



Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements
Three and nine months ended June 30, 2014
Unaudited (*Expressed in Canadian dollars*)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

Iplayco Corporation Ltd.

Table of contents

| | |
|--|------|
| Condensed Consolidated Interim Statements of Financial Position | 1 |
| Condensed Consolidated Interim Statements of Operations and Comprehensive Income | 2 |
| Condensed Consolidated Interim Statements of Changes in Shareholders' Equity | 3 |
| Condensed Consolidated Interim Statements of Cash Flows | 4 |
| Notes to the Condensed Consolidated Interim Financial Statements | 5-13 |

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

Unaudited (Expressed in Canadian dollars)

| | Notes | June 30, 2014 | September 30, 2013 |
|--|-------|---------------------|-----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 1,867,745 | \$ 1,693,876 |
| Finance receivables | 7 | 1,110,090 | 3,535,737 |
| Trade and other receivables | | 1,217,170 | 1,662,452 |
| Inventories | | 1,794,615 | 1,069,658 |
| Prepaid expenses | | 519,660 | 272,919 |
| | | 6,509,280 | 8,234,642 |
| Non-current assets | | | |
| Equipment | | 1,495,862 | 1,634,824 |
| Deferred income tax assets | | 53,861 | 28,283 |
| | | \$ 8,059,003 | \$ 9,897,749 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Operating loans | 6 | \$ 512,448 | \$ - |
| Securitization debt | 7 | 999,081 | 3,480,074 |
| Current portion of subordinate debt | 8 | 187,006 | 183,269 |
| Trade payables, accrued charges and other | | 1,443,294 | 1,532,521 |
| Income taxes payable | | 198,490 | 29,279 |
| Customer deposits | | 291,533 | 248,221 |
| Current portion of rent inducement | | 9,849 | 22,446 |
| Current portion of finance lease liabilities | | - | 1,826 |
| Revolving loans | 9 | - | 310,000 |
| | | 3,641,701 | 5,807,636 |
| Non-current liabilities | | | |
| Subordinate debt | 8 | 376,043 | 541,786 |
| Rent inducement | | 131,354 | 137,779 |
| Deferred income tax liabilities | | 92,929 | 101,054 |
| | | 4,242,027 | 6,588,255 |
| Shareholders' Equity | | | |
| Share capital | 10 | 1,757,643 | 1,757,643 |
| Share-based payments reserve | | 256,858 | 256,858 |
| Retained earnings | | 1,802,475 | 1,294,993 |
| | | 3,816,976 | 3,309,494 |
| | | \$ 8,059,003 | \$ 9,897,749 |

Subsequent event (Note 12)

"Franco Aquila"
.....
Chief Executive Officer

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

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|-----------------------------|--------------|----------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Sales | \$ 4,449,842 | \$ 4,781,030 | \$ 10,760,766 | \$ 11,500,279 |
| Cost of sales | 2,764,902 | 2,843,411 | 6,425,505 | 7,055,812 |
| Gross profit | 1,684,940 | 1,937,619 | 4,335,261 | 4,444,467 |
| Selling and administrative expenses | 1,119,544 | 1,068,066 | 3,466,484 | 2,867,623 |
| Foreign exchange loss (gain) | 79,930 | (71,466) | 8,003 | (81,860) |
| | 1,199,474 | 996,600 | 3,474,487 | 2,785,763 |
| Operating income | 485,466 | 941,019 | 860,774 | 1,658,704 |
| Finance costs | 45,666 | 83,454 | 165,517 | 140,058 |
| Income before income taxes | 439,800 | 857,565 | 695,257 | 1,518,646 |
| Income tax provision | | | | |
| Current | 132,510 | - | 221,478 | - |
| Deferred | (16,880) | 214,936 | (33,703) | 383,085 |
| | 115,630 | 214,936 | 187,775 | 383,085 |
| Net income and total comprehensive income | 324,170 | 642,629 | 507,482 | 1,135,561 |
| Net income per share | | | | |
| Basic and diluted | \$ 0.03 | \$ 0.06 | \$ 0.05 | \$ 0.11 |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | 10,220,187 | 10,220,187 | 10,220,187 | 10,220,187 |

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

| | Share capital ⁽¹⁾ | | Share-based payments reserve ⁽²⁾ | Retained earnings | Total shareholders' equity |
|---|------------------------------|------------------|---|-------------------|----------------------------|
| | Number of common shares | Amount | | | |
| 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 |
| Balance at September 30, 2013 | 10,220,187 | 1,757,643 | 256,858 | 1,294,993 | 3,309,494 |
| Net income and total comprehensive income | - | - | - | 507,482 | 507,482 |
| Balance at June 30, 2014 | 10,220,187 | 1,757,643 | 256,858 | 1,802,475 | 3,816,976 |

⁽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, | |
|--|----------------------------|---------------------|
| | 2014 | 2013 |
| Operating activities | | |
| Net income | \$ 507,482 | \$ 1,135,561 |
| Items not affecting cash | | |
| Depreciation | 220,688 | 218,409 |
| Deferred income taxes | (33,703) | 383,085 |
| Change in fair value of derivatives | - | 9,993 |
| Rent inducement | (19,022) | (31,349) |
| Loss on disposal of equipment | - | 23,380 |
| Unrealized foreign exchange loss (gain) | 46,144 | (84,314) |
| Finance costs | 165,517 | 140,058 |
| | 887,106 | 1,794,823 |
| Change in non-cash operating working capital | | |
| Finance receivables | 2,422,424 | (2,143,173) |
| Trade and other receivables | 405,744 | (956,727) |
| Inventories | (673,974) | 58,787 |
| Prepaid expenses | (246,741) | (362,754) |
| Trade payables, accrued charges and other | (104,233) | (233,473) |
| Income taxes payable | 221,478 | - |
| Customer deposits | 43,312 | 527,620 |
| | 2,068,010 | (3,109,720) |
| Interest paid | (143,017) | (136,236) |
| Income taxes paid | (52,267) | - |
| Cash provided by (used in) operating activities | 2,759,832 | (1,451,133) |
| Investing activities | | |
| Decrease in restricted cash | - | 300,000 |
| Purchase of equipment | (127,959) | (147,111) |
| Cash provided by (used in) investing activities | (127,959) | 152,889 |
| Financing activities | | |
| Proceeds from operating loans | 1,205,220 | 1,479,553 |
| Proceeds from securitization debt | 313,530 | 1,391,310 |
| Proceeds from subordinate debt | - | 758,297 |
| Repayment of securitization debt | (3,480,074) | - |
| Repayment of subordinate debt | (174,250) | (16,500) |
| Repayment of revolving loans | (310,000) | (100,000) |
| Repayment of notes payable | - | (300,000) |
| Repayment of finance lease liabilities | (1,826) | (52,996) |
| Cash provided by (used in) financing activities | (2,447,400) | 3,159,664 |
| Net increase in cash and cash equivalents | 184,473 | 1,861,420 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (10,604) | 52,367 |
| Cash and cash equivalents at beginning of the period | 1,693,876 | 841,008 |
| Cash and cash equivalents at end of the period | \$ 1,867,745 | \$ 2,754,795 |
| Supplemental cash flow disclosures - non cash transactions | | |
| Purchase of equipment | \$ 4,750 | \$ 8,916 |
| Amortization of financing costs - subordinate debt | 12,244 | 3,261 |
| Settlement of operating loans with proceeds from securitization debt | 688,452 | 999,068 |

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, 2014

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 shares trade on the TSX Venture Exchange (TSX-V: IPC).

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

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

2. Basis of preparation

Statement of compliance

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

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

Basis of measurement

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

Functional and presentation currency

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

3. Significant accounting policies

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

4. Critical accounting estimates and judgments

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

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

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

Revenue

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

Inventory

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

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

Equipment

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

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

4. Critical accounting estimates and judgments (continued)

Income taxes

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

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

5. Credit facilities

The Corporation has the following credit facilities, as amended on April 2, 2014, (the "Credit Facilities") with a large Canadian financial institution (the "Bank"):

(a) Overdraft Facility

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

(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. \$1,500,000 (\$1,601,000 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. \$4,320,000 (\$4,612,000 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 90 days of funding.

Securitization Facility

Under the Securitization 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%.

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

5. Credit facilities (continued)

(c) Foreign Exchange Loan Facility

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

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

6. Operating loans

For the nine-month periods ended June 30, 2014 and 2013, the Corporation used proceeds of U.S. \$623,880 and U.S. \$974,250 (\$688,452 and \$999,068 in Canadian dollars), respectively, from the sale of select trade receivables, under its Securitization Facility, to extinguish certain of its Operating Loans.

7. Finance receivables and securitization debt

Finance receivables are comprised of the following U.S. dollar denominated trade receivables, which have been sold to a large Canadian financial institution (the "Bank"), net of a holdback of 10%, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses:

| | June 30, 2014 | |
|----------------------------|------------------------------------|--|
| | Carrying amount in U.S. dollars | Carrying amount in Canadian dollars |
| Finance receivables | 1,039,800 | 1,110,090 |
| Less: Holdback | (103,980) | (111,009) |
| Securitization debt | 935,820 | 999,081 |

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 finance receivables are due to the Bank on or before December 20, 2014 at which time the securitization debt is extinguished and the holdback is remitted to the Corporation.

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

8. Subordinate debt

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

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

| | Principal payments | Amortization of debt issuance costs | Amortization of carrying amount |
|-------------------|--------------------|-------------------------------------|---------------------------------|
| Due within 1 year | \$ 199,000 | \$ 11,994 | \$ 187,006 |
| 1 to 3 years | 385,500 | 9,457 | 376,043 |
| | \$ 584,500 | \$ 21,451 | \$ 563,049 |

9. Related party transactions

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

The Corporation purchased the following amounts of raw material inventories in U.S. dollars from an entity controlled by a party related to the President of the Corporation (the "Related Entity"):

| | Three months ended June 30, | | Nine months ended June 30, | |
|---------------------------------------|-----------------------------|---------------|----------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Purchases in U.S. dollars | \$ 239,143 | \$ 91,895 | \$ 443,683 | \$ 109,895 |
| Equivalent in Canadian dollars | 261,883 | 94,483 | 481,207 | 112,933 |

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

9. Related party transactions (continued)

The Corporation's trade payables and accrued charges include the following balances in U.S. dollars payable to the Related Entity for the purchase of raw material inventories:

| | June 30, 2014 | September 30, 2013 |
|---------------------------------------|--------------------------|-----------------------|
| Balance in U.S. dollars | \$ 62,994 | \$ 39,808 |
| Equivalent in Canadian dollars | 67,252 | 41,152 |

10. Share capital

On June 25, 2014, the Corporation entered into an investment agreement (the "Investment Agreement"), with Saudi FAS Holding Company and its wholly-owned British Columbia subsidiary, FAS Entertainment B.C. Ltd., (collectively "FAS") pursuant to which FAS has agreed to invest \$8,839,500 into the Corporation (the "Private Placement"). Proceeds from the Private Placement will be used by the Corporation for working capital and general corporate purposes.

Pursuant to the Investment Agreement:

- FAS will purchase 10,650,000 units of the Corporation (the "Units") at a purchase price of \$0.83 per Unit for gross proceeds to the Corporation of \$8,839,500;
- Each Unit will consist of one common share of the Corporation (a "Common Shares") and one tenth of a share purchase warrant, with each whole warrant (a "Warrant") being exercisable until October 1, 2016 to acquire one additional Common Share at a price of \$0.85 per Common Share;
- FAS will be granted a pre-emptive right to participate on a pro rata basis in any future financings of the Corporation to maintain its percentage interest in the Common Shares post-closing of the Private Placement;
- FAS will be granted anti-dilution rights restricting, so long as FAS holds at least 50% of the outstanding Common Shares, the number of stock options the Corporation may grant without the prior written approval of FAS; and
- For so long as FAS and its affiliates continue to own at least 50% of the outstanding Common Shares, FAS will have the right to nominate 50% of the Corporation's Board and, should FAS and its affiliates own less than 50% but more than 20% of the outstanding Common Shares, FAS will have the right to nominate two individuals to the Corporation's Board.
- Closing of the Private Placement is subject to certain closing conditions standard for a transaction of this nature, including, without limitation, the following: (i) approval of the Private Placement by the shareholders of the Corporation; and (ii) receipt of all required regulatory approvals.

Upon closing of the Private Placement, FAS will own 10,650,000 Common Shares and 1,065,000 Warrants, representing approximately 51% of the Common Shares outstanding on completion of the Private Placement, or approximately 53% on a fully diluted basis, assuming full exercise of the Warrants.

As described in Note 12, on August 15, 2014, the shareholders of the Corporation voted to approve the Private Placement.

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

11. Segment reporting and concentration of sales

Business segments

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

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

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

| | Three months ended June 30, 2014 | | |
|-------------------------------------|----------------------------------|-----------------------------------|--------------|
| | Manufacturing | Family Entertainment Centre | Total |
| Sales to external customers | \$ 4,188,700 | \$ 261,142 | \$ 4,449,842 |
| Cost of sales | 2,605,953 | 158,949 | 2,764,902 |
| Gross profit | 1,582,747 | 102,193 | 1,684,940 |
| Selling and administrative expenses | 975,906 | 143,638 | 1,119,544 |
| Foreign exchange loss | 79,930 | - | 79,930 |
| Finance costs | 45,666 | - | 45,666 |
| Income taxes | 126,405 | (10,775) | 115,630 |
| Net income (loss) | \$ 354,840 | \$ (30,670) | \$ 324,170 |
| Total assets | \$ 6,904,215 | \$ 1,154,788 | \$ 8,059,003 |
| Total liabilities | \$ 4,081,458 | \$ 160,569 | \$ 4,242,027 |
| Depreciation expense | \$ 40,109 | \$ 32,387 | \$ 72,496 |
| Purchase of equipment | \$ 72,031 | \$ - | \$ 72,031 |

| | Nine months ended June 30, 2014 | | |
|-------------------------------------|---------------------------------|-----------------------------------|---------------|
| | Manufacturing | Family Entertainment Centre | Total |
| Sales to external customers | \$ 9,759,028 | \$ 1,001,738 | \$ 10,760,766 |
| Cost of sales | 5,849,261 | 576,244 | 6,425,505 |
| Gross profit | 3,909,767 | 425,494 | 4,335,261 |
| Selling and administrative expenses | 3,034,384 | 432,100 | 3,466,484 |
| Foreign exchange loss | 8,003 | - | 8,003 |
| Finance costs | 165,501 | 16 | 165,517 |
| Income taxes | 185,451 | 2,324 | 187,775 |
| Net income (loss) | \$ 516,428 | \$ (8,946) | \$ 507,482 |
| Total assets | \$ 6,904,215 | \$ 1,154,788 | \$ 8,059,003 |
| Total liabilities | \$ 4,081,458 | \$ 160,569 | \$ 4,242,027 |
| Depreciation expense | \$ 117,098 | \$ 103,590 | \$ 220,688 |
| Purchase of equipment | \$ 122,937 | \$ 9,772 | \$ 132,709 |

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

11. Segment reporting and concentration of sales (continued)

Business segments (continued)

| | 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 |
| Purchase of 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 |
| Purchase of equipment | \$ 133,885 | \$ 22,142 | \$ 156,027 |

Iplayco Corporation Ltd.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

Unaudited (Expressed in Canadian dollars)

11. Segment reporting and concentration of sales (continued)

Geographic and customer information

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

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

| | Three months ended June 30, | | Nine months ended June 30, | |
|--------------|-----------------------------|---------------------|----------------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Sales | | | | |
| Canada | \$ 344,682 | \$ 1,012,698 | \$ 1,237,211 | \$ 1,989,723 |
| Americas | 722,972 | 716,621 | 2,568,422 | 4,618,311 |
| Other | 3,382,188 | 3,051,711 | 6,955,133 | 4,892,245 |
| | \$ 4,449,842 | \$ 4,781,030 | \$ 10,760,766 | \$ 11,500,279 |

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, | |
|------------|-----------------------------|--------------|----------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Customer A | \$ 1,316,463 | \$ 2,530,414 | \$ 2,478,520 | \$ 4,055,615 |
| Customer B | 1,040,215 | - | - | - |
| Customer C | - | 513,525 | - | - |

12. Subsequent event

On August 15, 2014, the shareholders of the Corporation voted to approve the Private Placement described in Note 10.



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

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

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

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

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

Overview

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

Non-brokered Private Placement

On June 25, 2014, the Corporation entered into an investment agreement (the "Investment Agreement"), with Saudi FAS Holding Company and its wholly-owned British Columbia subsidiary, FAS Entertainment B.C. Ltd., (collectively "FAS") pursuant to which FAS has agreed to invest \$8,839,500 into the Corporation (the "Private Placement"). Proceeds from the Private Placement will be used by the Corporation for working capital and general corporate purposes.

FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are held beneficially by three individuals. FAS and its subsidiaries (the "Group") are one of the leading groups of companies in the Kingdom of Saudi Arabia focusing on the retail and real estate business sectors. The Group started in 1989 as a partnership between three brothers as a retail apparel store operator. Today the Group has diversified from fashion retail business into other sectors. The diversification has further extended to cover non-retail business sectors such as real-estate, construction, financial services, health care and hospitality.

Additional information about FAS can be found on its website at www.fawazalhokair.com.

FAS and Arabian Centres Company Limited ("ACCL"), Iplayco's largest customer over the past three years, are affiliates of Fawaz Abdulaziz Al Hokair & Co. ("Al Hokair"), a retail conglomerate listed on the Saudi stock exchange with a market capitalization in excess of 20 billion Saudi Riyal (\$6 billion in Canadian dollars).



ACCL is the largest builder, owner and operator of shopping malls operating in Saudi Arabia. ACCL operates 13 shopping malls on over 1.2 million square meters of prime retail real estate. Additional information about ACCL can be found on its website at www.arabiancentres.com.

Al Hokair is a leading fashion retail trading company with retail operations in the Middle East, North Africa, Central Asia, Caucasus Region and the United States. Al Hokair has franchise agreements with international fashion retailers including Inditex Group, Gap Inc., Arcadia Group, Marks & Spencer and Mango. Alhokair represents over 80 international retail brands through over 1,700 stores. The brand portfolio of Al Hokair covers all of the major sectors of the apparel market, including womenswear, menswear, childrenswear, footwear and accessories and beauty and home ware products. Additional information about Al Hokair can be found on its website at www.fawazalhokairfashion.com.

Through its affiliates, FAS is planning to expand its chain of Billy Beez[®] family entertainment centres to hundreds of locations worldwide and build a globally recognizable brand. FAS is investing in Iplayco to secure supply of play structures for its Billy Beez[®] expansion. In addition to supplying FAS' affiliates, Iplayco will continue to service and grow its other customer base.

Pursuant to the Investment Agreement:

- FAS will purchase 10,650,000 units of the Corporation (the "Units") at a purchase price of \$0.83 per Unit for gross proceeds to the Corporation of \$8,839,500;
- Each Unit will consist of one common share of the Corporation (a "Common Shares") and one tenth of a share purchase warrant, with each whole warrant (a "Warrant") being exercisable until October 1, 2016 to acquire one additional Common Share at a price of \$0.85 per Common Share;
- FAS will be granted a pre-emptive right to participate on a pro rata basis in any future financings of the Corporation to maintain its percentage interest in the Common Shares post-closing of the Private Placement;
- FAS will be granted anti-dilution rights restricting, so long as FAS holds at least 50% of the outstanding Common Shares, the number of stock options the Corporation may grant without the prior written approval of FAS; and
- For so long as FAS and its affiliates continue to own at least 50% of the outstanding Common Shares, FAS will have the right to nominate 50% of the Corporation's Board and, should FAS and its affiliates own less than 50% but more than 20% of the outstanding Common Shares, FAS will have the right to nominate two individuals to the Corporation's Board.
- Closing of the Private Placement is subject to certain closing conditions standard for a transaction of this nature, including, without limitation, the following: (i) approval of the Private Placement by the shareholders of the Corporation; and (ii) receipt of all required regulatory approvals.

Upon closing of the Private Placement, FAS will own 10,650,000 Common Shares and 1,065,000 Warrants, representing approximately 51% of the Common Shares outstanding on completion of the Private Placement, or approximately 53% on a fully diluted basis, assuming full exercise of the Warrants.

On August 15, 2014, the shareholders of the Corporation voted to approve the Private Placement.

Consolidated Results

Sales for the three months ended June 30, 2014 ("Q3-14") decreased by 6.9% to \$4,449,842 from \$4,781,030 for the three months ended June 30, 2013 ("Q3-13"). Gross profit percentage decreased to 37.9% of sales in Q3-14 from 40.5% in Q3-13. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$1,245,140, or 28.0% of sales, in Q3-14 from \$1,080,054, or 22.6% of sales, in Q3-13. Net income decreased to \$324,170, or diluted net income per share of \$0.03, in Q3-14 from \$642,629, or diluted net income per share of \$0.06, in Q3-13.



Sales for the nine months ended June 30, 2014 ("YTD – Q3-14") decreased by 6.4% to \$10,760,766 from \$11,500,279 for the nine months ended June 30, 2013 ("YTD – Q3-13"). Gross profit percentage increased to 40.3% of sales for YTD – Q3-14 from 38.6% for YTD – Q3-13. Operating expenses, including foreign exchange gains and losses and finance costs, increased to \$3,640,004, or 33.8% of sales, for YTD – Q3-14 from \$2,925,821, or 25.4% of sales, for YTD – Q3-13. Net income decreased to \$507,482, or diluted net income per share of \$0.05, for YTD – Q3-14 from \$1,135,561, or diluted net income per share of \$0.11, for YTD – Q3-13.

Manufacturing Operations

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

Sales generated by our Manufacturing operations decreased by 5.9% to \$4,188,700 in Q3-14 from \$4,449,413 in Q3-13. This decrease is due primarily to lower sales to our customers located in Canada, who accounted for sales of \$83,540 (or 2.0% of total Manufacturing sales) in Q3-14 compared to \$681,081 (or 15.3%) in Q3-13, partially offset by higher sales to our customers located outside of the Americas, who accounted for sales of \$3,382,188 (or 76.0% of total Manufacturing sales) in Q3-14 compared to \$3,051,711 (or 63.8%) in Q3-13.

Sales generated by our Manufacturing operations decreased by 5.6% to \$9,759,028 for YTD – Q3-14 from \$10,340,333 for YTD – Q3-13. This decrease is due primarily to lower sales to our customers located in the Americas, including Canada, who accounted for sales of \$2,803,895 (or 28.7% of total Manufacturing sales) for YTD – Q3-14 compared to \$5,448,088 (or 52.7%) for YTD – Q3-13, partially offset by higher sales to our customers located outside of the Americas, who accounted for sales of \$6,955,133 (or 71.3% of total Manufacturing sales) for YTD – Q3-14 compared to \$4,892,245 (or 47.3%) for YTD – Q3-13.

In Q3-14, two significant customers accounted for 56.3% of sales by our Manufacturing operations as compared to two significant customers accounting for 68.4% of sales by our Manufacturing operations in Q3-13. For YTD – Q3-14, one significant customer accounted for 25.4% of total sales by our Manufacturing operations as compared to one significant customer accounting for 39.2% of total sales by our Manufacturing operations for YTD – Q3-13. Should these significant customers end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would decline materially. We expect continued business concentration from one significant customer in the three-month period ending September 30, 2014 ("Q4-14"). To manage the credit risk from our customers, we perform ongoing credit evaluations of our customers and we carry third party insurance that limits our exposure to approximately 10% of the bad debt amount from finance receivables and insured trade receivables.

We expected sales generated by our Manufacturing operations in Q3-14 to increase significantly as compared to sales for the three months ended March 31, 2014 ("Q2-14"). Sales generated by our Manufacturing operations increased by 41.3% to \$4,188,700 in Q3-14 from \$2,964,634 in Q2-14. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations in Q4-14 to increase significantly as compared to Q3-14.

Gross profit percentage decreased to 37.8% of sales by our Manufacturing operations in Q3-14 from 40.8% in Q3-13 due primarily to sales mix. We expected our gross profit percentage in Q3-14 to remain in-line with Q2-14. Gross profit percentage decreased to 37.8% of sales by our Manufacturing operations in Q3-14 from 44.8% in Q2-14 due to the combined effect of sales mix and unfavorable foreign exchange rates between the U.S. dollar and the Canadian dollar in Q3-14. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations in Q4-14 to remain in-line with Q3-14.



Gross profit percentage increased to 40.1% of sales by our Manufacturing operations for YTD – Q3-14 from 38.5% for YTD – Q3-13 due primarily to the combined effect of sales mix and reductions in manufacturing costs for YTD – Q3-14 as compared to YTD – Q3-13.

Our Manufacturing operations generated net income of \$354,840 in Q3-14 compared to net income of \$601,056 in Q3-13. This decrease is due primarily to the combined effect of lower sales and unfavorable foreign exchange rates between the U.S. dollar and the Canadian dollar in Q3-14 as compared to Q3-13. We expected the net operating results from our Manufacturing operations to increase significantly in Q3-14 as compared to Q2-14. Our Manufacturing operations generated net income of \$354,840 in Q3-14 compared to net income of \$116,050 in Q2-14. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations to increase significantly in Q4-14 as compared to Q3-14.

Our Manufacturing operations generated net income of \$516,428 for YTD – Q3-14 compared to net income of \$1,135,961 for YTD – Q3-13. This decrease is due primarily to the combined effect of lower sales and higher selling and administrative expenses for YTD – Q3-14 as compared to YTD – Q3-13.

Family Entertainment Centre Operations

Sales generated by our FEC operations decreased by 21.3% to \$261,142 in Q3-14 from \$331,617 in Q3-13. We expected sales generated by our FEC operations to decrease moderately in Q3-14 as compared to Q2-14 due primarily to seasonality. Sales generated by our FEC operations decreased by 35.6% to \$261,142 in Q3-14 from \$405,754 in Q2-14. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to decrease moderately in Q4-14 as compared to Q3-14 due primarily to seasonality.

Sales generated by our FEC operations decreased by 13.6% to \$1,001,738 for YTD – Q3-14 from \$1,159,946 for YTD – Q3-13 due primarily to a decrease in the number of customer visits to our FEC.

Our FEC operations generated a net loss of \$30,670 in Q3-14, compared to net income of \$41,573 in Q3-13. We expected the net operating results from our FEC operations to decrease moderately in Q3-14 as compared to Q2-14 due primarily to seasonality. Our FEC operations generated a net loss of \$30,670 in Q3-14 as compared to net income of \$43,050 in Q2-14. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to decrease moderately in Q4-14 as compared to Q3-14 due primarily to lower anticipated sales resulting from seasonality.

Our FEC operations generated a net loss of \$8,946 for YTD – Q3-14, compared to a net loss of \$400 for YTD – Q3-13. The increase in net loss for YTD – Q3-14 as compared to YTD – Q3-13 is due primarily to lower sales from fewer customer visits for YTD – Q3-14 as compared to YTD – Q3-13.

The net operating results from our FEC operations will continue to fluctuate from quarter to quarter based on seasonality factors, such as weather conditions and school holidays. Seasonality trends have developed in sales and net operating results, with Q2 historically generating the strongest operating results, due primarily to a higher number of customer visits during the winter months. Conversely, our Q4 operating results have historically been the weakest due to a lower number of customer visits during the summer months.



Results of Operations

The following tables set forth the operating results of our Manufacturing and our FEC business segments for the three and nine months ended June 30, 2014 and 2013, expressed as a percentage of total sales:

| | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|-------------------------------------|----------------------------------|----------------|--------------|----------------------------------|--------------|---------------|
| | MFG | FEC | Total | MFG | FEC | Total |
| Sales to external customers | 94.1 % | 5.9 % | 100.0 % | 93.1 % | 6.9 % | 100.0 % |
| Cost of sales | 58.5 | 3.6 | 62.1 | 55.1 | 4.4 | 59.5 |
| Gross profit | 35.6 | 2.3 | 37.9 | 38.0 | 2.5 | 40.5 |
| Selling and administrative expenses | 22.0 | 3.2 | 25.2 | 19.6 | 2.8 | 22.4 |
| Foreign exchange loss (gain) | 1.8 | - | 1.8 | (1.5) | - | (1.5) |
| Finance costs | 1.0 | - | 1.0 | 1.7 | - | 1.7 |
| Income taxes | 2.8 | (0.2) | 2.6 | 5.6 | (1.1) | 4.5 |
| Net income (loss) | 8.0 % | (0.7) % | 7.3 % | 12.6 % | 0.8 % | 13.4 % |

| | Nine months ended June 30, 2014 | | | Nine months ended June 30, 2013 | | |
|-------------------------------------|---------------------------------|----------------|--------------|---------------------------------|------------|--------------|
| | MFG | FEC | Total | MFG | FEC | Total |
| Sales to external customers | 90.7 % | 9.3 % | 100.0 % | 89.9 % | 10.1 % | 100.0 % |
| Cost of sales | 54.3 | 5.4 | 59.7 | 55.3 | 6.1 | 61.4 |
| Gross profit | 36.4 | 3.9 | 40.3 | 34.6 | 4.0 | 38.6 |
| Selling and administrative expenses | 28.2 | 4.0 | 32.2 | 20.9 | 4.0 | 24.9 |
| Foreign exchange loss (gain) | 0.1 | - | 0.1 | (0.7) | - | (0.7) |
| Finance costs | 1.5 | - | 1.5 | 1.2 | - | 1.2 |
| Income taxes | 1.7 | - | 1.7 | 3.3 | - | 3.3 |
| Net income (loss) | 4.9 % | (0.1) % | 4.8 % | 9.9 % | - % | 9.9 % |

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

| | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|--------------|----------------------------------|--------------|----------------|----------------------------------|--------------|----------------|
| | MFG | FEC | Total | MFG | FEC | Total |
| Sales | | | | | | |
| Canada | 1.9 % | 5.9 % | 7.8 % | 14.2 % | 6.9 % | 21.1 % |
| Americas | 16.2 | - | 16.2 | 15.0 | - | 15.0 |
| Other | 76.0 | - | 76.0 | 63.9 | - | 63.9 |
| | 94.1 % | 5.9 % | 100.0 % | 93.1 % | 6.9 % | 100.0 % |

| | Nine months ended June 30, 2014 | | | Nine months ended June 30, 2013 | | |
|--------------|---------------------------------|--------------|----------------|---------------------------------|---------------|----------------|
| | MFG | FEC | Total | MFG | FEC | Total |
| Sales | | | | | | |
| Canada | 2.2 % | 9.3 % | 11.5 % | 7.2 % | 10.1 % | 17.3 % |
| Americas | 23.9 | - | 23.9 | 40.2 | - | 40.2 |
| Other | 64.6 | - | 64.6 | 42.5 | - | 42.5 |
| | 90.7 % | 9.3 % | 100.0 % | 89.9 % | 10.1 % | 100.0 % |



Results of Operations – Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Sales

Sales decreased by \$331,188 (or 6.9%) to \$4,449,842 in Q3-14 from \$4,781,030 in Q3-13 due primarily to a decrease in sales of \$260,713 by our Manufacturing operations.

In Q3-14, two significant customers accounted for 53.0% of our sales. In Q3-13, two significant customers accounted for 63.7% of our sales. We expect continued business concentration from one significant customer in Q4-14.

We expected our sales to increase significantly in Q3-14 as compared to Q2-14. Sales increased by \$1,079,454 (or 32.0%) to \$4,449,842 in Q3-14 from \$3,370,388 in Q2-14. Based on our updated sales forecasts, we are expecting sales to increase significantly in Q4-14 as compared to Q3-14 due primarily to an anticipated increase in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage decreased to 37.9% of sales in Q3-14 from 40.5% in Q3-13. This decrease is due primarily to our Manufacturing operations which generated a gross profit percentage of 37.8% in Q3-14, compared to 40.8% in Q3-13 due primarily to the combined effect of sales mix and unfavourable foreign exchange rates between the U.S. dollar and the Canadian dollar that resulted in lower margins in Q3-14 as compared to Q3-13.

We expected our gross profit percentage in Q3-14 to remain in-line with Q2-14. Gross profit percentage decreased to 37.9% in Q3-14, compared to 45.4% in Q2-14 due primarily to the combined effect of sales mix and unfavourable foreign exchange rates between the U.S. dollar and the Canadian dollar that resulted in lower margins in Q3-14 as compared to Q2-14. Based on our updated sales-mix forecast, we are expecting our gross profit percentage in Q4-14 to remain in-line with Q3-14.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$165,086 (or 15.3%) to \$1,245,140 in Q3-14, from \$1,080,054 in Q3-13. This increase is due primarily to the foreign exchange loss in Q3-14 as compared to the foreign exchange gain in Q3-13.

We expected our operating expenses, as a percentage of sales to decrease moderately in Q3-14 as compared to Q2-14. Our operating expenses decreased to 28.0% of sales in Q3-14 from 39.0% in Q2-14 due primarily to lower selling and administrative expenses by our Manufacturing operations in Q3-14 as compared to Q2-14. Based on our updated forecasts, we are expecting operating expenses in Q4-14 to remain in-line, as a percentage of sales, with Q3-14.

Income Taxes

The income tax expense of \$115,630 in Q3-14 is comprised of a current income tax expense of \$132,510 on earnings before income taxes generated by our Manufacturing operations, and a deferred income tax recovery of \$16,880. The income tax expense of \$214,936 in Q3-13 is comprised of a deferred income tax expense of \$265,669 for our Manufacturing operations and a deferred income tax recovery of \$50,733 for our FEC operations.

Net Operating Results

Net income and total comprehensive income decreased to \$324,170, or diluted net income per share of \$0.03, in Q3-14 from \$642,629, or diluted net income per share of \$0.06, in Q3-13. The decrease in net operating results is due primarily to the decrease in net income by our Manufacturing operations.



We expected our net operating results to increase significantly in Q3-14 as compared to Q2-14. We generated net income of \$324,170 in Q3-14, compared to net income of \$159,100 in Q2-14. Based on our updated forecasts, we are expecting net income to increase significantly in Q4-14 as compared to Q3-14, due primarily to anticipated earnings by our Manufacturing operations.

Results of Operations – Nine Months Ended June 30, 2014 Compared to Nine Months Ended June 30, 2013

Sales

Sales decreased by \$739,513 (or 6.4%) to \$10,760,766 for YTD – Q3-14 from \$11,500,279 for YTD – Q3-13 due primarily to a decrease in sales of \$581,305 by our Manufacturing operations.

For YTD – Q3-14, one significant customer accounted for 23.0% of our sales. For YTD – Q3-13, one significant customer accounted for 35.3% of our sales. We expect continued business concentration from one significant customer.

We are expecting moderate growth in sales for our 2014 fiscal year as compared to 2013 due primarily to an anticipated increase in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage increased to 40.3% of sales for YTD – Q3-14 from 38.6% for YTD – Q3-13. This increase is due primarily to a higher gross profit percentage by our Manufacturing operations which generated a gross profit percentage of 40.1% for YTD – Q3-14, compared to 38.5% for YTD – Q3-13.

We expect our gross profit percentage for our 2014 fiscal year to remain in-line with 2013 due primarily to the combined effect of lower manufacturing costs offset by unfavorable foreign exchange rates between the U.S. dollar and the Canadian dollar in 2014 as compared to 2013.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$714,183 (or 24.4%) to \$3,640,004 for YTD – Q3-14 from \$2,925,821 for YTD – Q3-13. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations from increased headcount and other overhead expenses.

We expect the following for our 2014 fiscal year as compared to 2013:

- Significant increase in selling and administrative expenses, excluding depreciation, due to increased headcount, higher wages and benefits, and higher selling and marketing expenses by our Manufacturing operations.
- Depreciation expense to remain in-line with 2013.
- Net foreign exchange loss in 2014 as compared to a net foreign exchange gain in 2013.
- Finance costs to remain in-line with 2013.



Income Taxes

The income tax expense of \$187,775 for YTD – Q3-14 is comprised of a current income tax expense of \$221,478 on earnings before income taxes generated by our Manufacturing operations, and a deferred income tax recovery of \$33,703. The income tax expense of \$383,085 for YTD – Q3-13 results primarily from our Manufacturing operations.

Net Operating Results

Net income and total comprehensive income decreased to \$507,482, or diluted net income per share of \$0.05, for YTD – Q3-14 from \$1,135,561, or diluted net income per share of \$0.11, for YTD – Q3-13. The decrease in net operating results is due primarily to lower sales and lower net income from our Manufacturing operations.

Based on our updated forecasts, we expect the net operating results for our 2014 fiscal year to decrease moderately as compared to 2013 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, 2013 and 2012. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

| | Q4-12 | Q1-13 | Q2-13 | Q3-13 | Q4-13 | Q1-14 | Q2-14 | Q3-14 |
|---|-------------------|-------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| CONSOLIDATED | 30-Sep-12 | 31-Dec-12 | 31-Mar-13 | 30-Jun-13 | 30-Sep-13 | 31-Dec-13 | 31-Mar-14 | 30-Jun-14 |
| Sales | \$ 3,396,363 | \$ 3,495,495 | \$ 3,223,754 | \$ 4,781,030 | \$ 3,711,714 | \$ 2,940,536 | \$ 3,370,388 | \$ 4,449,842 |
| Cost of sales | 1,995,979 | 2,146,708 | 2,065,693 | 2,843,411 | 2,463,401 | 1,821,670 | 1,838,933 | 2,764,902 |
| Gross profit | 1,400,384 | 1,348,787 | 1,158,061 | 1,937,619 | 1,248,313 | 1,118,866 | 1,531,455 | 1,684,940 |
| Selling and administrative expenses | 826,623 | 903,831 | 895,726 | 1,068,066 | 993,587 | 1,074,355 | 1,272,585 | 1,119,544 |
| Foreign exchange loss (gain) | 16,253 | 11,067 | (21,461) | (71,466) | 54,512 | (73,207) | 1,280 | 79,930 |
| Finance costs | 34,508 | 30,769 | 25,835 | 83,454 | 72,831 | 78,210 | 41,641 | 45,666 |
| Income taxes | 130,614 | 102,894 | 65,255 | 214,936 | 33,701 | 15,296 | 56,849 | 115,630 |
| Net income (loss) | \$ 392,386 | \$ 300,226 | \$ 192,706 | \$ 642,629 | \$ 93,682 | \$ 24,212 | \$ 159,100 | \$ 324,170 |
| Basic and diluted net income (loss) per share | 0.04 | 0.03 | 0.02 | 0.06 | 0.01 | 0.00 | 0.02 | 0.03 |

| | Q4-12 | Q1-13 | Q2-13 | Q3-13 | Q4-13 | Q1-14 | Q2-14 | Q3-14 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| MANUFACTURING | 30-Sep-12 | 31-Dec-12 | 31-Mar-13 | 30-Jun-13 | 30-Sep-13 | 31-Dec-13 | 31-Mar-14 | 30-Jun-14 |
| Sales | \$ 3,118,263 | \$ 3,113,886 | \$ 2,777,034 | \$ 4,449,413 | \$ 3,444,070 | \$ 2,605,694 | \$ 2,964,634 | \$ 4,188,700 |
| Cost of sales | 1,802,634 | 1,893,020 | 1,829,101 | 2,635,152 | 2,283,822 | 1,605,699 | 1,637,609 | 2,605,953 |
| Gross profit | 1,315,629 | 1,220,866 | 947,933 | 1,814,261 | 1,160,248 | 999,995 | 1,327,025 | 1,582,747 |
| Selling and administrative expenses | 668,567 | 720,529 | 751,112 | 935,861 | 845,513 | 932,151 | 1,126,327 | 975,906 |
| Foreign exchange loss (gain) | 16,253 | 11,067 | (21,461) | (71,466) | 54,512 | (73,207) | 1,280 | 79,930 |
| Finance costs | 29,512 | 29,790 | 25,307 | 83,141 | 72,679 | 78,194 | 41,641 | 45,666 |
| Income taxes | 161,731 | 116,188 | 1,362 | 265,669 | 48,741 | 17,319 | 41,727 | 126,405 |
| Net income (loss) | \$ 439,566 | \$ 343,292 | \$ 191,613 | \$ 601,056 | \$ 138,803 | \$ 45,538 | \$ 116,050 | \$ 354,840 |

| | Q4-12 | Q1-13 | Q2-13 | Q3-13 | Q4-13 | Q1-14 | Q2-14 | Q3-14 |
|-------------------------------------|--------------------|--------------------|-----------------|------------------|--------------------|--------------------|------------------|--------------------|
| FEC | 30-Sep-12 | 31-Dec-12 | 31-Mar-13 | 30-Jun-13 | 30-Sep-13 | 31-Dec-13 | 31-Mar-14 | 30-Jun-14 |
| Sales | \$ 278,100 | \$ 381,609 | \$ 446,720 | \$ 331,617 | \$ 267,644 | \$ 334,842 | \$ 405,754 | \$ 261,142 |
| Cost of sales | 193,345 | 253,688 | 236,592 | 208,259 | 179,579 | 215,971 | 201,324 | 158,949 |
| Gross profit | 84,755 | 127,921 | 210,128 | 123,358 | 88,065 | 118,871 | 204,430 | 102,193 |
| Selling and administrative expenses | 158,056 | 183,302 | 144,614 | 132,205 | 148,074 | 142,204 | 146,258 | 143,638 |
| Finance costs | 4,996 | 979 | 528 | 313 | 152 | 16 | - | - |
| Income taxes | (31,117) | (13,294) | 63,893 | (50,733) | (15,040) | (2,023) | 15,122 | (10,775) |
| Net income (loss) | \$ (47,180) | \$ (43,066) | \$ 1,093 | \$ 41,573 | \$ (45,121) | \$ (21,326) | \$ 43,050 | \$ (30,670) |

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

Liquidity and Capital Resources

Operating Activities

Cash used by operating activities decreased to \$507,279 in Q3-14 from \$882,955 in Q3-13 due primarily to the combined effect of the change in non-cash operating working capital, partially offset by lower net income in Q3-14 as compared to Q3-13.

Cash provided by operating activities amounted to \$2,759,832 for YTD – Q3-14, compared to cash used in operating activities of \$1,451,133 for YTD – Q3-13. The change in cash from operating activities is due primarily to the collection of finance receivables during YTD - Q3-14.

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

Investing Activities

Cash used in investing activities increased to \$67,598 in Q3-14 from \$51,272 in Q3-13 due to lower purchases of equipment in Q3-14 as compared to Q3-13.

Cash used in investing activities amounted to \$127,959 for YTD – Q3-14, compared to cash provided by investing activities of \$152,889 for YTD – Q3-13. The change in cash from investing activities is due primarily to the decrease in restricted cash during YTD – Q3-13.

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

Financing Activities

Cash provided by financing activities increased to \$870,470 in Q3-14 from \$467,336 in Q3-13 due primarily to higher proceeds from operating loans in Q3-14 as compared to Q3-13.

Cash used in financing activities amounted to \$2,447,400 for YTD – Q3-14, compared to cash provided by financing activities of \$3,159,664 for YTD – Q3-13. The change in cash from financing activities is due primarily to the repayment of the securitization debt during YTD – Q3-14.



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

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repayment of our loans, subordinate debt, and leases, and funding of capital expenditures. We expect a significant increase in our near-term cash requirements for working capital due to the anticipated increase in sales orders from FAS' affiliates for the expansion of their chain of Billy Beez[®] family entertainment centres. Part of the proceeds from the Private Placement will be used to fund our working capital requirements.

Our sources of cash include cash on hand, trade receivables, customer deposits, cash from operations, funding from our credit facilities (see "Credit Facilities") and anticipated proceeds from the Private Placement. 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 anticipated proceeds from the Private Placement, borrowings (see "Credit Facilities"), cash from operations, cash on hand, and trade receivables as follows:

- Anticipated closing of the Private Placement in September 2014 and receipt of proceeds of \$8,839,500.
- Cash and cash equivalents of \$1,867,745 at June 30, 2014 (September 30, 2013 – \$1,693,876).
- Trade and other receivables of \$1,217,170 at June 30, 2014 (September 30, 2013 – 1,662,452).

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

The Corporation's capital is comprised of securitization debt, subordinate debt and shareholders' equity. Anticipated proceeds from the Private Placement will increase the Corporation's shareholders' equity by \$8,839,500 less share issue costs.

The Corporation augments these capital sources with an available Overdraft Facility of \$600,000, an Operating Loan Facility of U.S. \$1,500,000 (\$1,601,000 in Canadian dollars), and a Securitization Facility of U.S. \$4,320,000 (\$4,612,000 in Canadian dollars), which are all subject to annual renewals (see "Credit Facilities").

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

Although we have also chosen subordinate debt financing, with a maturity of April 15, 2017, as part of our capital strategy to ensure adequate working capital for customer orders that are not financed by our other credit facilities, we intend to extinguish our subordinate debt prior to its maturity with part of the proceeds from the Private Placement.

On April 3, 2014, the Corporation exercised its option under the subordinate debt agreement to extinguish its revolving loans of \$310,000 (see "Related Party Transactions").



Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At June 30, 2014, all financial ratios and tests have been met.

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

Credit Facilities

The Corporation has the following credit facilities, as amended on April 2, 2014, (the "Credit Facilities") with a large Canadian financial institution (the "Bank"):

(a) Overdraft Facility

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

(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. \$1,500,000 (\$1,601,000 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. \$4,320,000 (\$4,612,000 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 90 days of funding.

Securitization Facility

Under the Securitization 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%.

(c) Foreign Exchange Loan Facility

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

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



Market Risk Disclosure

Currency risk

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

We are exposed to foreign currency fluctuations because a significant portion 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 \$1,200,000 to purchase foreign exchange forward contracts and options up to an aggregate of \$6,666,666, with a maximum maturity of 12 months. We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

During the three and nine months ended June 30, 2014, the Corporation recorded net foreign exchange losses of \$71,684 and \$14,688, respectively, on its foreign exchange forward contracts due to the weakening of the Canadian dollar against the U.S. dollar in Q3-14. At June 30, 2014 and September 30, 2013, there were no foreign exchange forward contracts outstanding.

Credit risk

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

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

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

Trade receivables with six customers represent approximately 60% of the balance of trade receivables as at June 30, 2014 (September 30, 2013 – three customers representing approximately 75%). It is the opinion of management that these accounts do not represent a significant credit risk.

Interest rate risk

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

Liquidity risk

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

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



Legal Proceedings

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

Related Party Transactions

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

During the three and nine-month periods ended June 30, 2014, the Corporation purchased raw material inventories of U.S. \$239,143 (\$261,883 in Canadian dollars) and U.S. \$443,683 (\$481,207 in Canadian dollars), respectively, from an entity controlled by a party related to the President of the Corporation (the "Related Entity"). During the three and nine-month periods ended June 30, 2013, the Corporation purchased raw material inventories of U.S. \$91,895 (\$94,483 in Canadian dollars) and U.S. \$109,895 (\$112,933 in Canadian dollars), respectively, from the Related Entity. At June 30, 2014 and September 30, 2013, the Corporation's trade payables and accrued charges include balances of U.S. \$62,994 (\$67,252 in Canadian dollars) and U.S. \$39,808 (\$41,152 in Canadian dollars), respectively, payable to the Related Entity for the purchase of raw material inventories.

Outstanding Share Capital

At June 30, 2014 and August 15, 2014, the Corporation had 10,220,187 common shares issued and outstanding and no share options outstanding.



Cautionary Note Regarding Forward-looking Statements

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

