Q3

2013

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three and nine months ended June 30, 2013

Unaudited (*Expressed in Canadian dollars*)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

Iplayco Corporation Ltd.

Table of contents

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

Unaudited *(Expressed in Canadian dollars)*

	June 30, 2013	September 30, 2012
Assets		
Current assets		
Cash and cash equivalents	**$ 2,754,795**	$ 841,008
Restricted cash (Note 8)	**-**	300,000
Finance receivables (Note 6)	**2,184,457**	-
Trade and other receivables	**1,876,045**	879,663
Inventories	**668,708**	727,495
Prepaid expenses	**539,874**	177,120
	8,023,879	2,925,286
Non-current assets		
Property and equipment	**1,514,183**	1,599,945
Deferred income tax assets	**40,455**	314,736
Total Assets	**$ 9,578,517**	$ 4,839,967
Liabilities and Shareholders' Equity		
Current liabilities		
Packing credit loans (Note 5)	**$ 488,808**	$ -
Securitization debt (Note 6)	**2,431,047**	-
Current portion of subordinate debt (Note 7)	**182,009**	-
Trade payables, accrued charges and other	**1,149,339**	1,363,342
Customer deposits	**948,837**	421,217
Current portion of rent inducement	**34,995**	45,127
Current portion of finance lease liabilities	**7,656**	58,826
Notes payable (Note 8)	**-**	300,000
Revolving loans (Note 8)	**310,000**	410,000
	5,552,691	2,598,512
Non-current liabilities		
Subordinate debt (Note 7)	**563,049**	-
Rent inducement	**138,161**	159,378
Finance lease liabilities	**-**	1,826
Deferred income tax liabilities	**108,804**	-
Total Liabilities	**6,362,705**	2,759,716
Shareholders' Equity		
Share capital	**1,757,643**	1,757,643
Share-based payments reserve	**256,858**	256,858
Retained earnings	**1,201,311**	65,750
Total Shareholders' Equity	**3,215,812**	2,080,251
Total Liabilities and Shareholders' Equity	**$ 9,578,517**	$ 4,839,967

"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 (Loss)

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

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	**2013**	2012
Sales	**$ 4,781,030**	$ 2,446,089	**$ 11,500,279**	$ 6,993,082
Cost of sales	**2,843,411**	1,584,619	**7,055,812**	4,479,844
Gross profit	**1,937,619**	861,470	**4,444,467**	2,513,238
Selling and administrative expenses	**1,068,066**	868,537	**2,867,623**	2,540,844
Foreign exchange loss (gain)	**(71,466)**	(5,248)	**(81,860)**	5,596
	996,600	863,289	**2,785,763**	2,546,440
Operating income (loss)	**941,019**	(1,819)	**1,658,704**	(33,202)
Finance costs	**83,454**	25,078	**140,058**	69,969
Income (loss) before income taxes	**857,565**	(26,897)	**1,518,646**	(103,171)
Income tax provision (recovery)	**214,936**	(6,072)	**383,085**	(23,597)
Net income (loss) and total comprehensive income (loss)	**642,629**	(20,825)	**1,135,561**	(79,574)
Net income (loss) per share				
Basic and diluted	**$ 0.06**	$ (0.00)	**$ 0.11**	$ (0.01)
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)*

	Share capital[1]				
	Number of common shares	Amount	Share-based payments reserve[2]	Retained earnings (deficit)	Total shareholders' equity
Balance at September 30, 2011	10,220,187	$ 1,757,643	$ 256,858	$ (247,062)	$ 1,767,439
Net loss and total comprehensive loss	-	-	-	(79,574)	(79,574)
Balance at June 30, 2012	10,220,187	1,757,643	256,858	(326,636)	1,687,865
Balance at September 30, 2012	10,220,187	1,757,643	256,858	65,750	2,080,251
Net income and total comprehensive income	-	-	-	1,135,561	1,135,561
Balance at June 30, 2013	**10,220,187**	**1,757,643**	**256,858**	**1,201,311**	**3,215,812**

(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)*

	Nine months ended June 30,	
	2013	2012
Operating activities		
Net income (loss)	**$ 1,135,561**	$ (79,574)
Items not affecting cash		
Depreciation	**218,409**	228,850
Deferred income taxes	**383,085**	(23,597)
Change in fair value of derivatives (Note 5)	**9,993**	(4,311)
Rent inducement	**(31,349)**	2,542
Loss on disposal of property and equipment	**23,380**	-
Unrealized foreign exchange loss (gain)	**(84,314)**	2,574
Finance costs	**140,058**	69,969
	1,794,823	196,453
Change in non-cash operating working capital		
Finance receivables (Note 6)	**(2,143,173)**	-
Trade and other receivables	**(956,727)**	324,350
Inventories	**58,787**	(194,477)
Prepaid expenses	**(362,754)**	(43,795)
Trade payables, accrued charges and other	**(233,473)**	(254,634)
Customer deposits	**527,620**	366,086
	(3,109,720)	197,530
Interest paid	**(136,236)**	(21,988)
Cash provided by (used in) operating activities	**(1,451,133)**	371,995
Investing activities		
Decrease (increase) in restricted cash (Note 8)	**300,000**	(50,000)
Purchase of property and equipment	**(147,111)**	(34,925)
Cash provided by (used in) investing activities	**152,889**	(84,925)
Financing activities		
Proceeds from packing credit loans (Note 5)	**1,479,553**	-
Repayment of packing credit loans (Note 5)	**(999,068)**	-
Proceeds from securitization debt (Note 6)	**2,390,378**	-
Proceeds from subordinate debt (Note 7)	**758,297**	-
Repayment of subordinate debt (Note 7)	**(16,500)**	-
Repayment of finance lease liabilities	**(52,996)**	(107,188)
Proceeds from (repayment of) notes payable (Note 8)	**(300,000)**	50,000
Proceeds from (repayment of) revolving loans (Note 8)	**(100,000)**	410,000
Cash provided by financing activities	**3,159,664**	352,812
Net increase in cash and cash equivalents	**1,861,420**	639,882
Effect of foreign exchange rate changes on cash and cash equivalents	**52,367**	1,115
Cash and cash equivalents (overdraft) at beginning of the period	**841,008**	(157,045)
Cash and cash equivalents at end of the period	**$ 2,754,795**	$ 483,952
Supplemental cash flow disclosures - non cash transactions:		
Purchase of property and equipment	**$ 8,916**	$ 13,339
Amortization of financing costs - subordinate debt	**3,261**	-

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 designs, manufactures and installs play structures for children, from its plant in Langley, British Columbia, Canada. OPC 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 1200, 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 August 14, 2013.

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, 2012.

4. Critical accounting estimates and judgments

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

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

4. Critical accounting estimates and judgments (continued)

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

Revenue

Revenues under long-term fixed price contracts provide for receipt of payment based on achieving defined milestones. Revenues are recognized under these contracts based on management's estimate of progress achieved against these milestones. 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.

Property and equipment

Management estimates the useful lives of property and 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 property and 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 property and equipment in the future.

Income taxes

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

4. Critical accounting estimates and judgments (continued)

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

The Corporation has the following credit facilities (the “Credit Facilities”) with HSBC Bank Canada (the “Bank”):

(a) Export Loan Facility

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,577,000 in Canadian dollars) (“Packing Credit Facility”) and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $4,320,000 ($4,541,000 in Canadian dollars) (“TINRFF Facility”).

<u>Packing Credit Facility</u>

Under the Packing Credit Facility, the Corporation may finance up to 75% of its purchasing, processing, manufacturing and packaging costs (“Packing Costs”) for customer purchase orders approved by the Bank. The Packing Credit Facility bears interest at the U.S. dollar London Interbank Offered Rate (“USD LIBOR”) plus 3.50% per annum and is payable on demand or within 90 days for advances relating to Packing Costs from suppliers located within Canada and 120 days for advances relating to Packing Costs from suppliers located outside of Canada.

<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%.

(b) Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is 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.

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.

At June 30, 2013, the Corporation has a packing credit loan of U.S. $465,000 ($488,808 in Canadian dollars) maturing on August 21, 2013. The Corporation intends to use proceeds from the sale of trade receivables, under the TINRFF Facility, to extinguish the packing credit loan on or before its maturity date.

5. Credit facilities (continued)

At June 30, 2013, the Corporation has entered into one foreign exchange forward contract, under the Foreign Exchange Loan Facility, with a remaining commitment to sell U.S. $400,000 dollars on or before July 22, 2013 at a rate of $1.02672 and receive $410,686. The fair value of the foreign exchange forward contract at June 30, 2013 is a liability of $9,993 and is recorded as a foreign exchange loss in the statement of operations.

6. Finance receivables and securitization debt

Finance receivables are comprised of trade receivables of U.S. $1,183,331 ($1,243,918 in Canadian dollars) and U.S. $894,729 ($940,539 in Canadian dollars) from two fixed-priced contracts recognized on a percentage of completion basis of accounting (collectively the "Finance Receivables"), which have been sold, under the TINRFF Facility described in Note 5, at their respective contractual values of U.S. $1,310,600 ($1,377,703 in Canadian dollars) and U.S. $1,259,000 ($1,323,461 in Canadian dollars) (collectively the "Securitization Debt"), discounted by 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses (the "Holdback").

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 Holdback represents the Corporation's maximum exposure to impaired Finance Receivables. The Holdback is remitted to the Corporation upon collection of the Finance Receivables by the Bank. The Finance Receivables underlying the Securitization Debt of $ U.S. $1,310,600 and U.S. $1,259,000 are payable to the Bank on or before October 19, 2013 and December 18, 2013, respectively.

7. 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.

8. Related party transactions

On February 1, 2013, the Corporation renewed its revolving loans with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders of the Revolving Loans"), to borrow the aggregate principal amount of $310,000 at an interest rate of 15.00% per annum (the "Revolving Loans").

8. Related party transactions (continued)

The Corporation agreed with a former independent director to not renew a Revolving Loan in the aggregate principal amount of $100,000, pursuant to which the Corporation paid the aggregate sum of $111,295, including accrued interest, to the former independent director.

As part of the Subordinate Debt financing with BDCC described in Note 7, the Lenders of the Revolving Loans agreed to limit principal payments by the Corporation for the Revolving Loans to the lesser of 25% of the Excess Cash Flow Sweep or $25,000 per annum, and to postpone any other principal payments until the earlier of: (i) the Corporation obtaining a line of credit on terms satisfactory to BDCC with sufficient margining to cover the principal payments for the Revolving Loans; or (ii) extinguishment of the Subordinate Debt.

On March 22, 2013, the standby letter of credit of $300,000 in favour of Export Development Canada (the “Letter of Credit”) was cancelled and restricted cash of $300,000 from the Notes Payable, used as collateral to secure the Letter of Credit, was released to the Corporation, pursuant to which the Corporation paid the aggregate sum of $379,274, including accrued interest of $79,274, to an independent director of the Corporation, a former independent director of the Corporation, the Corporation’s Chief Executive Officer, President and Executive Vice-President.

Unaudited (Expressed in Canadian dollars)

9. Segment reporting and concentration of sales

(a) Business segments

The Corporation operates in two business segments: Manufacturing of play structures for children and 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 June 30, 2013		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 4,449,413	$ 331,617	$ 4,781,030
Cost of sales	2,635,152	208,259	2,843,411
Gross profit	1,814,261	123,358	1,937,619
Selling and administrative expenses	935,861	132,205	1,068,066
Foreign exchange gain	(71,466)	-	(71,466)
Finance costs	83,141	313	83,454
Income taxes	265,669	(50,733)	214,936
Net income	$ 601,056	$ 41,573	$ 642,629
Total assets	$ 8,466,862	$ 1,111,655	$ 9,578,517
Total liabilities	$ 6,128,152	$ 234,553	$ 6,362,705
Depreciation expense	$ 37,305	$ 34,713	$ 72,018
Acquisition of property and equipment	$ 47,111	$ 13,077	$ 60,188

	Nine months ended June 30, 2013		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 10,340,333	$ 1,159,946	$ 11,500,279
Cost of sales	6,357,273	698,539	7,055,812
Gross profit	3,983,060	461,407	4,444,467
Selling and administrative expenses	2,407,502	460,121	2,867,623
Foreign exchange gain	(81,860)	-	(81,860)
Finance costs	138,238	1,820	140,058
Income taxes	383,219	(134)	383,085
Net income (loss)	$ 1,135,961	$ (400)	$ 1,135,561
Total assets	$ 8,466,862	$ 1,111,655	$ 9,578,517
Total liabilities	$ 6,128,152	$ 234,553	$ 6,362,705
Depreciation expense	$ 107,650	$ 110,759	$ 218,409
Acquisition of property and equipment	$ 133,885	$ 22,142	$ 156,027

Unaudited (Expressed in Canadian dollars)

9. Segment reporting and concentration of sales (continued)

(a) Business segments (continued)

	Three months ended June 30, 2012		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 2,113,724	$ 332,365	$ 2,446,089
Cost of sales	1,383,124	201,495	1,584,619
Gross profit	730,600	130,870	861,470
Selling and administrative expenses	734,159	134,378	868,537
Foreign exchange gain	(5,248)	-	(5,248)
Finance costs	25,121	(43)	25,078
Income taxes	1,608	(7,680)	(6,072)
Net income (loss)	$ (25,040)	$ 4,215	$ (20,825)
Total assets	$ 3,199,330	$ 1,317,949	$ 4,517,279
Total liabilities	$ 2,592,823	$ 236,591	$ 2,829,414
Depreciation expense	$ 35,808	$ 38,325	$ 74,133
Acquisition of property and equipment	$ 5,247	$ 17,836	$ 23,083

	Nine months ended June 30, 2012		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 5,875,872	$ 1,117,210	$ 6,993,082
Cost of sales	3,870,324	609,520	4,479,844
Gross profit	2,005,548	507,690	2,513,238
Selling and administrative expenses	2,125,447	415,397	2,540,844
Foreign exchange loss	5,596	-	5,596
Finance costs	64,236	5,733	69,969
Income taxes	(20,484)	(3,113)	(23,597)
Net income (loss)	$ (169,247)	$ 89,673	$ (79,574)
Total assets	$ 3,199,330	$ 1,317,949	$ 4,517,279
Total liabilities	$ 2,592,823	$ 236,591	$ 2,829,414
Depreciation expense	$ 111,626	$ 117,224	$ 228,850
Acquisition of property and equipment	$ 23,437	$ 24,827	$ 48,264

Unaudited (Expressed in Canadian dollars)

9. Segment reporting and concentration of sales (continued)

(b) 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 June 30,		Nine months ended June 30,	
	2013	2012	**2013**	2012
Sales				
Canada	**$ 1,012,698**	$ 495,372	**$ 1,989,723**	$ 1,874,145
Americas	**716,621**	614,992	**4,618,311**	2,557,079
Other	**3,051,711**	1,335,725	**4,892,245**	2,561,858
	$ 4,781,030	$ 2,446,089	**$11,500,279**	$ 6,993,082

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,	
	2013	2012	**2013**	2012
Customer A	**$2,530,414**	$ 1,090,036	**$ 4,055,615**	$ 2,152,006
Customer B	**513,525**	-	**-**	-

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 14, 2013 and should be read together in conjunction with our unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine-month periods ended June 30, 2013 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2012 and 2011.

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 indoor and outdoor 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 June 30, 2013 ("Q3-13") increased by 95.5% to $4,781,030 from $2,446,089 for the three months ended June 30, 2012 ("Q3-12"). Gross profit percentage was 40.5% of sales in Q3-13 compared to 35.2% in Q3-12. Operating expenses, including foreign exchange gains and losses and finance costs, were $1,080,054 or 22.6% of sales in Q3-13 compared to $888,367 or 36.3% of sales in Q3-12. Net income in Q3-13 was $642,629, or diluted net income per share of $0.06, compared to a net loss of $20,825, or net loss per share of $0.00, in Q3-12.

Sales for the nine months ended June 30, 2013 ("YTD – Q3-13") increased by 64.5% to $11,500,279 from $6,993,082 for the nine months ended June 30, 2012 ("YTD – Q3-12"). Gross profit percentage was 38.6% of sales for YTD – Q3-13 compared to 35.9% for YTD – Q3-12. Operating expenses, including foreign exchange gains and losses and finance costs, were $2,925,821 or 25.4% of sales for YTD – Q3-13 compared to $2,616,409 or 37.4% of sales for YTD – Q3-12. Net income for YTD – Q3-13 was $1,135,561, or diluted net income per share of $0.11, compared to a net loss of $79,574, or net loss per share of $0.01, for YTD – Q3-12.

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 110.5% to $4,449,413 in Q3-13 from $2,113,724 in Q3-12. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for sales of $3,051,711 (or 68.6% of total Manufacturing sales) in Q3-13 compared to $1,335,725 (or 63.2%) in Q3-12.

Sales generated by our Manufacturing operations increased by 76.0% to $10,340,333 for YTD – Q3-13 from $5,875,872 for YTD – Q3-12. This increase is due primarily to higher sales to our customers located in the Americas, excluding Canada, who accounted for sales of $4,618,311 (or 44.7% of total Manufacturing sales) for YTD – Q3-13 compared to $2,557,079 (or 43.5%) for YTD – Q3-12, and higher sales to our customers located outside of the Americas, who accounted for sales of $4,892,245 (or 47.3% of total Manufacturing sales) for YTD – Q3-13 compared to $2,561,858 (or 43.6%) for YTD – Q3-12.

In Q3-13, two customers accounted for 68.4% of total sales by our Manufacturing operations as compared to one customer accounting for 51.6% of total sales by our Manufacturing operations in Q3-12. For YTD – Q3-13, one customer accounted for 39.2% of total sales by our Manufacturing operations as compared to one customer accounting for 36.6% of total sales by our Manufacturing operations for YTD – Q3-12. 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 2013. To manage credit risk from our customers we maintain trade receivables insurance.

We expected sales generated by our Manufacturing operations in Q3-13 to increase moderately as compared to sales for the three months ended March 31, 2013 ("Q2-13"). Sales generated by our Manufacturing operations increased significantly by 60.2% to $4,449,413 in Q3-13 from $2,777,034 in Q2-13. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ended September 30, 2013 ("Q4-13") to decrease moderately as compared to Q3-13.

Gross profit percentage increased to 40.8% of sales by our Manufacturing operations in Q3-13 from 34.6% in Q3-12 due to larger orders that yielded higher margins in Q3-13 as compared to Q3-12. We expected our gross profit percentage to increase moderately in Q3-13 as compared to Q2-13 due primarily to sales mix. Gross profit percentage increased significantly to 40.8% of sales by our Manufacturing operations in Q3-13 from 34.1% in Q2-13. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations for Q4-13 to remain in-line with Q3-13.

Gross profit percentage increased to 38.5% of sales by our Manufacturing operations for YTD – Q3-13 from 34.1% for YTD – Q3-12 due primarily to sales mix in Q3-13 which yielded a gross profit percentage of 40.8%.

Our Manufacturing operations generated net income of $601,056 in Q3-13 compared to a net loss of $25,040 in Q3-12. This increase is due primarily to the combined effect of higher sales and higher gross profit percentage in Q3-13 as compared to Q3-12. We expected the net operating results from our Manufacturing operations to increase moderately in Q3-13 as compared to Q2-13 due primarily to anticipated higher sales and gross profit percentage in Q3-13 as compared to Q2-13. Net income from Our Manufacturing operations increased significantly to $601,056 in Q3-13 from $191,613 in Q2-13. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations to decrease moderately in Q4-13 as compared to Q3-13 due primarily to anticipated lower sales in Q4-13 as compared to Q3-13.

Our Manufacturing operations generated net income of $1,135,961 for YTD – Q3-13 compared to a net loss of $169,247 for YTD – Q3-12. The significant improvement in net operating results for YTD – Q3-13 as compared to YTD – Q3-12 is due primarily to significantly higher sales and favourable sales mix that yielded higher gross profit for YTD – Q3-13 as compared to YTD – Q3-12.

Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 0.2% to $331,617 in Q3-13 from $332,365 in Q3-12. We expected sales generated by our FEC operations to decrease moderately in Q3-13 as compared to Q2-13 due primarily to seasonality. Sales generated by our FEC operations decreased significantly by 25.8% to $331,617 in Q3-13 from $446,720 in Q2-13. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to decrease moderately in Q4-13 as compared to Q3-13 due primarily to seasonality.

Sales generated by our FEC operations increased by 3.8% to $1,159,946 for YTD – Q3-13 from $1,117,210 for YTD – Q3-12 due primarily to an increase in the number of customer visits to our FEC.

Our FEC operations generated net income of $41,573 in Q3-13, compared to net income of $4,215 in Q3-12. The increase in net operating results in Q3-13 as compared to Q3-12 is due primarily to a higher income tax recovery in Q3-13 as compared to Q3-12 otherwise our FEC operations generated a loss before income taxes of $9,160 in Q3-13 compared to a loss before income taxes of $3,465 in Q3-12. We expected the net operating results from our FEC operations to decrease moderately in Q3-13 as compared to Q2-13 due primarily to seasonality. Our FEC operations generated a loss before income taxes of $9,160 in Q3-13 as compared to income before income taxes of $64,986 in Q2-13. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to decrease moderately in Q4-13 as compared to Q3-13 due primarily to lower anticipated sales resulting from seasonality.

Our FEC operations generated a net loss of $400 for YTD – Q3-13, compared to net income of $89,673 for YTD – Q3-12. The decrease in net operating results for YTD – Q3-13 as compared to YTD – Q3-12 is due primarily to the combined effect of lower gross profit by $46,283 (or 9.1%) resulting primarily from higher staffing costs, and higher selling and administrative expenses by $44,724 (or 10.8%) for YTD – Q3-13 as compared to YTD – Q3-12.

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 winter weather conditions that are generally conducive to indoor activities for children, resulting in a higher number of customer visits to our FEC. Conversely, our Q4 operating results have historically been the weakest due to summer weather conditions that are generally conducive to outdoor activities for children, resulting in a lower number of visits to our FEC.

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, 2013 and 2012, expressed as a percentage of total sales:

	Three months ended June 30, 2013			Three months ended June 30, 2012		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales to external customers	**93.1 %**	**6.9 %**	**100.0 %**	86.4 %	13.6 %	100.0 %
Cost of sales	**55.1**	**4.4**	**59.5**	56.5	8.2	64.7
Gross profit	**38.0**	**2.5**	**40.5**	29.9	5.4	35.3
Selling and administrative expenses	**19.6**	**2.8**	**22.4**	30.0	5.5	35.5
Foreign exchange gain	**(1.5)**	**-**	**(1.5)**	(0.2)	-	(0.2)
Finance costs	**1.7**	**-**	**1.7**	1.0	-	1.0
Income taxes	**5.6**	**(1.1)**	**4.5**	0.1	(0.3)	(0.2)
Net income	**12.6 %**	**0.8 %**	**13.4 %**	(1.0) %	0.2 %	(0.8) %

	Nine months ended June 30, 2013			Nine months ended June 30, 2012		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales to external customers	**89.9 %**	**10.1 %**	**100.0 %**	84.0 %	16.0 %	100.0 %
Cost of sales	**55.3**	**6.1**	**61.4**	55.3	8.7	64.0
Gross profit	**34.6**	**4.0**	**38.6**	28.7	7.3	36.0
Selling and administrative expenses	**20.9**	**4.0**	**24.9**	30.4	5.9	36.3
Foreign exchange loss (gain)	**(0.7)**	**-**	**(0.7)**	0.1	-	0.1
Finance costs	**1.2**	**-**	**1.2**	0.9	0.1	1.0
Income taxes	**3.3**	**-**	**3.3**	(0.3)	-	(0.3)
Net income (loss)	**9.9 %**	**- %**	**9.9 %**	(2.4) %	1.3 %	(1.1) %

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

	Three months ended June 30, 2013			Three months ended June 30, 2012		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**14.2 %**	**6.9 %**	**21.1 %**	6.7 %	13.6 %	20.3 %
Americas	**15.0**	**-**	**15.0**	25.1	-	25.1
Other	**63.9**	**-**	**63.9**	54.6	-	54.6
	93.1 %	**6.9 %**	**100.0 %**	86.4 %	13.6 %	100.0 %

	Nine months ended June 30, 2013			Nine months ended June 30, 2012		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**7.2 %**	**10.1 %**	**17.3 %**	10.8 %	16.0 %	26.8 %
Americas	**40.2**	**-**	**40.2**	36.6	-	36.6
Other	**42.5**	**-**	**42.5**	36.6	-	36.6
	89.9 %	**10.1 %**	**100.0 %**	84.0 %	16.0 %	100.0 %

Results of Operations – Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Sales

Sales increased by $2,334,941 (or 95.5%) to $4,781,030 in Q3-13 from $2,446,089 in Q3-12 due primarily to an increase in sales of $2,335,689 by our Manufacturing operations.

In Q3-13, two significant customers accounted for 63.7% of our sales. In Q3-12, one significant customer accounted for 44.6% of our sales. We expect continued business concentration from one significant customer in Q4-13.

We expected our sales in Q3-13 to increase moderately as compared to Q2-13. Sales increased significantly by $1,557,276 (or 48.3%) to $4,781,030 in Q3-13 from $3,223,754 in Q2-13. Based on our updated sales forecasts, we are expecting sales to decrease moderately in Q4-13 as compared to Q3-13 due primarily to an anticipated decrease in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage increased to 40.5% of sales in Q3-13 from 35.2% in Q3-12. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 40.8% in Q3-13, compared to 34.6% in Q3-12 resulting primarily from higher margin sales in Q3-13 as compared to Q3-12.

We expected our gross profit percentage to increase moderately in Q3-13 as compared to Q2-13 due primarily to anticipated higher margins by our Manufacturing operations. Gross profit percentage increased significantly to 40.5% in Q3-13, compared to 35.9% in Q2-13. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q4-13 to remain in-line with Q3-13 due primarily to our Manufacturing operations.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $191,687 (or 21.6%) to $1,080,054 in Q3-13, from $888,367 in Q3-12. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations in Q3-13 as compared to Q3-12.

We expected our operating expenses, as a percentage of sales, in Q3-13 to remain in-line with Q2-13. Our operating expenses decreased moderately to 22.6% of sales in Q3-13 from 27.9% in Q2-13. Based on our updated forecasts, we are expecting operating expenses in Q4-13 to increase moderately as a percentage of sales, compared to Q3-13.

Income Taxes

The deferred income tax expense of $214,936 in Q3-13 corresponds to the net decrease in the deferred income tax asset from March 31, 2013 to June 30, 2013 due to earnings before income taxes in Q3-13. The deferred income tax expense in Q3-13 is comprised of a deferred income tax expense of $265,669 from our Manufacturing and a deferred income tax recovery of $50,733 from our FEC operations. The deferred income tax recovery of $6,072 in Q3-12 corresponds to the increase in the deferred income tax asset from March 31, 2012 to June 30, 2012 due to the loss before income taxes in Q3-12. The deferred income tax recovery in Q3-12 is comprised of a deferred income tax expense of $1,608 from our Manufacturing and a deferred income tax recovery of $7,680 from our FEC operations.

Our earnings in Q3-13 utilized our remaining non-capital operating losses from prior fiscal years. Based on anticipated earnings in Q4-13 we expect to incur a current income tax expense in Q4-13.

Net Operating Results

Net income and total comprehensive income was $642,629, or diluted net income per share of $0.06, in Q3-13, compared to a net loss and total comprehensive loss of $20,825, or net loss per share of $0.00, in Q3-12. The increase in net operating results is due primarily to an increase in net income by our Manufacturing operations.

We expected our net operating results to increase moderately in Q3-13 as compared to Q2-13, due primarily to anticipated higher sales and gross profit percentage by our Manufacturing operations. Our net income increased significantly to $642,629 in Q3-13 from $192,706 in Q2-13. Based on our updated forecasts, we are expecting net income to decrease moderately in Q4-13 as compared to Q3-13, due primarily to anticipated lower sales by our Manufacturing operations.

Results of Operations – Nine Months Ended June 30, 2013 Compared to Nine Months Ended June 30, 2012

Sales

Sales increased by $4,507,197 (or 64.5%) to $11,500,279 for YTD – Q3-13 from $6,993,082 for YTD – Q3-12 due primarily to an increase in sales of $4,464,461 by our Manufacturing operations.

For YTD – Q3-13, one significant customer accounted for 35.3% of our sales. For YTD – Q3-12, one significant customer accounted for 30.8% of our sales. We expect continued business concentration from one significant customer in Q4-13.

Sales for our fiscal year ending September 30, 2013 will be significantly higher than in 2012 due to the significant increase in sales generated by our Manufacturing operations.

Gross Profit

Gross profit percentage increased to 38.6% of sales for YTD – Q3-13 from 35.9% for YTD – Q3-12. This increase is due primarily to a higher gross profit percentage by our Manufacturing operations which generated a gross profit percentage of 38.5% for YTD – Q3-13, compared to 34.1% for YTD – Q3-12.

We expect our gross profit percentage for our 2013 fiscal year to remain in-line with 2012 due primarily to similar anticipated sales-mix by our Manufacturing operations.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by $309,412 (or 11.8%) to $2,925,821 for YTD – Q3-13 from $2,616,409 for YTD – Q3-12. This increase is due primarily to higher selling and administrative expenses from higher wages and benefits.

For our fiscal year ending September 30, 2013, we expect the following as compared to 2012:

- 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.
- Moderate increase in depreciation expense due to higher capital expenditures.
- Moderate decrease in net foreign exchange loss due to an anticipated increase in our net assets denominated in U.S. dollars combined with forecast weakening of the Canadian dollar against the U.S. dollar.

- Significant increase in finance costs due to higher levels of debt, from packing credit loans, securitization debt, and subordinate debt financing (see "Liquidity and Capital Resources").

Income Taxes

The deferred income tax expense of $383,085 for YTD – Q3-13 corresponds to the net decrease in the deferred income tax assets from October 1, 2012 to June 30, 2013 due to earnings before income taxes for YTD – Q3-13. The deferred income tax expense for YTD – Q3-13 is primarily comprised of the deferred income tax expense from our Manufacturing. The deferred income tax recovery of $23,597 for YTD – Q3-12 corresponds to the increase in the deferred income tax asset from October 1, 2011 to June 30, 2012 due to the loss before income taxes for YTD – Q3-12. The deferred income tax recovery for YTD – Q3-12 is comprised of deferred income tax recoveries of $20,484 and $3,113 from our Manufacturing and FEC operations, respectively.

Our earnings for YTD – Q3-13 have utilized our remaining non-capital operating losses from prior fiscal years and we anticipate incurring a current income tax expense in our 2013 fiscal year.

Net Operating Results

Net income and total comprehensive income was $1,135,561, or diluted net income per share of $0.11, for YTD – Q3-13, compared to a net loss and total comprehensive loss of $79,574, or net loss per share of $0.01 for YTD – Q3-12. The significant increase in net operating results is due primarily to our Manufacturing operations.

Net earnings for our fiscal year ending September 30, 2013 will be significantly higher than in 2012 due to the operating results from 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, 2012 and 2011. 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.

	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	**Q3-13**
CONSOLIDATED	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	**30-Jun-13**
Sales	$ 3,422,258	$ 1,784,328	$ 2,762,665	$ 2,446,089	$ 3,396,363	$ 3,495,495	$ 3,223,754	**$ 4,781,030**
Cost of sales	2,440,110	1,132,968	1,762,257	1,584,619	1,995,979	2,146,708	2,065,693	**2,843,411**
Gross profit	982,148	651,360	1,000,408	861,470	1,400,384	1,348,787	1,158,061	**1,937,619**
Selling and administrative expenses	868,886	805,938	866,369	868,537	826,623	903,831	895,726	**1,068,066**
Foreign exchange loss (gain)	(15,286)	15,328	(4,484)	(5,248)	16,253	11,067	(21,461)	**(71,466)**
Finance costs	9,205	22,344	22,547	25,078	34,508	30,769	25,835	**83,454**
Income taxes	50,446	(47,394)	29,869	(6,072)	130,614	102,894	65,255	**214,936**
Net income (loss)	$ 68,897	$ (144,856)	$ 86,107	$ (20,825)	$ 392,386	$ 300,226	$ 192,706	**$ 642,629**
Basic and diluted net income (loss) per share	0.01	(0.01)	0.01	0.00	0.04	0.03	0.02	**0.06**

	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	**Q3-13**
MANUFACTURING	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	**30-Jun-13**
Sales	$ 3,147,834	$ 1,406,403	$ 2,355,745	$ 2,113,724	$ 3,118,263	$ 3,113,886	$ 2,777,034	**$ 4,449,413**
Cost of sales	2,253,274	932,699	1,554,501	1,383,124	1,802,634	1,893,020	1,829,101	**2,635,152**
Gross profit	894,560	473,704	801,244	730,600	1,315,629	1,220,866	947,933	**1,814,261**
Selling and administrative expenses	701,321	662,647	728,641	734,159	668,567	720,529	751,112	**935,861**
Foreign exchange loss (gain)	(15,286)	15,328	(4,484)	(5,248)	16,253	11,067	(21,461)	**(71,466)**
Finance costs	4,139	19,062	20,053	25,121	29,512	29,790	25,307	**83,141**
Income taxes	71,811	(46,200)	24,108	1,608	161,731	116,188	1,362	**265,669**
Net income (loss)	$ 132,575	$ (177,133)	$ 32,926	$ (25,040)	$ 439,566	$ 343,292	$ 191,613	**$ 601,056**

	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	**Q3-13**
FEC	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	**30-Jun-13**
Sales	$ 274,424	$ 377,925	$ 406,920	$ 332,365	$ 278,100	$ 381,609	$ 446,720	**$ 331,617**
Cost of sales	186,836	200,269	207,756	201,495	193,345	253,688	236,592	**208,259**
Gross profit	87,588	177,656	199,164	130,870	84,755	127,921	210,128	**123,358**
Selling and administrative expenses	167,565	143,291	137,728	134,378	158,056	183,302	144,614	**132,205**
Finance costs	5,066	3,282	2,494	(43)	4,996	979	528	**313**
Income taxes	(21,365)	(1,194)	5,761	(7,680)	(31,117)	(13,294)	63,893	**(50,733)**
Net income (loss)	$ (63,678)	$ 32,277	$ 53,181	$ 4,215	$ (47,180)	$ (43,066)	$ 1,093	**$ 41,573**

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 Q3-11 to Q4-11 is due primarily to higher sales and gross profit in Q4-11 compared to Q3-11.
- The decrease in net operating results from Q4-11 to Q1-12 is due primarily to lower sales, partially offset by higher gross profit percentage and lower operating expenses in Q1-12 compared to Q4-11.
- The increase in net operating results from Q1-12 to Q2-12 is due primarily to higher sales and gross profit in Q2-12 compared to Q1-12.
- The decrease in net operating results from Q2-12 to Q3-12 is due primarily to lower sales and gross profit in Q3-12 compared to Q2-12.
- 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.

Liquidity and Capital Resources

Operating Activities

Cash used in operating activities amounted to $887,652 in Q3-13, compared to cash provided by operating activities of $2,347 in Q3-12. The change in cash from operating activities is due primarily to higher working capital requirements in Q3-13 as compared to Q3-12.

Cash used in operating activities amounted to $1,451,133 for YTD – Q3-13, compared to cash provided by operating activities of $371,995 for YTD – Q3-12. The change in cash from operating activities is due primarily to higher working capital requirements for YTD - Q3-13 as compared to YTD - Q3-12.

We expect our operating activities to continue to use of cash as our working capital requirements increase to sustain our growth.

Investing Activities

Cash used in investing activities amounted to $51,272 in Q3-13, compared to $13,492 in Q3-12. The increase in cash used by investing activities is due primarily to higher purchases of property and equipment in Q3-13 as compared to Q3-12.

Cash provided by investing activities amounted to $152,889 for YTD – Q3-13, compared to cash used by investing activities of $84,925 for YTD – Q3-12. The change in cash from investing activities is due primarily to the decrease in restricted cash in Q3-13 (see "Related Party Transactions").

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 2013.

Financing Activities

Cash provided by financing activities amounted to $2,616,943 in Q3-13, compared to $374,492 in Q3-12. The increase in cash provided by financing activities is due primarily to net proceeds from the securitization debt (see "Credit Facilities") and the subordinate debt (see "Sources and Uses of Cash").

Cash provided by financing activities amounted to $3,159,664 for YTD – Q3-13, compared to $352,812 for YTD – Q3-12. The increase in cash provided by financing activities is due primarily to net proceeds from the packing credit loans, the securitization debt (see "Credit Facilities") and the subordinate debt (see "Sources and Uses of Cash").

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 (see "Sources and Uses of Cash"). 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 cash on hand, trade receivables, borrowings, and cash from operations, as follows:

- At June 30, 2013, cash and cash equivalents amounted to $2,754,795 (September 30, 2012 – $841,008).
- At June 30, 2013, trade and other receivables amounted to $1,876,045 (September 30, 2012 – 879,663).
- On May 1, 2013, we 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.
- On May 14 and June 24, 2013, we sold trade receivables of U.S. $1,310,600 ($1,330,000 in Canadian dollars) and U.S. $1,259,000 ($1,326,000 in Canadian dollars), under our trade invoice non-recourse financing facility (see "Credit Facilities"), for total combined proceeds of U.S. $1,288,691 ($1,331,000 in Canadian dollars) which is net of a 10% holdback, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses, and net of fees and interest charged by the Bank. The holdback is remitted to the Corporation upon collection of the Finance Receivables by the Bank, expected to be on or before October 19, 2013 and December 18, 2013, respectively.

Credit Facilities

We have the following credit facilities (the "Credit Facilities") with HSBC Bank Canada (the "Bank"):

Export Loan Facility

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. $1,500,000 ($1,577,000 in Canadian dollars) ("Packing Credit Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $4,320,000 ($4,541,000 in Canadian dollars) ("TINRFF Facility").

- Packing Credit Facility

  Under the Packing Credit Facility, we may finance up to 75% of our purchasing, processing, manufacturing and packaging costs ("Packing Costs") for customer purchase orders approved by the Bank. The Packing Credit Facility bears interest at the U.S. dollar London Interbank Offered Rate ("USD LIBOR") plus 3.50% per annum and is payable on demand or within 90 days for advances relating to Packing Costs from suppliers located within Canada and 120 days for advances relating to Packing Costs from suppliers located outside of Canada.

- TINRFF Facility

  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%.

Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is 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.

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.

At June 30, 2013, we have a packing credit loan of U.S. $465,000 ($488,808 in Canadian dollars) maturing on August 21, 2013. We intend to use proceeds from the sale of our trade receivables, under our TINRFF Facility, to extinguish the packing credit loan on or before its maturity date.

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 $1,800,000 to purchase foreign exchange forward contracts and options up to an aggregate of $6,000,000, with a maximum maturity of 12 months (the "Foreign Exchange Loan Facility"). We intend to 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, 2013, we entered into one foreign exchange forward contract, under our Foreign Exchange Loan Facility, with a remaining commitment to sell U.S. $400,000 dollars on or before July 22, 2013 at a rate of $1.02672 and receive $410,686. At September 30, 2012, there were no foreign exchange forward contracts outstanding.

Credit risk

Our credit risk is primarily attributable to our trade receivables. Trade receivables are disclosed in our consolidated statements of financial position net of provision for bad debts, estimated based on our prior experience and assessment of the current economic environment. We manage our credit risk through ongoing credit evaluations of our customers and by maintaining trade receivables insurance.

At June 30, 2013, two significant customers represent approximately 78% of our trade receivables balance (September 30, 2012 – two customers represent approximately 64%). In our view, these accounts do not represent a significant credit risk.

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

Interest rate risk

Our interest rate risk arises primarily from our export loan facilities which bear interest at USD LIBOR plus 3.50% and our Subordinate Debt which bears interest at BDCC's floating base rate (currently at 5.00%) plus 7.00% per annum. The Revolving Loans bear interest at a fixed rate of 15.00% 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 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 February 1, 2013, the Corporation renewed its revolving loans with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders of the Revolving Loans"), to borrow the aggregate principal amount of $310,000 at an interest rate of 15.00% per annum (the "Revolving Loans"). The Corporation agreed with a former independent director to not renew a Revolving Loan in the aggregate principal amount of $100,000, pursuant to which the Corporation paid the aggregate sum of $111,295, including accrued interest, to the former independent director. On May 1, 2013, as part of the Subordinate Debt financing with BDCC, the Lenders of the Revolving Loans agreed to limit principal payments by the Corporation for the Revolving Loans to the lesser of 25% of the Excess Cash Flow Sweep or $25,000 per annum, and to postpone any other principal payments until the earlier of: (i) the Corporation obtaining a line of credit on terms satisfactory to BDCC with sufficient margining to cover the principal payments for the Revolving Loans; or (ii) extinguishment of the Subordinate Debt.

On March 22, 2013, the standby letter of credit of $300,000 in favour of Export Development Canada (the "Letter of Credit") was cancelled and restricted cash of $300,000 from the Notes Payable, used as collateral to secure the Letter of Credit, was released to the Corporation, pursuant to which the Corporation paid the aggregate sum of $379,274, including accrued interest of $79,274, to an independent director of the Corporation, a former independent director of the Corporation, the Corporation's Chief Executive Officer, President and Executive Vice-President.

Outstanding Share Capital

At June 30, 2013 and August 14, 2013, 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.