Q2

2017

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three and six months ended March 31, 2017

Unaudited (*Expressed in Canadian dollars*)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

Unaudited (Expressed in Canadian dollars)

	Notes	**March 31, 2017**	September 30, 2016
Assets			
Current assets			
Cash		**$ 3,577,679**	$ 5,109,026
Finance receivables	*6*	**2,217,081**	3,725,753
Trade and other receivables		**10,097,453**	9,374,759
Income taxes receivable		**246,653**	585,969
Inventories		**2,130,117**	2,196,019
Prepaid expenses and deposits		**522,917**	446,808
		18,791,900	21,438,334
Non-current assets			
Equipment		**2,118,721**	1,998,516
Deferred income tax assets		**54,053**	97,513
Total Assets		**$ 20,964,674**	$ 23,534,363
Liabilities and Shareholders' Equity			
Current liabilities			
Operating loans	*5*	**$ 2,515,460**	$ 3,238,430
Securitization debt	*6*	**1,995,372**	3,461,314
Trade payables, accrued charges and other		**1,619,954**	2,350,610
Customer deposits and deferred revenue		**1,171,387**	1,830,897
Current portion of rent inducement		**12,473**	5,283
		7,314,646	10,886,534
Non-current liabilities			
Rent inducement		**133,454**	139,837
Deferred income tax liabilities		**68,052**	77,475
Total Liabilities		**7,516,152**	11,103,846
Shareholders' Equity			
Share capital		**9,859,270**	9,859,270
Warrants reserve		**450,971**	450,971
Share-based payments reserve		**256,858**	256,858
Retained earnings		**2,881,423**	1,863,418
Total Shareholders' Equity		**13,448,522**	12,430,517
Total Liabilities and Shareholders' Equity		**$ 20,964,674**	$ 23,534,363

"Scott Forbes" .... President & CEO

"Muhanad Awad" .... Chairman of the Board

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	**2017**	2016
Sales	**$ 3,670,669**	$ 3,304,442	**$ 10,899,632**	$ 6,923,003
Cost of sales	**1,817,220**	2,351,245	**6,176,820**	4,548,665
Gross profit	**1,853,449**	953,197	**4,722,812**	2,374,338
Selling and administrative expenses	**1,656,149**	1,562,281	**3,098,962**	2,960,173
Foreign exchange loss	**13,812**	575,543	**42,673**	356,703
	1,669,961	2,137,824	**3,141,635**	3,316,876
Operating income (loss)	**183,488**	(1,184,627)	**1,581,177**	(942,538)
Finance costs	**95,129**	1,892	**172,643**	1,892
Income (loss) before income taxes	**88,359**	(1,186,519)	**1,408,534**	(944,430)
Income tax provision				
Current	**7,384**	(317,068)	**356,492**	(254,843)
Deferred	**22,179**	15,301	**34,037**	18,392
	29,563	(301,767)	**390,529**	(236,451)
Net income (loss) and total comprehensive income (loss)	**58,796**	(884,752)	**1,018,005**	(707,979)
Basic and diluted net income (loss) per common share	**$ 0.00**	$ (0.04)	**$ 0.05**	$ (0.03)
Weighted average number of common shares outstanding : Basic and diluted	**20,870,187**	20,870,187	**20,870,187**	20,870,187

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

	Share capital[1]					
	Number of common shares	Amount	Warrants reserve	Share-based payments reserve[2]	Retained earnings	Total shareholders' equity
Balance at September 30, 2015	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,818,569	$ 13,385,668
Net loss and total comprehensive loss	-	-	-	-	(707,979)	(707,979)
Balance at March 31, 2016	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 2,110,590	$ 12,677,689
Balance at September 30, 2016	20,870,187	$ 9,859,270	$ 450,971	$ 256,858	$ 1,863,418	$ 12,430,517
Net income and total comprehensive income	**-**	**-**	**-**	**-**	**1,018,005**	**1,018,005**
Balance at March 31, 2017	**20,870,187**	**$9,859,270**	**$ 450,971**	**$ 256,858**	**$2,881,423**	**$ 13,448,522**

[1] Authorized share capital is comprised of an unlimited number of voting common shares without par value and an unlimited number of preferred shares without par value. The preferred shares may be issued as either voting or non-voting. No preferred shares have been issued.

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

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Cash Flows

Unaudited (Expressed in Canadian dollars)

	Six months ended March 31,	
	2017	2016
Operating activities		
Net income (loss)	**$ 1,018,005**	$ (707,979)
Items not affecting cash		
Depreciation	**208,566**	176,990
Deferred income taxes	**34,037**	18,392
Rent inducement	**807**	3,447
Unrealized loss on foreign exchange derivatives	**62,543**	-
Unrealized foreign exchange loss (gain)	**(78,606)**	350,322
Finance costs	**172,643**	1,892
	1,417,995	(156,936)
Change in non-cash operating working capital		
Finance receivables	**1,503,130**	-
Trade and other receivables	**(695,991)**	(2,173,102)
Inventories	**65,902**	61,453
Prepaid expenses	**(76,109)**	(119,227)
Trade payables, accrued charges and other	**(819,260)**	(641,142)
Current income tax expense	**356,492**	(254,843)
Customer deposits and deferred revenue	**(659,510)**	(400,512)
	(325,346)	(3,527,373)
Interest paid	**(172,643)**	(1,892)
Cash provided by (used in) operating activities	**920,006**	(3,686,201)
Investing activities		
Purchase of equipment	**(320,401)**	(159,171)
Cash used in investing activities	**(320,401)**	(159,171)
Financing activities		
Proceeds from operating loans	**3,292,645**	758,008
Repayment of operating loans	**(2,013,159)**	-
Proceeds from securitization debt	**1,117,748**	-
Repayment of securitization debt	**(4,533,702)**	-
Cash provided by (used in) financing activities	**(2,136,468)**	758,008
Net decrease in cash	**(1,536,863)**	(3,087,364)
Effect of foreign exchange rate changes on cash	**5,516**	(15,074)
Cash at beginning of the period	**5,109,026**	4,947,024
Cash at end of the period	**$ 3,577,679**	$ 1,844,586
Supplemental cash flow disclosures - non cash transactions		
Purchase of equipment	**$ 8,370**	$ 6,927
Settlement of operating loans with proceeds from securitization debt	**1,969,124**	-

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

1. Nature of business and corporate information

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

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

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

2. Basis of preparation

Statement of compliance

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

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on May 23, 2017.

Basis of measurement

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

Functional and presentation currency

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

3. Significant accounting policies

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

4. Critical accounting estimates and judgments

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

4. Critical accounting estimates and judgments (continued)

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

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

Functional currency

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

Revenue

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

Allowance for doubtful accounts and sales adjustments

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

Inventory

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

4. Critical accounting estimates and judgments (continued)

Equipment

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

Income taxes

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

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

5. Operating loans

For the six-month period ended March 31, 2017, the Corporation obtained the following proceeds in U.S. dollars from operating loans and made the following repayments in U.S. dollars:

	Carrying Amounts	
	U.S. dollars	**Canadian dollars**
Balance at September 30, 2016	$ 2,468,880	**$ 3,238,430**
Proceeds from operating loans	2,447,320	**3,292,645**
Repayment of operating loans	(1,526,800)	**(2,013,159)**
Repayment using proceeds from securitization debt	(1,501,200)	**(1,989,446)**
Net realized foreign exchange loss on repayment	-	**20,322**
Unrealized foreign exchange gain on balance due	-	**(33,332)**
Balance at March 31, 2017	$ 1,888,200	**$ 2,515,460**

6. Finance receivables and securitization debt

The carrying amounts of finance receivables are comprised of U.S. dollar denominated trade receivables, which have been sold to a large Canadian financial institution (the "Bank"), net of a retainer, representing the portion of the proceeds retained by the Bank to reduce their exposure to potential credit losses. The finance receivables are due to the Bank on June 11, 2017 at which time the securitization debt is extinguished and the retainer is remitted to the Corporation.

				March 31, 2017
		U.S. dollars		**Canadian dollars**
Finance receivables	$	1,664,225	**$**	**2,217,081**
Less: Retainer		(166,422)		**(221,709)**
Securitization debt	$	1,497,803	**$**	**1,995,372**

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

7. Related party transactions

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	**2017**	2016
Sales in U.S. dollars	**$ 1,044,416**	$ 721,864	**$ 2,689,613**	$ 1,691,500
Equivalent in Canadian dollars	**1,373,769**	1,035,287	**3,583,001**	2,347,849

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

	March 31, 2017	September 30, 2016
Balance in U.S. dollars	**$ 6,727,800**	$ 6,659,740
Equivalent in Canadian dollars	**8,962,775**	8,735,580

Unaudited (Expressed in Canadian dollars)

8. 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 for the three-month periods ended March 31, 2017 and 2016 is as follows:

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

	Three months ended March 31, 2016		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 2,907,092	$ 397,350	$ 3,304,442
Cost of sales	2,156,338	194,907	2,351,245
Gross profit	750,754	202,443	953,197
Selling and administrative expenses	1,410,792	151,489	1,562,281
Foreign exchange loss	575,543	-	575,543
Finance costs	1,892	-	1,892
Income taxes	(315,014)	13,247	(301,767)
Net income (loss)	$ (922,459)	$ 37,707	$ (884,752)
Total assets	$ 14,750,577	$ 879,010	$ 15,629,587
Total liabilities	$ 2,760,846	$ 191,052	$ 2,951,898
Depreciation expense	$ 53,801	$ 34,257	$ 88,058
Purchase of equipment	$ 117,238	$ 17,469	$ 134,707

Unaudited (Expressed in Canadian dollars)

8. Segment reporting and concentration of sales (continued)

Business segments (continued)

Information related to the two business segments' operations for the six-month periods ended March 31, 2017 and 2016 is as follows:

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

	Six months ended March 31, 2016					
		Manufacturing		Family Entertainment Centre		Total
Sales to external customers	$	6,171,617	$	751,386	$	6,923,003
Cost of sales		4,119,313		429,352		4,548,665
Gross profit		2,052,304		322,034		2,374,338
Selling and administrative expenses		2,659,270		300,903		2,960,173
Foreign exchange loss		356,703		-		356,703
Finance costs		1,892		-		1,892
Income taxes		(241,939)		5,488		(236,451)
Net income (loss)	$	(723,622)	$	15,643	$	(707,979)
Total assets	$	14,750,577	$	879,010	$	15,629,587
Total liabilities	$	2,760,846	$	191,052	$	2,951,898
Depreciation expense	$	107,884	$	69,106	$	176,990
Purchase of equipment	$	147,936	$	18,162	$	166,098

Unaudited (Expressed in Canadian dollars)

8. Segment reporting and concentration of sales (continued)

Geographic and customer information

Substantially all of the Corporation's assets are located in Canada.

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	**2017**	2016
Sales				
Canada	**$ 518,100**	$ 1,126,469	**$ 1,294,745**	$ 1,958,586
Americas	**665,460**	2,039,644	**4,778,863**	4,240,961
Other	**2,487,109**	138,329	**4,826,024**	723,456
	$ 3,670,669	$ 3,304,442	**$ 10,899,632**	$ 6,923,003

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	**2017**	2016
Customer A	**$ 1,373,769**	$ 1,035,287	**$ 3,583,001**	$ 2,347,849
Customer B	**461,224**	-	**1,336,093**	-
Customer C	**455,410**	-	**-**	-

iPlayCO

CORPORATION LTD (TSX-V: IPC)

Management's Discussion and Analysis

This discussion and analysis of financial condition and results of operations ("MD&A") of Iplayco Corporation Ltd. ("Iplayco", "the Corporation", "we", "us", or "our") is prepared as of May 23, 2017 and should be read together in conjunction with our condensed consolidated interim financial statements and accompanying notes for the three and six months ended March 31, 2017 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2016 and 2015.

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

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

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

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

Overview

Iplayco is incorporated under the Alberta Business Corporations Act and its common shares trade on the TSX Venture Exchange under the trading symbol "IPC". Iplayco's business is carried out through its wholly owned subsidiaries Iplayco Inc., Iplayco Canada Inc., International Play Company Inc., Outdoor Play Company Inc., and IREC Corporation. Iplayco operates in two business segments: (i) Manufacturing of play structures for children, from its production plants in Langley, British Columbia, Canada and Subic Bay, Philippines ("Manufacturing" or "MFG"); and (ii) Operating a family entertainment centre in Langley, British Columbia, Canada ("Family Entertainment Centre" or "FEC").

Iplayco is controlled by FAS Entertainment B.C. Ltd., a wholly-owned subsidiary of Saudi FAS Holding Company (collectively "FAS"), which owns 51.03% of Iplayco's issued and outstanding common shares. FAS is a private company incorporated pursuant to the laws of the Kingdom of Saudi Arabia. All of the outstanding securities of FAS are beneficially held by three individuals. FAS controls various entities that own and operate Billy Beez family entertainment centres, Iplayco's largest customer over the past five years. FAS is expanding its Billy Beez family entertainment centres throughout the Middle East, Europe and North America. FAS also controls Fawaz Abdulaziz Al Hokair & Co., a retail conglomerate listed on the Saudi stock exchange (Tadawul), with a market capitalization at March 31, 2017 of approximately 6.8 billion Saudi Riyal (or approximately $2.4 billion in Canadian dollars). For more information on FAS, please visit the company's website at: www.fawazalhokair.com.

Consolidated Results

Sales for the three months ended March 31, 2017 ("Q2-17") increased by 11.1% to $3,670,669 from $3,304,442 for the three months ended March 31, 2016 ("Q2-16"). Gross profit percentage increased to 50.5% of sales in Q2-17 from 28.8% in Q2-16. Operating expenses, including foreign exchange gains and losses and finance costs, decreased to $1,765,090, or 48.1% of sales, in Q2-17 from $2,139,716, or 64.8% of sales, in Q2-16. Net income amounted to $58,796, or diluted net income per share of $0.00, in Q2-17 as compared to a net loss of $884,752, or net loss per share of $0.04, in Q2-16.

Sales for the six months ended March 31, 2017 ("YTD – Q2-17") increased by 57.4% to $10,899,632 from $6,923,003 for the six months ended March 31, 2016 ("YTD – Q2-16"). Gross profit percentage increased to 43.3% of sales for YTD – Q2-17 from 34.3% for YTD – Q2-16. Operating expenses, including foreign exchange gains and losses and finance costs, decreased to $3,314,278 or 30.4% of sales for YTD – Q2-17 from $3,318,768 or 47.9% of sales for YTD – Q2-16. Net income amounted to $1,018,005, or diluted net income per share of $0.05, for YTD – Q2-17 as compared to a net loss of $707,979, or net loss per share of $0.03, for YTD – Q2-16.

Manufacturing Operations

Sales generated by our Manufacturing operations increased by 11.9% to $3,251,759 in Q2-17 from $2,907,092 in Q2-16. This increase is due to higher sales to our customers located outside of the Americas, who accounted for sales of $2,487,109 (or 76.5% of total Manufacturing sales) in Q2-17 compared to $138,329, (or 4.8%) in Q2-16, partially offset by lower sales to our customers located in the Americas, including Canada, who accounted for sales of $764,650 (or 23.5% of total Manufacturing sales) in Q2-17 compared to $2,768,763 (or 95.2%) in Q2-16.

Sales generated by our Manufacturing operations increased by 63.6% to $10,094,087 for YTD – Q2-17 from $6,171,617 for YTD – Q2-16. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for sales of $4,826,024 (or 47.8% of total Manufacturing sales) for YTD – Q2-17 compared to $723,456 (or 11.7%) for YTD – Q2-16, partially offset by lower sales to our customers located in the Americas, including Canada, who accounted for sales of $5,268,063 (or 52.2%) for YTD – Q2-17 compared to $5,448,161 (or 88.3%) for YTD – Q2-16.

Sales to related party, Billy Beez, accounted for 42.2% of sales by our Manufacturing operations in Q2-17 (35.5% for YTD – Q2-17) as compared to 35.6% in Q2-16 (38.0% for YTD – Q2-16). Should Billy Beez end their relationship with us, reduce or postpone current or expected purchase orders or suffer from business failure, our sales and profitability would decline materially. We expect continued business concentration from Billy Beez for the foreseeable future.

We expected sales generated by our Manufacturing operations in Q2-17 to decrease moderately as compared to sales for the three months ended December 31, 2016 ("Q1-17"). Sales generated by our Manufacturing operations decreased by 52.5% to $3,251,759 in Q2-17 from $6,842,328 in Q1-17. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ending June 30, 2017 ("Q3-17") to increase moderately as compared to Q2-17.

Gross profit percentage increased to 50.5% of sales by our Manufacturing operations in Q2-17 from 25.8% in Q2-16. We expected our gross profit percentage in Q2-17 to remain in-line with Q1-17. Gross profit percentage increased to 50.5% of sales by our Manufacturing operations in Q2-17 from 39.6% in Q1-17 due primarily to favorable sales-mix yielding higher margin sales in Q2-17 as compared to Q1-17. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations to decrease significantly in Q3-17 as compared to Q2-17.

Gross profit percentage increased to 43.1% of sales by our Manufacturing operations for YTD – Q2-17 from 33.3% for YTD – Q2-16 due primarily to significantly lower margins resulting from cost overruns on fixed-priced sales contracts in Q2-16.

Our Manufacturing operations generated net income of $4,851 in Q2-17 compared to a net loss of $922,459 in Q2-16. We expected the net operating results from our Manufacturing operations to decrease moderately in Q2-17 as compared to Q1-17. Our Manufacturing operations generated net income of $4,851 in Q2-17 compared to net income of $951,910 in Q1-17 due primarily to significantly lower sales in Q2-17 as compared to Q1-17. We are expecting the net income from our Manufacturing operations in Q3-17 to remain in-line with Q2-17.

Our Manufacturing operations generated net income of $956,761 for YTD – Q2-17 compared to a net loss of $723,622 for YTD – Q2-16. This increase in net operating results is due primarily to the net income in Q1-17 as compared to the net loss in Q2-16.

Family Entertainment Centre Operations

Sales generated by our FEC operations increased by 5.4% to $418,910 in Q2-17 from $397,350 in Q2-16. We expected sales generated by our FEC operations to increase moderately in Q2-17 as compared to Q1-17. Sales generated by our FEC operations increased by 8.3% to $418,910 in Q2-17 from $386,635 in Q1-17 due primarily to seasonality. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to decrease moderately in Q3-17 as compared to Q2-17, due primarily to seasonality resulting in an expected decrease in the number of customer visits.

Sales generated by our FEC operations increased by 7.2% to $805,545 for YTD – Q2-17 from $751,386 for YTD – Q2-16, due primarily to an increase in the number of customer visits to our FEC.

Our FEC operations generated net income of $53,945 in Q2-17 compared to net income of $37,707 in Q2-16. We expected the net operating results from our FEC operations to improve moderately in Q2-17 as compared to Q1-17. Our FEC operations generated net income of $53,945 in Q2-17 as compared to net income of $7,299 in Q1-17. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to decrease moderately in Q3-17 as compared to Q2-17, due primarily to lower anticipated sales.

Our FEC operations generated net income of $61,244 for YTD – Q2-17, compared to net income of $15,643 for YTD – Q2-16. The increase in net operating results for YTD – Q2-17 as compared to YTD – Q2-16 is due primarily to higher sales during YTD – Q2-17 as compared to YTD – Q2-16.

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

Results of Operations

The following tables set forth the operating results of our Manufacturing and our FEC business segments for the three and six months ended March 31, 2017 and 2016, expressed as a percentage of total sales:

	Three months ended March 31, 2017						Three months ended March 31, 2016					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**88.6**	**%**	**11.4**	**%**	**100.0**	**%**	88.0	%	12.0	%	100.0	%
Cost of sales	**43.9**		**5.6**		**49.5**		65.3		5.9		71.2	
Gross profit	**44.7**		**5.8**		**50.5**		22.7		6.1		28.8	
Selling and administrative expenses	**41.3**		**3.8**		**45.1**		42.7		4.6		47.3	
Foreign exchange loss	**0.4**		**-**		**0.4**		17.4		-		17.4	
Finance costs	**2.6**		**-**		**2.6**		0.1		-		0.1	
Income taxes	**0.3**		**0.5**		**0.8**		(9.5)		0.4		(9.1)	
Net income (loss)	**0.1**	**%**	**1.5**	**%**	**1.6**	**%**	(28.0)	%	1.1	%	(26.9)	%

	Six months ended March 31, 2017						Six months ended March 31, 2016					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**92.6**	**%**	**7.4**	**%**	**100.0**	**%**	89.1	%	10.9	%	100.0	%
Cost of sales	**52.7**		**4.0**		**56.7**		59.5		6.2		65.7	
Gross profit	**39.9**		**3.4**		**43.3**		29.6		4.7		34.3	
Selling and administrative expenses	**25.8**		**2.7**		**28.5**		38.4		4.3		42.7	
Foreign exchange loss	**0.4**		**-**		**0.4**		5.2		-		5.2	
Finance costs	**1.6**		**-**		**1.6**		-		-		-	
Income taxes	**3.4**		**0.2**		**3.6**		(3.5)		0.1		(3.4)	
Net income (loss)	**8.7**	**%**	**0.5**	**%**	**9.2**	**%**	(10.5)	%	0.3	%	(10.2)	%

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

	Three months ended March 31, 2017						Three months ended March 31, 2016					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**2.7**	**%**	**11.4**	**%**	**14.1**	**%**	22.1	%	12.0	%	34.1	%
Americas	**18.1**		**-**		**18.1**		61.7		-		61.7	
Other	**67.8**		**-**		**67.8**		4.2		-		4.2	
	88.6	**%**	**11.4**	**%**	**100.0**	**%**	88.0	%	12.0	%	100.0	%

	Six months ended March 31, 2017						Six months ended March 31, 2016					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**4.5**	**%**	**7.4**	**%**	**11.9**	**%**	17.4	%	10.9	%	28.3	%
Americas	**43.8**		**-**		**43.8**		61.3		-		61.3	
Other	**44.3**		**-**		**44.3**		10.4		-		10.4	
	92.6	**%**	**7.4**	**%**	**100.0**	**%**	89.1	%	10.9	%	100.0	%

Results of Operations – Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Sales

Sales increased by $366,227 (or 11.1%) to $3,670,669 in Q2-17 from $3,304,442 in Q2-16 due primarily to an increase in sales of $344,667 by our Manufacturing operations.

We expected our sales to decrease moderately in Q2-17 as compared to Q1-17. Sales decreased by $3,558,294 (or 49.2%) to $3,670,669 in Q2-17 from $7,228,963 in Q1-17. Based on our updated sales forecasts, we are expecting sales in Q3-17 to remain in-line with Q2-17.

Gross Profit

Gross profit percentage increased to 50.5% of sales in Q2-17 from 28.8% in Q2-16. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 50.5% in Q2-17 compared to 25.8% in Q2-16.

We expected our gross profit percentage in Q2-17 remain in-line with Q1-17. Gross profit percentage increased to 50.5% in Q2-17 from 39.7% in Q1-17 due primarily to favorable sales-mix yielding higher margin sales in Q2-17 as compared to Q1-17. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to decrease significantly in Q3-17 as compared to Q2-17.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, decreased by $374,626 (or 17.5%) to $1,765,090 in Q2-17, from $2,139,716 in Q2-16. This decrease is due primarily to the foreign exchange loss of $13,812 in Q2-17 as compared to $575,543 in Q2-16.

We expected our operating expenses to increase moderately, as a percentage of sales, in Q2-17 as compared to Q1-17. Our operating expenses increased to 48.1% of sales in Q2-17 from 21.4% in Q1-17. Based on our updated forecasts, we are expecting operating expenses, as a percentage of sales, in Q3-17 to remain in-line with Q2-17.

Income Taxes

The income tax expense of $29,563 in Q2-17 is due primarily to the taxable income generated by our Manufacturing operations. The income tax recovery of $301,767 in Q2-16 is due primarily to the loss incurred by our Manufacturing operations.

Net Operating Results

Net income and total comprehensive income amounted to $58,796, or diluted net income per share of $0.00, in Q2-17, compared to a net loss and total comprehensive loss of $884,752, or net loss per share of $0.04, in Q2-16. The improvement in operating results is due primarily to the non-recurrence of cost overruns on fixed-priced sales contracts and a decrease in the foreign exchange loss in Q2-17 as compared to Q2-16.

We expected our net income to decrease moderately in Q2-17 as compared to Q1-17. We generated net income of $58,796 in Q2-17 compared to net income of $959,209 in Q1-17. We are expecting our net income in Q3-17 to remain in-line with Q2-17.

Results of Operations – Six Months Ended March 31, 2017 Compared to Six Months Ended March 31, 2016

Sales

Sales increased by $3,976,629 (or 57.4%) to $10,899,632 for YTD – Q2-17 from $6,923,003 for YTD – Q2-16 due primarily to an increase in sales of $3,922,470 by our Manufacturing operations.

We are expecting a moderate decrease in sales during the second half of our 2017 fiscal year due primarily to an anticipated decrease in sales by our Manufacturing operations.

Gross Profit

Gross profit percentage increased to 43.3% of sales for YTD – Q2-17 from 34.3% for YTD – Q2-16 due primarily to an increase in gross profit percentage by our Manufacturing operations.

We expect our gross profit percentage in the second half of our 2017 fiscal year to decrease moderately due primarily to anticipated sales-mix with lower yield margins.

Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, decreased by $4,490 (or 0.1%) to $3,314,278 for YTD – Q2-17 from $3,318,768 for YTD – Q2-16. This decrease is due primarily to the combined effect of a decrease in foreign exchange loss, partially offset by an increase in selling and administrative expenses for YTD – Q2-17 as compared to YTD – Q2-16.

During the second half of our 2017 fiscal year, we expect the following as compared to YTD – Q2-17:

- Moderate increase in selling and administrative expenses.
- Moderate increase in depreciation expense due to an increase in capital expenditures.
- Net foreign exchange loss to remain in-line with YTD – Q2-17.
- Moderate increase in finance costs due to higher anticipated levels of operating loans and securitization debt.

Income Taxes

The income tax expense of $390,529 for YTD – Q2-17 is due primarily to the income tax expense on earnings before income taxes generated by our Manufacturing operations. The income tax recovery of $236,451 for YTD – Q2-16 is due primarily to the income tax recovery on the loss before income taxes generated by our Manufacturing operations. We expect our effective tax rate for the second half of our 2017 fiscal year to remain in-line with our effective tax rate of 27.7% during YTD – Q2-17.

Net Operating Results

Net income and total comprehensive income was $1,018,005, or diluted net income per share of $0.05 for YTD – Q2-17 compared to a net loss and total comprehensive loss of $707,979, or net loss per share of $0.03, for YTD – Q2-16. The increase in net operating results is due primarily to our Manufacturing operations.

Based on our updated forecasts, we expect the net operating results by our Manufacturing operations in the second half of our 2017 fiscal year to remain in-line with the first half of the year. We expect the net operating results from our FEC operations to decrease moderately due primarily to seasonality.

Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements for the years ended September 30, 2016 and 2015. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	**Q2-17**
CONSOLIDATED	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	**31-Mar-17**
Sales	$ 4,410,462	$ 5,244,429	$ 3,618,561	$ 3,304,442	$ 4,612,437	$ 5,488,474	$ 7,228,963	**$ 3,670,669**
Cost of sales	2,973,826	3,448,630	2,197,420	2,351,245	3,150,868	4,427,299	4,359,600	**1,817,220**
Gross profit	1,436,636	1,795,799	1,421,141	953,197	1,461,569	1,061,175	2,869,363	**1,853,449**
Selling and administrative expenses	1,445,286	1,891,170	1,397,892	1,562,281	1,439,973	1,485,654	1,442,813	**1,656,149**
Foreign exchange loss (gain)	(12,099)	(353,522)	(218,840)	575,543	(166,555)	30,114	28,861	**13,812**
Finance costs	48,699	(20,005)	-	1,892	38,720	74,103	77,514	**95,129**
Income taxes	4,884	61,747	65,316	(301,767)	50,821	(182,914)	360,966	**29,563**
Net income (loss)	$ (50,134)	$ 216,409	$ 176,773	$ (884,752)	$ 98,610	$ (345,782)	$ 959,209	**$ 58,796**
Basic and diluted net income (loss) per share	$ (0.00)	$ 0.01	$ 0.01	$ (0.04)	$ 0.00	$ (0.02)	$ 0.05	**$ 0.00**

	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	**Q2-17**
MANUFACTURING	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	**31-Mar-17**
Sales	$ 4,162,310	$ 4,949,115	$ 3,264,525	$ 2,907,092	$ 4,349,998	$ 5,194,013	$ 6,842,328	**$ 3,251,759**
Cost of sales	2,797,426	3,291,253	1,962,975	2,156,338	2,972,236	4,250,860	4,134,553	**1,610,936**
Gross profit	1,364,884	1,657,862	1,301,550	750,754	1,377,762	943,153	2,707,775	**1,640,823**
Selling and administrative expenses	1,298,976	1,739,126	1,248,478	1,410,792	1,293,113	1,337,378	1,291,088	**1,516,420**
Foreign exchange loss (gain)	(12,099)	(353,522)	(218,840)	575,543	(166,555)	30,114	28,861	**13,812**
Finance costs	48,699	(20,005)	-	1,892	38,720	74,103	77,514	**95,129**
Income taxes	23,872	64,619	73,075	(315,014)	63,734	(171,573)	358,402	**10,611**
Net income (loss)	$ 5,436	$ 227,644	$ 198,837	$ (922,459)	$ 148,750	$ (326,869)	$ 951,910	**$ 4,851**

	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	**Q2-17**
FEC	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	**31-Mar-17**
Sales	$ 248,152	$ 295,314	$ 354,036	$ 397,350	$ 262,439	$ 294,461	$ 386,635	**$ 418,910**
Cost of sales	176,400	157,377	234,445	194,907	178,632	176,439	225,047	**206,284**
Gross profit	71,752	137,937	119,591	202,443	83,807	118,022	161,588	**212,626**
Selling and administrative expenses	146,310	152,044	149,414	151,489	146,860	148,276	151,725	**139,729**
Income taxes	(18,988)	(2,872)	(7,759)	13,247	(12,913)	(11,341)	2,564	**18,952**
Net income (loss)	$ (55,570)	$ (11,235)	$ (22,064)	$ 37,707	$ (50,140)	$ (18,913)	$ 7,299	**$ 53,945**

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

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

- The increase in net operating results from Q3-15 to Q4-15 is due primarily to higher sales in Q4-15 compared to Q3-15.
- The decrease in net operating results from Q4-15 to Q1-16 is due primarily to lower sales, partially offset by lower operating expenses, in Q1-16 compared to Q4-15.
- The decrease in net operating results from Q1-16 to Q2-16 is due primarily to lower gross profit margin, a foreign exchange loss and higher selling and administrative expenses, in Q2-16 compared to Q1-16.
- The increase in net operating results from Q2-16 to Q3-16 is due primarily to the foreign exchange loss in Q2-16 as compared to the foreign exchange gain in Q3-16.
- The decrease in net operating results from Q3-16 to Q4-16 is due primarily to lower gross margin profit, a foreign exchange loss and higher selling and administrative expenses, in Q4-16 compared to Q3-16.
- The improvement in net operating results from Q4-16 to Q1-17 is due primarily to the significant improvement in gross profit margin in Q1-17 compared to Q4-16.
- The decrease in net operating results from Q1-17 to Q2-17 is due primarily to significantly lower sales in Q2-17 compared to Q1-17.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities amounted to $692,495 in Q2-17, compared to cash used in operating activities of $1,295,534 in Q2-16. The change is due primarily to the net change in non-cash working capital in Q2-17 as compared to Q2-16.

Cash provided by operating activities amounted to $920,006 for YTD – Q2-17, compared to cash used in operating activities of $3,686,201 for YTD – Q2-16 due primarily to the net income for YTD – Q2-17 as compared to a net loss for YTD – Q2-16.

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

Investing Activities

Cash used in investing activities increased to $213,258 in Q2-17 from $134,032 in Q2-16 due to an increase in purchases of equipment in Q2-17 as compared to Q2-16.

Cash used in investing activities increased to $320,401 for YTD – Q2-17 from $159,171 for YTD – Q2-16 due to an increase in purchases of equipment during YTD – Q2-17 as compared to YTD – Q2-16.

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

Financing Activities

Cash used in financing activities amounted to $2,095,344 in Q2-17, compared to cash provided by financing activities of $758,008 in Q2-16 due primarily to repayments exceeding proceeds from operating loans and securitization debt in Q2-17.

Cash used in financing activities amounted to $2,136,468 for YTD – Q2-17 compared to cash provided by financing activities of $758,008 for YTD – Q2-16 due primarily to repayments exceeding proceeds from operating loans and securitization debt for YTD – Q2-17.

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

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repaying our operating loans, and funding our capital expenditures. We expect our working capital requirements to continue to increase due to the anticipated increase in sales orders from related parties for the expansion of the Billy Beez family entertainment centres.

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

Sources and Uses of Cash

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

- Cash and cash equivalents of $3,577,679 at March 31, 2017 (September 30, 2016 – $5,109,026).
- Trade and other receivables of $10,097,453 at March 31, 2017 (September 30, 2016 – $9,374,759).

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

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

The Corporation funds its working capital requirements in part with cash and cash equivalents, and an available Overdraft Facility of $600,000, an Operating Loan Facility of U.S. $2,500,000 ($3,331,000 in Canadian dollars), and a Securitization Facility of U.S. $7,920,000 ($10,551,000 in Canadian dollars), which are subject to annual renewals (see "Credit Facilities").

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

Our debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. At March 31, 2017, all financial ratios and tests have been met.

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

Credit Facilities

The Corporation has the following credit facilities (the "Credit Facilities") with a large Canadian financial institution (the "Bank"), as amended on January 26, 2016:

(a) *Overdraft Facility*

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

(b) *Export Loan Facility*

The Export Loan Facility is comprised of a manufacturer's advance facility in the form of a demand revolving line of U.S. $2,500,000 ($3,331,000 in Canadian dollars) ("Operating Loan Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. $7,920,000 ($10,551,000 in Canadian dollars) ("Securitization Facility").

Operating Loan Facility

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

Securitization Facility

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

(c) *Foreign Exchange Loan Facility*

The Foreign Exchange Loan Facility is a demand revolving line of U.S. $1,440,000 ($1,918,000 in Canadian dollars) for the purchase of foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($10,658,000 in Canadian dollars), with a maximum maturity of 12 months.

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

Market Risk Disclosure

Currency risk

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

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

As described above in "Credit Facilities", we have a demand revolving line of U.S. $1,440,000 ($1,918,000 in Canadian dollars) to purchase foreign exchange forward contracts and options up to an aggregate of U.S. $8,000,000 ($10,658,000 in Canadian dollars), with a maximum maturity of 12 months. We use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

At March 31, 2017, we had various foreign exchange forward contracts outstanding with maturity dates from May 30, 2017 to September 29, 2017 and a total commitment to sell $3,000,000 U.S. dollars and purchase $3,920,168 Canadian dollars at exchange rates ranging from $1.30465 to $1.30906. The mark-to-market fair value of the foreign exchange forward contracts outstanding at March 31, 2017 represents a liability of $62,543 for the Corporation and is recorded as an unrealized foreign exchange loss in the condensed consolidated interim statements of operations and comprehensive income.

Credit risk

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

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

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

At March 31, 2017, trade receivables from Billy Beez amount to $8,962,775 (September 30, 2016 - $8,735,580) and represent approximately 89% of the balance of trade receivables (September 30, 2016 – 93%). At March 31, 2017, past due trade receivables from Billy Beez amount to $390,652 (September 30, 2016 - $551,455). 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 and securitization debt, which are subject to variable interest rates. At March 31, 2017, the Corporation's operating loans of $2,515,460 (September 30, 2016 - $3,238,430) and securitization debt of $1,995,372 (September 30, 2016 - $3,461,314) are subject to variable interest rate obligations ranging from USD LIBOR plus 3.50% to USD LIBOR plus 4.00% per annum.

Liquidity risk

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

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

Legal Proceedings

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

Related Party Transactions

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	**2017**	2016
Sales in U.S. dollars	**$ 1,044,416**	$ 721,864	**$ 2,689,613**	$ 1,691,500
Equivalent in Canadian dollars	**1,373,769**	1,035,287	**3,583,001**	2,347,849

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

	March 31, 2017	September 30, 2016
Balance in U.S. dollars	**$ 6,727,800**	$ 6,659,740
Equivalent in Canadian dollars	**8,962,775**	8,735,580

Outstanding Share Capital

At March 31, 2017, and May 23, 2017, the Corporation had 20,870,187 common shares issued and outstanding, and no warrants or share options outstanding.

Cautionary Note Regarding Forward-looking Statements

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

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