>5,216,322</b>	<b>4,129,365</b>

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

	June 30, 2017	September 30, 2016
Balance in U.S. dollars	\$ 7,781,166	\$ 6,659,740
<b>Equivalent in Canadian dollars</b>	<b>10,097,620</b>	<b>8,735,580</b>

### 9. 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.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

Unaudited (Expressed in Canadian dollars)

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

#### Business segments (continued)

Information related to the two business segments' operations for the three-month periods ended June 30, 2017 and 2016 is as follows:

	Three months ended June 30, 2017		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 5,266,278	\$ 247,087	\$ 5,513,365
Cost of sales	2,862,553	170,042	3,032,595
Gross profit	2,403,725	77,045	2,480,770
Selling and administrative expenses	1,432,453	156,171	1,588,624
Foreign exchange loss	283,630	-	283,630
Finance costs	4,191	-	4,191
Income taxes	185,961	(20,572)	165,389
Net income (loss)	\$ 497,490	\$ (58,554)	\$ 438,936
Total assets	\$ 22,630,664	\$ 738,157	\$ 23,368,821
Total liabilities	\$ 9,317,797	\$ 163,566	\$ 9,481,363
Depreciation expense	\$ 79,642	\$ 33,388	\$ 113,030
Purchase of equipment	\$ 250,854	\$ 32,497	\$ 283,351

	Three months ended June 30, 2016		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 4,349,998	\$ 262,439	\$ 4,612,437
Cost of sales	2,972,236	178,632	3,150,868
Gross profit	1,377,762	83,807	1,461,569
Selling and administrative expenses	1,293,113	146,860	1,439,973
Foreign exchange gain	(166,555)	-	(166,555)
Finance costs	38,720	-	38,720
Income taxes	63,734	(12,913)	50,821
Net income (loss)	\$ 148,750	\$ (50,140)	\$ 98,610
Total assets	\$ 18,430,056	\$ 832,253	\$ 19,262,309
Total liabilities	\$ 6,318,843	\$ 167,167	\$ 6,486,010
Depreciation expense	\$ 60,596	\$ 33,716	\$ 94,312
Purchase of equipment	\$ 327,066	\$ 427	\$ 327,493

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

Unaudited (Expressed in Canadian dollars)

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

#### Business segments (continued)

Information related to the two business segments' operations for the nine-month periods ended June 30, 2017 and 2016 is as follows:

	Nine months ended June 30, 2017		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 15,360,365	\$ 1,052,632	\$ 16,412,997
Cost of sales	8,608,042	601,373	9,209,415
Gross profit	6,752,323	451,259	7,203,582
Selling and administrative expenses	4,239,961	447,625	4,687,586
Foreign exchange loss	326,303	-	326,303
Finance costs	176,834	-	176,834
Income taxes	554,974	944	555,918
Net income	\$ 1,454,251	\$ 2,690	\$ 1,456,941
Total assets	\$ 22,630,664	\$ 738,157	\$ 23,368,821
Total liabilities	\$ 9,317,797	\$ 163,566	\$ 9,481,363
Depreciation expense	\$ 223,045	\$ 98,551	\$ 321,596
Purchase of equipment	\$ 533,857	\$ 78,265	\$ 612,122

  

	Nine months ended June 30, 2016		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 10,521,615	\$ 1,013,825	\$ 11,535,440
Cost of sales	7,091,549	607,984	7,699,533
Gross profit	3,430,066	405,841	3,835,907
Selling and administrative expenses	3,952,383	447,763	4,400,146
Foreign exchange loss	190,148	-	190,148
Finance costs	40,612	-	40,612
Income taxes	(178,205)	(7,425)	(185,630)
Net loss	\$ (574,872)	\$ (34,497)	\$ (609,369)
Total assets	\$ 18,430,056	\$ 832,253	\$ 19,262,309
Total liabilities	\$ 6,318,843	\$ 167,167	\$ 6,486,010
Depreciation expense	\$ 168,480	\$ 102,822	\$ 271,302
Purchase of equipment	\$ 475,002	\$ 18,589	\$ 493,591

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

June 30, 2017

Unaudited (Expressed in Canadian dollars)

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

#### *Geographic and customer information*

Substantially 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 June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
<b>Sales</b>				
Canada	\$ 889,917	\$ 920,359	\$ 2,184,662	\$ 2,878,945
Americas	1,641,053	2,856,312	6,419,916	7,097,273
Other	2,982,395	835,766	7,808,419	1,559,222
	<b>\$ 5,513,365</b>	<b>\$ 4,612,437</b>	<b>\$ 16,412,997</b>	<b>\$ 11,535,440</b>

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

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Customer A	\$ 1,633,321	\$ 1,781,516	\$ 5,216,322	\$ 4,129,365
Customer B	651,379	-	-	-

## 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 August 22, 2017 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three and nine months ended June 30, 2017 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2016 and 2015.

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., and IREC Corporation. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its production plants in Langley, British Columbia, Canada and Subic Bay, Philippines ("Manufacturing" or "MFG"); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada ("Family Entertainment Centre" or "FEC").

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, Iplayco's largest customer over the past five years. FAS is expanding its Billy Beez family entertainment centres throughout the Middle East, Europe and North America. FAS also controls Fawaz Abdulaziz Al Hokair & Co., a retail conglomerate listed on the Saudi stock exchange (Tadawul), with a market capitalization at June 30, 2017 of 8.8 billion Saudi Riyal (or \$3.1 billion in Canadian dollars). For more information on FAS, please visit the company's website at: [www.fawazalhokair.com](http://www.fawazalhokair.com).

### Consolidated Results

Sales for the three months ended June 30, 2017 ("Q3-17") increased by 19.5% to \$5,513,365 from \$4,612,437 for the three months ended June 30, 2016 ("Q3-16"). Gross profit percentage increased to 45.0% of sales in Q3-17 from 31.7% in Q3-16. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$1,876,445, or 34.0% of sales, in Q3-17 from \$1,312,138, or 28.4% of sales, in Q3-16. Net income amounted to \$438,936, or diluted net income per share of \$0.02, in Q3-17 as compared to net income of \$98,610, or net income per share of \$0.00, in Q3-16.

Sales for the nine months ended June 30, 2017 ("YTD – Q3-17") increased by 42.3% to \$16,412,997 from \$11,535,440 for the nine months ended June 30, 2016 ("YTD – Q3-16"). Gross profit percentage increased to 43.9% of sales for YTD – Q3-17 from 33.3% for YTD – Q3-16. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$5,190,723 or 31.6% of sales for YTD – Q3-17 from \$4,630,906 or 40.1% of sales for YTD – Q3-16. Net income amounted to



\$1,456,941, or diluted net income per share of \$0.07, for YTD – Q3-17 as compared to a net loss of \$609,369, or net loss per share of \$0.03, for YTD – Q3-16.

### Manufacturing Operations

Sales generated by our Manufacturing operations increased by 21.1% to \$5,266,278 in Q3-17 from \$4,349,998 in Q3-16. This increase is due to higher sales to our customers located outside of the Americas, who accounted for sales of \$2,982,395 (or 56.6% of total Manufacturing sales) in Q3-17 compared to \$835,766 (or 19.2%) in Q3-16, partially offset by lower sales to our customers located in the Americas, including Canada, who accounted for sales of \$2,283,883 (or 43.4% of total Manufacturing sales) in Q3-17 compared to \$3,514,232 (or 80.8%) in Q3-16.

Sales generated by our Manufacturing operations increased by 46.0% to \$15,360,365 for YTD – Q3-17 from \$10,521,615 for YTD – Q3-16. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for sales of \$7,808,419 (or 50.8% of total Manufacturing sales) for YTD – Q3-17 compared to \$1,559,222 (or 14.8%) for YTD – Q3-16, partially offset by lower sales to our customers located in the Americas, including Canada, who accounted for sales of \$7,551,946 (or 49.2%) for YTD – Q3-17 compared to \$8,962,393 (or 85.2%) for YTD – Q3-16.

Sales to related party, Billy Beez, accounted for 31.0% of sales by our Manufacturing operations in Q3-17 (34.0% for YTD – Q3-17) as compared to 41.0% in Q3-16 (39.2% for YTD – Q3-16). Should Billy Beez 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 Billy Beez for the foreseeable future.

We expected sales generated by our Manufacturing operations in Q3-17 to increase moderately as compared to sales for the three months ended March 31, 2017 ("Q2-17"). Sales generated by our Manufacturing operations increased by 62.0% to \$5,266,278 in Q3-17 from \$3,251,759 in Q2-17. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending September 30, 2017 ("Q4-17") to decrease moderately as compared to Q3-17.

Gross profit percentage increased to 45.6% of sales by our Manufacturing operations in Q3-17 from 31.7% in Q2-16. We expected our gross profit percentage in Q3-17 to decrease significantly as compared to Q2-17. Gross profit percentage decreased to 45.6% of sales by our Manufacturing operations in Q3-17 from 50.5% in Q2-17 due primarily to sales-mix yielding lower margin sales in Q3-17 as compared to Q2-17. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations to decrease moderately in Q4-17 as compared to Q3-17.

Gross profit percentage increased to 44.0% of sales by our Manufacturing operations for YTD – Q3-17 from 32.6% for YTD – Q3-16 due primarily to significantly lower margins resulting from cost overruns on fixed-priced sales contracts in Q2-16.

Our Manufacturing operations generated net income of \$497,490 in Q3-17 compared to net income of \$148,750 in Q3-16. We expected the net operating results from our Manufacturing operations remain in line with Q2-17. Our Manufacturing operations generated net income of \$497,490 in Q3-17 compared to net income of \$4,851 in Q2-17 due primarily to significantly higher sales in Q3-17 as compared to Q2-17. We are expecting the net income from our Manufacturing operations in Q4-17 to decrease moderately as compared to Q3-17.

Our Manufacturing operations generated net income of \$1,454,251 for YTD – Q3-17 compared to a net loss of \$574,872 for YTD – Q3-16. The improvement in net operating results is due primarily to substantially higher sales and gross profit percentage for YTD – Q3-17 as compared to YTD – Q3-16.

### Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 5.8% to \$247,087 in Q3-17 from \$262,439 in Q3-16. We expected sales generated by our FEC operations to decrease moderately in Q3-17 as compared to Q2-17. Sales generated by our FEC operations decreased by 41.0% to \$247,087 in Q3-17 from \$418,910 in Q2-17 due primarily to seasonality. Based on our updated sales forecast, we are expecting sales generated by our FEC operations in Q4-17 to remain in-line with Q3-17.

Sales generated by our FEC operations increased by 3.8% to \$1,052,632 for YTD – Q3-17 from \$1,013,825 for YTD – Q3-16, due primarily to an increase in the number of customer visits to our FEC.

Our FEC operations generated a net loss of \$58,554 in Q3-17 compared to a net loss of \$50,140 in Q3-16. We expected the net operating results from our FEC operations to decrease moderately in Q3-17 as compared to Q2-17. Our FEC operations generated a net loss of \$58,554 in Q3-17 as compared to net income of \$53,945 in Q2-17. Based on our updated forecasts, we are expecting the net operating results from our FEC operations in Q4-17 to remain in-line with Q3-17.

Our FEC operations generated net income of \$2,690 for YTD – Q3-17, compared to net loss of \$34,497 for YTD – Q3-16. The improvement in net operating results for YTD – Q3-17 as compared to YTD – Q3-16 is due primarily to higher sales and gross profit percentage during YTD – Q3-17 as compared to YTD – Q3-16.

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 nine months ended June 30, 2017 and 2016, expressed as a percentage of total sales:

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	95.5 %	4.5 %	100.0 %	94.3 %	5.7 %	100.0 %
Cost of sales	51.9	3.1	55.0	64.4	3.9	68.3
Gross profit	43.6	1.4	45.0	29.9	1.8	31.7
Selling and administrative expenses	26.0	2.8	28.8	28.0	3.2	31.2
Foreign exchange loss (gain)	5.1	-	5.1	(3.6)	-	(3.6)
Finance costs	0.1	-	0.1	0.8	-	0.8
Income taxes	3.4	(0.4)	3.0	1.4	(0.3)	1.1
<b>Net income (loss)</b>	<b>9.0 %</b>	<b>(1.0) %</b>	<b>8.0 %</b>	<b>3.3 %</b>	<b>(1.1) %</b>	<b>2.2 %</b>

	Nine months ended June 30, 2017			Nine months ended June 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	93.6 %	6.4 %	100.0 %	91.2 %	8.8 %	100.0 %
Cost of sales	52.4	3.7	56.1	61.5	5.2	66.7
Gross profit	41.2	2.7	43.9	29.7	3.6	33.3
Selling and administrative expenses	25.8	2.7	28.5	34.3	3.9	38.2
Foreign exchange loss	2.0	-	2.0	1.6	-	1.6
Finance costs	1.1	-	1.1	0.4	-	0.4
Income taxes	3.4	-	3.4	(1.5)	(0.1)	(1.6)
<b>Net income (loss)</b>	<b>8.9 %</b>	<b>- %</b>	<b>8.9 %</b>	<b>(5.1) %</b>	<b>(0.2) %</b>	<b>(5.3) %</b>

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

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	11.7 %	4.5 %	16.2 %	14.3 %	5.7 %	20.0 %
Americas	29.8	-	29.8	61.9	-	61.9
Other	54.0	-	54.0	18.1	-	18.1
	95.5 %	4.5 %	100.0 %	94.3 %	5.7 %	100.0 %
	Nine months ended June 30, 2017			Nine months ended June 30, 2016		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	6.9 %	6.4 %	13.3 %	16.2 %	8.8 %	25.0 %
Americas	39.1	-	39.1	61.5	-	61.5
Other	47.6	-	47.6	13.5	-	13.5
	93.6 %	6.4 %	100.0 %	91.2 %	8.8 %	100.0 %

## **Results of Operations – Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016**

### **Sales**

Sales increased by \$900,928 (or 19.5%) to \$5,513,365 in Q3-17 from \$4,612,437 in Q3-16 due primarily to an increase in sales of \$916,280 by our Manufacturing operations.

We expected our sales in Q3-17 to remain in-line with Q2-17. Sales increased by \$1,842,696 (or 50.2%) to \$5,513,365 in Q3-17 from \$3,670,669 in Q2-17. Based on our updated sales forecasts, we are expecting sales to decrease moderately in Q4-17 as compared to Q3-17.

### **Gross Profit**

Gross profit percentage increased to 45.0% of sales in Q3-17 from 31.7% in Q3-16. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 45.6% in Q3-17 compared to 31.7% in Q3-16.

We expected our gross profit percentage to decrease significantly in Q3-17 as compared to Q2-17. Gross profit percentage decreased to 45.0% in Q3-17 from 50.5% in Q2-17 due primarily to sales-mix yielding lower margin sales in Q3-17 as compared to Q2-17. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to decrease moderately in Q4-17 as compared to Q3-17.

### **Operating Expenses**

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$564,307 (or 43.0%) to \$1,876,445 in Q3-17, from \$1,312,138 in Q3-16. This increase is due primarily to the foreign exchange loss of \$283,630 in Q3-17 as compared to a foreign exchange gain of \$166,555 in Q3-16.

We expected our operating expenses, as a percentage of sales, in Q3-17 to remain in-line with Q2-17. Our operating expenses decreased to 34.0% of sales in Q3-17 from 48.1% in Q2-17. Based on our updated forecasts, we are expecting operating expenses, as a percentage of sales, to increase moderately in Q4-17 as compared to Q3-17.

### **Income Taxes**

The income tax expenses of \$165,389 in Q3-17 and \$50,821 in Q3-16 are due primarily to the taxable incomes generated by our Manufacturing operations.

### **Net Operating Results**

Net income and total comprehensive income amounted to \$438,936, or diluted net income per share of \$0.02, in Q3-17, compared to net income and total comprehensive income of \$98,610, or diluted net income per share of \$0.00, in Q3-16. The increase in net income is due primarily to the combined effect of higher sales and gross profit percentage in Q3-17 as compared to Q3-16.

We expected our net income in Q3-17 to remain in-line with Q2-17. We generated net income of \$438,936 in Q3-17 compared to net income of \$58,796 in Q2-17. We are expecting our net income to decrease moderately in Q4-17 as compared to Q3-17.

## **Results of Operations – Nine Months Ended June 30, 2017 Compared to Nine Months Ended June 30, 2016**

### **Sales**

Sales increased by \$4,877,557 (or 42.3%) to \$16,412,997 for YTD – Q3-17 from \$11,535,440 for YTD – Q3-16 due primarily to an increase in sales of \$4,838,750 by our Manufacturing operations.

We expect to finish our financial year ending September 30, 2017 ("2017") with significantly higher sales than in 2016.

### **Gross Profit**

Gross profit percentage increased to 43.9% of sales for YTD – Q3-17 from 33.3% for YTD – Q3-16 due primarily to an increase in gross profit percentage by our Manufacturing operations.

We expect to finish 2017 with significantly higher gross profit percentage than in 2016.

### **Operating Expenses**

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$559,817 (or 12.1%) to \$5,190,723 for YTD – Q3-17 from \$4,630,906 for YTD – Q3-16. This increase is due primarily to increases in foreign exchange loss, interest expense and selling and administrative expenses for YTD – Q3-17 as compared to YTD – Q3-16.

We expect the following for our 2017 financial year as compared to 2016:

- Significant increase in selling and administrative expenses, due to increased headcount, travel, trade show and related selling expenses.
- Moderate increase in depreciation expense due to higher capital expenditures.
- Significant increase in foreign exchange loss due to the strengthening of the Canadian dollar against the U.S. dollar.
- Moderate increase in finance costs due to higher anticipated levels of operating loans and securitization debt.

### **Income Taxes**

The income tax expense of \$555,918 for YTD – Q3-17 is due primarily to the income tax expense on earnings before income taxes generated by our Manufacturing operations. The income tax recovery of \$185,630 for YTD – Q3-16 is due primarily to the income tax recovery on the loss before income taxes generated by our Manufacturing operations. We expect our effective tax rate in 2017 to remain in-line with our effective tax rate of 27.8% in 2016.

### **Net Operating Results**

Net income and total comprehensive income amounted to \$1,456,941, or diluted net income per share of \$0.07 for YTD – Q3-17 compared to a net loss and total comprehensive loss of \$609,369, or net loss per share of \$0.03, for YTD – Q3-16. The improvement in net operating results is due primarily to our Manufacturing operations.

## Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements for the years ended September 30, 2016 and 2015. 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.

	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17
<b>CONSOLIDATED</b>								
Sales	\$ 5,244,429	\$ 3,618,561	\$ 3,304,442	\$ 4,612,437	\$ 5,488,474	\$ 7,228,963	\$ 3,670,669	\$ 5,513,365
Cost of sales	3,448,630	2,197,420	2,351,245	3,150,868	4,427,299	4,359,600	1,817,220	3,032,595
Gross profit	1,795,799	1,421,141	953,197	1,461,569	1,061,175	2,869,363	1,853,449	2,480,770
Selling and administrative expenses	1,891,170	1,397,892	1,562,281	1,439,973	1,485,654	1,442,813	1,656,149	1,588,624
Foreign exchange loss (gain)	(353,522)	(218,840)	575,543	(166,555)	30,114	28,861	13,812	283,630
Finance costs	(20,005)	-	1,892	38,720	74,103	77,514	95,129	4,191
Income taxes	61,747	65,316	(301,767)	50,821	(182,914)	360,966	29,563	165,389
<b>Net income (loss)</b>	\$ 216,409	\$ 176,773	\$ (884,752)	\$ 98,610	\$ (345,782)	\$ 959,209	\$ 58,796	\$ 438,936
Basic and diluted net income (loss) per share	\$ 0.01	\$ 0.01	\$ (0.04)	\$ 0.00	\$ (0.02)	\$ 0.05	\$ 0.00	\$ 0.02

	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17
<b>MANUFACTURING</b>								
Sales	\$ 4,949,115	\$ 3,264,525	\$ 2,907,092	\$ 4,349,998	\$ 5,194,013	\$ 6,842,328	\$ 3,251,759	\$ 5,266,278
Cost of sales	3,291,253	1,962,975	2,156,338	2,972,236	4,250,860	4,134,553	1,610,936	2,862,553
Gross profit	1,657,862	1,301,550	750,754	1,377,762	943,153	2,707,775	1,640,823	2,403,725
Selling and administrative expenses	1,739,126	1,248,478	1,410,792	1,293,113	1,337,378	1,291,088	1,516,420	1,432,453
Foreign exchange loss (gain)	(353,522)	(218,840)	575,543	(166,555)	30,114	28,861	13,812	283,630
Finance costs	(20,005)	-	1,892	38,720	74,103	77,514	95,129	4,191
Income taxes	64,619	73,075	(315,014)	63,734	(171,573)	358,402	10,611	185,961
<b>Net income (loss)</b>	\$ 227,644	\$ 198,837	\$ (922,459)	\$ 148,750	\$ (326,869)	\$ 951,910	\$ 4,851	\$ 497,490

	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17
<b>FEC</b>								
Sales	\$ 295,314	\$ 354,036	\$ 397,350	\$ 262,439	\$ 294,461	\$ 386,635	\$ 418,910	\$ 247,087
Cost of sales	157,377	234,445	194,907	178,632	176,439	225,047	206,284	170,042
Gross profit	137,937	119,591	202,443	83,807	118,022	161,588	212,626	77,045
Selling and administrative expenses	152,044	149,414	151,489	146,860	148,276	151,725	139,729	156,171
Income taxes	(2,872)	(7,759)	13,247	(12,913)	(11,341)	2,564	18,952	(20,572)
<b>Net income (loss)</b>	\$ (11,235)	\$ (22,064)	\$ 37,707	\$ (50,140)	\$ (18,913)	\$ 7,299	\$ 53,945	\$ (58,554)

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 Q4-15 to Q1-16 is due primarily to lower sales, partially offset by lower operating expenses, in Q1-16 compared to Q4-15.
- The decrease in net operating results from Q1-16 to Q2-16 is due primarily to lower gross profit margin, a foreign exchange loss and higher selling and administrative expenses, in Q2-16 compared to Q1-16.
- The increase in net operating results from Q2-16 to Q3-16 is due primarily to the foreign exchange loss in Q2-16 as compared to the foreign exchange gain in Q3-16.
- 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.

## Liquidity and Capital Resources

### Operating Activities

Cash used by operating activities decreased to \$86,986 in Q3-17 from \$526,639 in Q3-16. The change is due primarily to the net change in non-cash working capital in Q3-17 as compared to Q3-16.

Cash provided by operating activities amounted to \$833,020 for YTD – Q3-17, compared to cash used in operating activities of \$4,212,840 for YTD – Q3-16 due primarily to the net income for YTD – Q3-17 as compared to a net loss for YTD – Q3-16.

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

### Investing Activities

Cash used in investing activities decreased to \$252,141 in Q3-17 from \$503,432 in Q3-16 due primarily to the acquisition of IREC Corporation in Q3-16.

Cash used in investing activities decreased to \$572,542 for YTD – Q3-17 from \$662,603 for YTD – Q3-16 due primarily to the acquisition of IREC Corporation in Q3-16.

We have not entered into any proposed material asset or business acquisition or disposition agreements, and we do not anticipate to significantly increase our investment in capital expenditures in 2017.

### Financing Activities

Cash provided by financing activities decreased to \$808,337 in Q3-17 from \$3,352,286 in Q3-16 due primarily to lower proceeds from operating loans and securitization debt in Q3-17 as compared to Q3-16.

Cash used in financing activities amounted to \$1,328,131 for YTD – Q3-17 compared to cash provided by financing activities of \$4,110,294 for YTD – Q3-16 due primarily to repayments exceeding proceeds from operating loans and securitization debt for YTD – Q3-17.

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 to the anticipated increase in sales orders from related parties for the expansion of the Billy Beez family entertainment centres.

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

### Sources and Uses of Cash

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

- Cash of \$3,972,443 at June 30, 2017 (September 30, 2016 – \$5,109,026).
- Trade and other receivables of \$12,049,728 at June 30, 2017 (September 30, 2016 – \$9,374,759).

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

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

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of \$600,000, an Operating Loan Facility of U.S. \$4,000,000 (\$5,191,000 in Canadian dollars), and a Securitization Facility of U.S. \$7,920,000 (\$10,278,000 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.

Finance receivables of U.S. \$1,664,225 (\$2,159,665 in Canadian dollars) due to the Bank on June 11, 2017 remain uncollected as of August 22, 2017. The underlying securitization debt of U.S. \$1,497,803 (\$1,943,698 in Canadian dollars) to these uncollected finance receivables remains unpaid as of August 22, 2017. The overdue finance receivables carry an additional interest expense of U.S. \$29,546 (\$38,341 in Canadian dollars), which is contractually recoverable by the Corporation from its customer, an affiliated entity. It is the opinion of management that the finance receivables, including additional interest, will be collected by the bank from the affiliated entity, however management is reassessing the credit risk of the affiliated entity and the credit terms offered to the affiliated entity on future sales agreements.

Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At June 30, 2017, all financial ratios and tests have been met.

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



## Credit Facilities

The Corporation has the following credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank"), as amended on May 17, 2017:

### *(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 (\$5,191,000 in Canadian dollars – previously U.S. \$2,500,000 or \$3,244,000 in Canadian dollars) ("Operating Loan Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. \$7,920,000 (\$10,278,000 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 (\$2,388,000 in Canadian dollars – previously U.S. \$1,440,000 or \$1,869,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$10,382,000 in Canadian dollars), with a maximum maturity of 12 months.

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

## Market Risk Disclosure

### Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of U.S. \$1,840,000 (\$2,388,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. \$8,000,000 (\$10,382,000 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 June 30, 2017, we had various foreign exchange forward contracts outstanding with maturity dates from August 8, 2017 to September 29, 2017 and a total commitment to sell \$2,000,000 U.S. dollars and purchase \$2,615,523 Canadian dollars at exchange rates ranging from \$1.30646 to \$1.30906. The mark-to-market fair value of the foreign exchange forward contracts outstanding at June 30, 2017 represents an asset of \$21,180 for the Corporation and is recorded as an unrealized foreign exchange gain in the condensed consolidated interim statements of operations and comprehensive income.

### 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.

At June 30, 2017, trade receivables from Billy Beez amount to \$10,097,620 (September 30, 2016 - \$8,735,580) and represent approximately 84% of the balance of trade receivables (September 30, 2016 - 93%). At June 30, 2017, past due trade receivables from Billy Beez amount to \$2,991,383 (September 30, 2016 - \$551,455).

### 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 June 30, 2017, the Corporation's operating loans of \$3,248,432 (September 30, 2016 - \$3,238,430) and securitization debt of \$1,943,698 (September 30, 2016 - \$3,461,314) 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 legal actions in the ordinary course of business due primarily to injury claims from the use of play structure equipment we have supplied to various 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

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

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Sales in U.S. dollars	\$ 1,219,887	\$ 1,388,094	\$ 3,909,500	\$ 3,079,594
<b>Equivalent in Canadian dollars</b>	<b>1,633,321</b>	<b>1,781,516</b>	<b>5,216,322</b>	<b>4,129,365</b>

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

	June 30, 2017	September 30, 2016
Balance in U.S. dollars	\$ 7,781,166	\$ 6,659,740
<b>Equivalent in Canadian dollars</b>	<b>10,097,620</b>	<b>8,735,580</b>

## Outstanding Share Capital

At June 30, 2017, and August 22, 2017, 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.

