Consolidated financial statements of

Iplayco Corporation Ltd.

As at and for the years ended September 30, 2009 and 2008

Iplayco Corporation Ltd.

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Auditors' Report

The Shareholders,
Iplayco Corporation Ltd.

We have audited the consolidated balance sheets of Iplayco Corporation Ltd. as at September 30, 2009 and 2008, and the consolidated statements of operations, comprehensive loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
December 23, 2009

Iplayco Corporation Ltd.

Consolidated balance sheets
September 30

		2009		2008
Assets				
Current				
Cash	**$**	**420,010**	$	1,163,028
Term Deposits		**-**		400,000
Accounts receivable (Note 13)		**760,445**		1,444,557
Inventory (Note 4)		**1,160,467**		1,370,581
Income taxes receivable		**-**		55,165
Prepaid expenses		**62,324**		154,526
		2,403,246		4,587,857
Property, plant, and equipment (Note 5)		**2,357,092**		1,394,731
Future income taxes (Note 12)		**67,773**		92,289
	$	**4,828,111**	$	6,074,877
Liabilities				
Current				
Accounts payable	**$**	**943,650**	$	1,459,163
Customer deposits		**184,140**		899,548
Non-hedging financial derivatives (Note 13)		**202**		30,000
Current portion of rent inducement (Note 11)		**22,817**		22,817
Current portion of capital lease obligations (Note 6)		**122,077**		72,334
Loan payable (Note 7)		**319,443**		486,111
		1,592,329		2,969,973
Rent inducement (Note 11)		**77,958**		59,704
Capital lease obligations (Note 6)		**293,503**		247,683
		1,963,790		3,277,360
Shareholders' equity				
Capital stock (Note 9)		**1,757,643**		1,619,539
Contributed surplus (Note 10)		**256,858**		129,167
Retained earnings		**849,820**		1,048,811
		2,864,321		2,797,517
	$	**4,828,111**	$	6,074,877

Commitments (Note 11)

Approved by the Directors

"Franco Aquila"
....

"Terence Forbes"
....

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Consolidated statements of operations, comprehensive loss and retained earnings
Years ended September 30

		2009		2008
Sales	$	**9,326,085**	$	9,143,192
Cost of sales		**5,313,770**		5,732,265
Gross profit		**4,012,315**		3,410,927
Expenses				
Selling and administration		**3,365,498**		3,100,235
Amortization		**389,657**		109,420
Foreign exchange loss		**375,784**		58,945
Interest on loan payable and capital leases		**55,851**		10,304
		4,186,790		3,278,904
Income (loss) before income taxes		**(174,475)**		132,023
Income tax expense (recovery) (Note 12)				
Current		**-**		98,792
Future		**24,516**		(18,377)
		24,516		80,415
Net income (loss) and comprehensive income (loss) for the year		**(198,991)**		51,608
Retained earnings at beginning of the year		**1,048,811**		997,203
Retained earnings at end of the year	$	**849,820**	$	1,048,811
Earnings (loss) per share				
Basic	$	**(0.02)**	$	0.01
Diluted	$	**(0.02)**	$	0.01
Weighted average number of common shares				
Basic		**10,210,399**		9,769,717
Diluted		**10,210,399**		10,042,494

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Consolidated statements of cash flows
Years ended September 30

	2009	2008
Operating activities		
Net income (loss) for the year	**$ (198,991)**	$ 51,608
Items not involving cash		
Amortization	**389,657**	109,420
Future income taxes	**24,516**	(18,377)
Non-hedging financial derivatives	**(29,798)**	30,000
Rent inducement	**18,254**	82,521
Stock based compensation (Note 9)	**179,957**	71,446
Gain on disposal of property, plant and equipment	**(4,074)**	-
Unrealized foreign exchange loss (gain)	**13,813**	(47,101)
	393,334	279,517
Change in non-cash operating working capital		
Accounts receivable	**670,299**	(615,059)
Inventory	**210,114**	(249,272)
Prepaid expenses	**92,202**	(115,234)
Accounts payable	**(515,513)**	734,957
Customer deposits	**(715,408)**	693,265
Income taxes	**55,165**	(359,809)
	(203,141)	88,848
	190,193	368,365
Investing activities		
Net change in term deposits	**400,000**	381,283
Purchase of property, plant and equipment (Note 5)	**(1,169,053)**	(840,609)
Proceeds on disposal of property, plant and equipment	**12,187**	-
	(756,866)	(459,326)
Financing activities		
Proceeds from exercise of stock options (Note 9)	**85,838**	28,200
Proceeds from loan payable	**-**	500,000
Repayment of loan payable	**(166,668)**	(13,889)
Repayment of capital lease obligations	**(95,515)**	(40,610)
	(176,345)	473,701
Change in cash during the year	**(743,018)**	382,740
Cash at beginning of the year	**1,163,028**	780,288
Cash at end of the year	**$ 420,010**	$ 1,163,028

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements

1. Business operations

The Company is incorporated under the Alberta Business Corporations Act. The Company's business is carried out through its wholly owned subsidiaries, International Play Company Inc. ("IPC") and Outdoor Play Company Inc. ("OPC"). IPC designs and manufactures custom designed children's indoor and outdoor play structures from its plant in Langley, British Columbia. OPC operates a family entertainment centre in Langley, British Columbia.

2. Changes in accounting policies

During the year ended September 30, 2009, the Company adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

a) Section 1400, *General Standards of Financial Statement Presentation*. This Section requires an entity to discuss an entity's ability to continue as a going concern and was adopted by the Company effective October 1, 2008.

b) Section 1000, *Financial Statement Concepts*. This Section clarifies the criteria for recognition of an asset and the timing of expense recognition.

c) Section 3031, *Inventories.* This Section provides guidance on the determination of the cost of inventories and its subsequent recognition as an expense, and includes additional disclosure requirements. This Section also requires entities to account for the reversal of write-downs previously recognized when there is a subsequent increase in the value of inventories. This Section was adopted by the Company effective October 1, 2008 on a retrospective basis.

d) EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.* This EIC was issued in January 2009 and clarifies that an entity's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments, for presentation and disclosure purposes. This standard was adopted by the Company on a retrospective basis.

The adoption of these standards did not have a significant effect on the Company's consolidated financial statements beyond the additional disclosures provided in Note 4 regarding Inventories.

3. Significant accounting policies

Principles of consolidation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries, International Play Company Inc. and Outdoor Play Company Inc. Intercompany balances and transactions have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates are used for, but are not limited to, the accounting for doubtful accounts, inventory obsolescence, amortization, income taxes, accrued liabilities, stock- based compensation, fair value of financial derivatives, warranty provision and impairment of long-lived assets. Actual results could differ from those estimates.

3. Significant accounting policies (continued)

Inventory

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The cost of work in process and finished goods includes the cost of raw material, direct labour and an allocation of related overheads.

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the rate prevailing on the transaction date except for amortization that is translated at historical rates. Translation gains or losses are included in earnings.

Property, plant, and equipment and amortization

Property, plant and equipment are recorded at cost. Amortization is calculated using the following methods and annual rates:

Automotive	30% declining balance
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Machinery and equipment	20% declining balance
Moulds	30% declining balance
Leasehold improvements	12 years straight-line

Impairment of long-lived assets

Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. They are measured using enacted and substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

3. Significant accounting policies (continued)

Revenue recognition

The Company recognizes revenue from contracts when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product is shipped to the customer, there is no uncertainty around acceptance, and collection is probable. Amounts received from customers prior to revenue recognition are recorded as customer deposits.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

<u>Classification</u>

Cash	Held for trading
Term deposits	Held for trading
Accounts receivable	Loans and receivables
Accounts payable	Other liabilities
Loan payable	Other liabilities
Non-hedging financial derivatives	Held for trading

<u>Held for trading</u>

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

<u>Loans and receivables</u>

Loans and receivables are accounted for at amortized cost using the effective interest method.

<u>Other liabilities</u>

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

3. Significant accounting policies (continued)

Financial instruments (continued)

Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees and premiums or discounts earned or incurred for financial instruments.

Derivative instruments

Derivative instruments held for trading or speculative purposes or that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in foreign exchange gain or loss.

Stock-based compensation

The Company uses the fair value method to account for stock-based compensation and other stock based payments. This method consists of expensing the fair value of stock based awards over the vesting period of the options granted. Upon exercise of the stock options, consideration received together with amounts previously recognized in contributed surplus is recorded as an increase in share capital. Forfeitures are accounted for as they occur.

Earnings (loss) per common share

Basic earnings (loss) per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding for that period. The Company uses the treasury stock method in calculating diluted earnings (loss) per share.

The computation of diluted loss per share for 2009 excludes 991,500 outstanding options as they would be anti-dilutive.

The computation of diluted earnings per share for 2008 includes the incremental shares from 904,500 stock options with exercise prices ranging between $0.23 and $0.40 per share.

3. Significant accounting policies (continued)

Future accounting changes

The CICA has issued and/or revised a number of sections of the CICA Handbook which are applicable for the Company in future periods.

Business combinations

In January 2009, the CICA issued Handbook Section 1582 , *Business Combinations*, which replaces Handbook Section 1581, and establishes standards for the accounting of business combinations. This new standard is effective for fiscal years beginning on or after January 1, 2011 and is not expected to have a significant impact on the Company's consolidated financial statements.

Consolidated financial statements and Non-controlling interests

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements* and Handbook Section 1602, *Non-Controlling Interests*, which establish standards for preparing consolidated financial statements and for accounting for non-controlling interests of a subsidiary in the preparation of the consolidated financial statements subsequent to a business combination. These new standards together replace Handbook Section 1600, *Consolidated Financial Statements*, and are effective for fiscal years beginning on or after January 1, 2011. These standards are not expected to have a significant impact on the Company's consolidated financial statements.

Financial instruments disclosures

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments Disclosures*, which provide for additional disclosure requirements about fair value measurements for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities in level 1 are determinable by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in level 2 include variations using inputs other than the quoted market prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments also expand existing liquidity disclosure requirements and require a maturity analysis for any derivatives and non-financial liabilities based on expected maturities. This amended standard is effective for fiscal years beginning after September 30, 2009. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements beyond the additional disclosures required by this new standard.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian Generally Accepted Accounting Principles ("GAAP") with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that the year 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company is currently evaluating the impact the adoption of IFRS will have on its consolidated financial statements.

4. Inventory

	2009	2008
Raw materials	**$ 1,046,263**	$ 1,053,918
Finished goods	**62,807**	176,121
Work in progress	**51,397**	140,542
	$ 1,160,467	$ 1,370,581

The inventories recognized as an expense during the year amount to $5,103,656 (2008 - $5,981,537).

5. Property, plant and equipment

			2009
	Cost	Accumulated amortization	Net book value
Automotive	$ 76,398	$ 39,864	$ 36,534
Computer equipment	328,921	175,930	152,991
Furniture and fixtures	144,230	52,836	91,394
Machinery and equipment	1,602,304	316,952	1,285,352
Moulds	186,491	111,747	74,744
Leasehold improvements	843,803	127,726	716,077
	$ 3,182,147	$ 825,055	$ 2,357,092

During the year ended September 30, 2009 the Company acquired property, plant and equipment totalling $1,360,131 of which $191,078 was financed by means of capital leases and $1,169,053 was purchased with cash. Included in property, plant and equipment at September 30, 2009 are assets under capital leases with a cost of $614,079 and a net book value of $449,099.

5. Property, plant and equipment (continued)

		2008	
	Cost	Accumulated amortization	Net book value
Automotive	$ 43,870	$ 30,139	$ 13,731
Computer equipment	288,374	123,201	165,173
Furniture and fixtures	132,715	36,693	96,022
Machinery and equipment	638,152	109,438	528,714
Moulds	191,532	83,013	108,519
Leasehold improvements	459,951	72,086	387,865
Asset under construction	94,707	-	94,707
	$ 1,849,301	$ 454,570	$ 1,394,731

During the year ended September 30, 2008 the Company acquired property, plant and equipment totalling $1,123,339 of which $282,730 was financed by means of capital leases and $840,609 was purchased with cash. Included in property, plant and equipment at September 30, 2008 are assets under capital leases with a cost of $423,041 and a net book value of $351,424.

Included in property, plant, and equipment as at September 30, 2008 are assets with a carrying amount of $998,815 related to the Family Entertainment Centre which are not being amortized because they were either under construction or not in use. Amortization on these assets commenced in December 2008 when construction was completed and the Family Entertainment Centre opened.

6. Capital lease obligations

The Company leases various delivery vehicles, moulds, and equipment under capital leases. The future minimum payments under these leases are as follows:

	2009
2010	**$ 157,275**
2011	**148,386**
2012	**127,018**
2013	**51,809**
2014	**1,841**
	486,329
Less amount representing interest at 9.86%	**(70,749)**
	415,580
Less current portion	**(122,077)**
	$ 293,503

6. Capital lease obligations (continued)

		2008
2009	$	102,905
2010		100,550
2011		91,662
2012		76,736
2013		23,969
		395,822
Less amount representing interest at 10.63%		(75,805)
		320,017
Less current portion		(72,334)
	$	247,683

7. Loan payable

Loan payable consists of a non-revolving term loan maturing in August 2010 which bears interest at prime plus 3.95% and is secured by a general security agreement covering all personal property of the Company. The loan is repayable in monthly instalments of $13,889 plus interest.

8. Operating loan

On June 4, 2009, the operating loan facility was renewed with a limit of $500,000, subject to certain margin requirements, bears interest at prime plus 1.50% and is secured by a general security agreement covering all personal property of the Company. No amounts were drawn on this facility at September 30, 2009 and September 30, 2008.

9. Capital stock

Authorized and issued

A summary of the issued and outstanding shares of the Company follows:

	Number of shares	Amount
Authorized		
Unlimited Common shares, without par value		
Unlimited Preferred shares, without par value		
Issued, common shares		
Balance, September 30, 2007	**9,686,687**	**$ 1,581,475**
Proceeds on exercise of stock options	**152,000**	**28,200**
Fair value of options exercised during the year	**-**	**9,864**
Balance, September 30, 2008	**9,838,687**	**1,619,539**
Proceeds on exercise of stock options	**381,500**	**85,838**
Fair value of options exercised during the year	**-**	**52,266**
Balance, September 30, 2009	**10,220,187**	**$ 1,757,643**

During the year ended September 30, 2009 381,500 (2008 – 152,000) common shares were issued on the exercise of stock options for proceeds of $85,838 (2008 - $28,200). The proceeds, together with the $52,266 (2008 - $9,864) fair value of these options previously credited to contributed surplus, has been credited to capital stock.

Stock options

The Company has an incentive stock option plan (the "Option Plan"). Under the terms of this Option Plan the Board of Directors may grant incentive stock options to directors and employees of the Company and the exercise price is generally determined by reference to the market price of the Company's stock on the grant date. Vesting and expiry of options may vary at the discretion of the committee, subject to the rules of the stock exchange. The contractual life of the options are generally for one year. The total number of shares issuable pursuant to the Option Plan cannot exceed 10% of the issued and outstanding shares. The maximum number of options available to be granted under the Option Plan as at September 30, 2009 is 1,022,018 (2008 – 983,869).

9. Capital stock (continued)

A summary of stock option activity follows:

	Stock options	
		Weighted average
	Number	Price
Outstanding at September 30, 2007	535,000	$ 0.40
Granted	521,500	$ 0.23
Exercised	(152,000)	$ 0.19
Outstanding at September 30, 2008	904,500	$ 0.31
Granted	991,500	$ 0.26
Exercised	(381,500)	$ 0.23
Expired	(523,000)	$ 0.38
Outstanding at September 30, 2009	**991,500**	**$ 0.26**

The following table summarizes information about director and employee stock options outstanding at September 30, 2009 and September 30, 2008:

	Options Outstanding				Options Exercisable	
Year	Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
2009	**$ 0.26**	**991,500**	**0.3 Years**	**$ 0.26**	**991,500**	**$ 0.26**
2008	$ 0.23	449,500	0.2 Years	$ 0.23	449,500	$ 0.23
	$ 0.40	455,000	0.2 Years	$ 0.40	455,000	$ 0.40

The Company uses the fair value method to account for stock options granted to employees and consultants. During the year ended September 30, 2009 there were 991,500 (2008 – 521,500) stock options granted which expire one year from the date of grant and have no vesting requirement. The weighted average grant date fair value of the options issued during 2009 was $0.18 per option (2008 - $0.14 per option) and $179,957 (2008 - $71,446) was recorded as compensation expense.

9. Capital stock (continued)

The fair value of options issued was estimated using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Risk-free interest rate	**0.96%**	4.33%
Expected volatility	**120.44%**	80.40%
Expected average life of options	**1 year**	1 year
Expected dividend yield	**0%**	0%

Escrowed shares

During the year ended September 30, 2009 777,452 (2008 - 777,452) shares were released from escrow. At September 30, 2009 388,725 (2008 – 1,166,177) common shares are held in escrow. The release of the 388,725 escrowed shares is governed by the underlying escrow and pooling agreements, and are eligible for release in 2010.

10. Contributed surplus

Charges and credits to contributed surplus are related to stock options and are as follows:

		2009		2008
Opening balance	**$**	**129,167**	$	67,585
Compensation expense		**179,957**		71,446
Options exercised		**(52,266)**		(9,864)
Closing balance	**$**	**256,858**	$	129,167

11. Commitments

The Company leases premises and certain equipment under long-term operating lease agreements that expire at various dates up to 2014. Future minimum lease payments aggregate $1,646,578 and include the following amounts payable over the next five years, including estimated occupancy costs:

2010	$	610,159
2011		339,441
2012		292,895
2013		284,928
2014		119,155
	$	1,646,578

11. Commitments (continued)

Included in selling and administration expenses is $544,549 (2008 - $461,742) of premise lease costs.

On February 6, 2008, the Company entered into an operating lease agreement, for the purposes of operating a Family Entertainment Centre, commencing on March 1, 2008 to February 29, 2014 with the first ten months of basic rent forgiven. The rent inducement of $100,775 has been included in these financial statements and is recognized into income on a straight-line basis over the term of the lease.

12. Income taxes

The approximate tax effect of temporary differences and tax loss carryforwards that give rise to the Company's future income tax assets are as follows:

	2009	2008
Future income tax assets		
Tax loss carryforwards	**$ 33,613**	$ 21,082
Timing difference on expenses	**60,233**	91,200
Share issue expenses	**7,477**	6,109
	101,323	118,391
Future income tax liability		
Property, plant and equipment	**(33,550)**	(26,102)
	$ 67,773	$ 92,289

The future benefit of these temporary differences and tax loss carry forwards has been recognized in the financial statements as at September 30, 2009, as it is more likely than not they will be utilized.

As at September 30, 2009 the Company has $128,292 of tax loss carry forwards expiring as follows:

2010	$ 623
2012	1,611
2013	1,228
2028	66,810
2029	58,020
	$ 128,292

12. Income taxes (continued)

The reported income tax provision differs from the amounts computed by applying the Canadian basic statutory rate to the income (loss) before income taxes. The reasons for this difference and the related tax effects are as follows:

		2009		2008
Canadian basic statutory rate		**30.13%**		31.91%
Expected income tax (recovery) expense	$	**(52,571)**	$	42,129
Change in enacted tax rates		**18,999**		12,500
Non-deductible expenses		**58,088**		25,786
	$	**24,516**	$	80,415

13. Financial instruments and risk management

(a) Classification of financial instruments and fair value

The following table summarizes information relating to the Company's financial instruments for the years ending September 30, 2009 and 2008.

Class of Financial Instruments	Consolidated Balance Sheet Categories Included	Carrying Amount		
			2009	2008
Held for trading financial assets	Cash and term deposits	$	**420,010**	$ 1,563,028
Loans and receivables	Accounts receivable		**760,445**	1,444,557
Other liabilities	Accounts payable and loan payable		**1,263,093**	1,945,274
Non-hedging financial derivatives designated as held for trading	Non-hedging financial derivatives - liability		**202**	30,000

The carrying values of cash, term deposits, accounts receivable and accounts payable approximate their fair market values due to their short-term maturities. The loan payable and capital lease obligations bear interest at current market rates and as a result their carrying values approximate their fair values.

The carrying value of non-hedging financial derivatives is equivalent to its fair value which was determined using observable market inputs.

13. Financial instruments and risk management (continued)

(b) Risks and risk management

Financial instruments may expose the Company to a number of financial risks, including market risk (interest rate risk and currency risk), credit risk and liquidity risk. The Company's overall risk management program seeks to mitigate these risks and reduce the volatility that may otherwise affect its financial performance.

The risks associated with the Company's financial instruments and the Company's policies for minimizing these risks are detailed below.

(i) Market risk

a) 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 Company's interest rate risk arises primarily from its long-term debt which bears interest at variable rates which exposes the Company to changes in its debt servicing cash flows. The Company also has an operating loan which is subject to variable interest rates; however, no amounts were drawn on this facility during the years ended September 30, 2009 and 2008. Capital lease obligations bear interest at fixed rates.

The Company manages interest rate risk on its debt portfolio by controlling the mix of liabilities with fixed and variable interest rate obligations and attempting to ensure access to diverse sources of funding.

For every 2% increase in the interest rate, with all other variables held constant, the net loss and comprehensive loss would increase by approximately $5,000 (2008 – $810). A decrease in the interest rate would have the opposite effect.

b) Currency risk

Currency risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in foreign currency exchange rates.

The Company has significant sales denominated in U.S. dollars, which exceeds the natural hedge provided by the purchase of products denominated in U.S. dollars, and is therefore exposed to financial risk resulting from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company manages this risk by entering into foreign exchange forward contracts.

At September 30, 2009 the Company has a commitment to sell $15,800 (2008 - $1,968,316) of U.S. dollars at a weighted average rate of $1.085 (2008 - $1.045) on December 1, 2009 (2008 - various dates up to March 31, 2009).

13. Financial instruments and risk management (continued)

b) Currency risk (continued)

The fair value of these outstanding contracts at September 30, 2009 is a liability of $202 (2008 – liability of $30,000) and is recorded as a foreign exchange loss in the consolidated statement of operations. During the year ended September 30, 2009, the Company incurred foreign exchange losses totalling $237,317 on foreign exchange forward contracts (2008 - $49,680). Of the $237,317 foreign exchange loss incurred in 2009 on foreign exchange contracts, $115,895 resulted from one foreign exchange contract for which the Company had committed to sell U.S. dollars and receive Canadian dollars at an exchange rate of 1.063 Canadian dollars per U.S. dollar. Over the term of the contract, the Canadian dollar weakened against the U.S. dollar to a rate of 1.247 at the settlement date of the contract, which resulted in the foreign exchange loss of $115,895.

A sensitivity analysis has been performed assuming the foreign exchange rate changes by 5% as at September 30, 2009 (2008 - 5%). For every 5% weakening of the U.S. dollar against the Canadian dollar, with all other variables held constant, net loss and comprehensive loss would decrease by approximately $35,000 (2008 - $40,000). A strengthening of the U.S. dollar against the Canadian dollar would have the opposite effect.

(ii) 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, term deposits, and accounts receivable on the consolidated balance sheet represent the Company's maximum exposure to credit risk.

The Company's credit risk is primarily attributable to its accounts receivable. Accounts receivable is disclosed on the balance sheet net of provision for bad debts, estimated by management based on prior experience and its assessment of the current economic environment. The Company believes that the credit risk of accounts receivable is limited because of its policy to receive significant upfront deposits from customers prior to product shipment and management's ongoing credit evaluations of customers.

Accounts receivable with two specific customers represent approximately 58% of the balance of accounts receivable as at September 30, 2009 (September 30, 2008 – two customers represented approximately 59% of accounts receivable). It is the opinion of management that these accounts do not represent a significant credit risk.

The credit risk associated with the Company's cash and term deposits is limited because these financial assets are held through large Canadian financial institutions with a high investment grade rating. The term deposits held as at September 30, 2008 matured January 30, 2009.

13. Financial instruments and risk management (continued)

(ii) Credit risk (continued)

The Company's aging of accounts receivable is as follows:

	2009	2008
Trade receivables		
Current	**$ 458,107**	$ 413,005
Aged between 31 - 60 days	**154,251**	800,755
Aged between 61 - 90 days	**6,954**	556
Aged greater than 90 days	**223,353**	179,734
	842,665	1,394,050
Other receivables	**39,910**	53,977
Allowance for doubtful accounts	**(122,130)**	(3,470)
	$ 760,445	$ 1,444,557

Changes in the Company's allowance for doubtful accounts are as follows:

	2009	2008
Opening balance	**$ 3,470**	$ 136,203
Write-offs	**-**	(133,557)
Recovered	**(3,470)**	(2,646)
Increase in allowance	**122,130**	3,470
Closing balance	**$ 122,130**	$ 3,470

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through maintaining cash and term deposits and access to undrawn credit facilities, and adheres to its capital management policies outlined in Note 15.

13. Financial instruments and risk management (continued)

(iii) Liquidity risk (continued)

The Company's contractual maturities of its financial liabilities as at September 30, 2009 are as follows:

	Carrying amount	Contractual Cash Flow Obligations (1)	Less than 6 Months	6 to 12 Months	Between 1 and 2 Years	Between 2 and 5 Years
Accounts payable	943,650	943,650	943,650	-	-	-
Capital lease obligations	415,580	486,329	78,637	78,638	148,386	180,668
Loan payable	319,443	339,248	92,160	247,088	-	-
	$ 1,678,673	$ 1,769,227	$ 1,114,447	$ 325,726	$ 148,386	$ 180,668

(1) Includes interest

The Company's contractual maturities of its financial liabilities as at September 30, 2008 are as follows:

	Carrying amount	Contractual Cash Flow Obligations (1)	Less than 6 Months	6 to 12 Months	Between 1 and 2 Years	Between 2 and 5 Years
Accounts payable	1,459,163	1,459,163	1,459,163	-	-	-
Capital lease obligations	320,017	395,822	53,334	49,571	100,550	192,367
Loan payable	486,111	509,201	87,292	421,909	-	-
	$ 2,265,291	$ 2,364,186	$ 1,599,789	$ 471,480	$ 100,550	$ 192,367

(1) Includes interest

14. Segmented information and concentration of sales

(a) Business segments

The Company operates in two business segments: manufacturing custom designed children's indoor and outdoor play structures and operating a family entertainment centre. The Family Entertainment Centre began operating in December 2008.

The accounting policies of the two business segments are the same as those described in Note 3 to the consolidated financial statements. Inter-segment transactions are eliminated upon consolidation.

Information related to the two business segments operations in 2009 is as follows:

	Manufacturing	Family Entertainment Centre	Total
Revenues from external customers	$ 8,227,023	$ 1,099,062	$ 9,326,085
Cost of Sales	4,709,288	604,482	5,313,770
Gross Profit	3,517,735	494,580	4,012,315
Selling and administrative expenses	3,012,671	352,827	3,365,498
Amortization expense	220,470	169,187	389,657
Foreign exchange loss	375,784	-	375,784
Interest expense	4,630	51,221	55,851
Income tax expense (recovery)	33,397	(8,881)	24,516
Net income (loss)	$ (129,217)	$ (69,774)	$ (198,991)
Total assets	$ 3,191,535	$ 1,636,576	$ 4,828,111
Acquisition of property, plant and equipment	$ 743,836	$ 616,295	$ 1,360,131

14. Segmented information and concentration of sales (continued)

Information related to the two business segments operations in 2008 is as follows:

	Manufacturing	Family Entertainment Centre	Total
Revenues from external customers	$ 9,143,192	$ -	$ 9,143,192
Cost of Sales	5,732,265	-	5,732,265
Gross Profit	3,410,927	-	3,410,927
Selling and administrative expenses	2,960,465	139,770	3,100,235
Amortization expense	109,420	-	109,420
Foreign exchange loss	58,945	-	58,945
Interest expense	5,837	4,467	10,304
Income tax expense (recovery)	124,968	(44,553)	80,415
Net income (loss)	$ 151,292	$ (99,684)	$ 51,608
Total assets	$ 4,761,112	$ 1,313,765	$ 6,074,877
Acquisition of property, plant and equipment	$ 124,524	$ 998,815	$ 1,123,339

14. Segmented information and concentration of sales (continued)

(b) Geographic and customer information

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

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

		2009		2008
Revenues				
Canada	**$**	**2,060,394**	$	1,229,201
United States		**4,899,034**		5,588,050
Europe		**332,421**		575,766
Middle East		**1,479,956**		649,203
Asia Pacific		**165,895**		651,639
Latin America		**388,385**		449,333
	$	**9,326,085**	$	9,143,192

During the year ending September 30, 2009, one customer accounted for over 15% of the Company's total revenues (2008 – none over 10%).

15. Capital disclosures

The Company's capital, totalling $3,599,344 (2008 - $3,603,645), consists of shareholder's equity, capital lease obligations, loan payable and operating loan. The Company's objective when managing its capital is to safeguard the Company's assets while at the same time maximizing the growth of its business and the returns to its shareholders.

This objective is achieved by prudently managing the capital generated through internal growth, optimizing the use of lower cost capital and raising share capital when required to fund growth initiatives. During 2009, the Company funded its operations from internally generated cash flows and utilized new capital leases to fund capital expenditures related to the Family Entertainment Centre (Note 14).

Capital management objectives, policies and procedures are unchanged since the preceding year.

The Company does not use financial ratios to manage capital and is not subject to externally imposed requirements which have an impact on its management of capital except for the margin requirements of its operating loan. At September 30, 2009 and September 30, 2008 the Company complied with these margin requirements.

16. Supplemental cash flow information

		2009		2008
Income taxes paid	**$**	**-**	$	458,601
Interest paid	**$**	**55,851**	$	10,304
Non-cash transactions - capital leases (Note 5)	**$**	**191,078**	$	282,730

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Iplayco Corporation Ltd. ("Iplayco" or the "Company") provides information for the year ended September 30, 2009, and up to and including January 6, 2010. This MD&A should be read together with our audited consolidated financial statements and the accompanying notes for the year ended September 30, 2009 (the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in Canadian dollars.

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

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

Additional information related to Iplayco, including our consolidated financial statements may be found on SEDAR at www.sedar.com.

Overview

Our business is carried out through Iplayco's wholly owned subsidiaries International Play Company Inc. ("IPC") and Outdoor Play Company Inc. ("OPC"). We operate in two business segments: (1) IPC designs and manufactures custom designed children's indoor and outdoor play structures from its plant in Langley, British Columbia; and (2) OPC operates a family entertainment centre in Langley, British Columbia. The family entertainment centre began operations in December 2008.

IPC

The time required to manufacture, ship, and install individual playgrounds is largely dependent on the size and complexity of the play structures ordered by our customers. Factors such as customer locations, capital expenditure budgets, exotic theme requirements, may cause project completion timelines to vary from a few weeks to a few months. Our products are sold and installed worldwide. Our customer base includes family entertainment centers, theme parks, shopping malls, day care centers, fitness clubs, municipalities and other not for profit organizations. Over the past few years, there has been an increase in customer demand for larger and more complex play structures however we have observed that the general state of the economy has a significant impact on the volume of orders for our larger and more complex play structures.

Sales generated by our manufacturing operations decreased by 10.0% in 2009 to $8,227,023 from $9,143,192 in 2008. The decrease in revenue was due primarily to lower sales to our U.S. customers, who accounted for $4,899,034 (or 59.5%) of total manufacturing revenue in 2009 as compared to $5,588,050 (or 61.1%) in 2008. Since a significant portion of our total revenues were from the U.S., our manufacturing operations were particularly affected by the downturn in the U.S. economy in 2009. The market turmoil and tightening of credit led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. If the resulting economic pressure on our customers causes them to end their relationship with us, reduce or postpone current or expected purchase orders for our play structures, or suffer from business failure, our revenues and profitability could decline, perhaps materially. To manage this risk, we have increased our marketing activities through attendance at a greater number of international trade shows in an effort to increase revenue, and broaden our customer base.

In 2009, one U.S. based customer accounted for over 15% of our total revenues. In 2008, no customer accounted for more than 10% of our total revenue. We do not believe that we are exposed to significant customer concentration risks.

Accounts receivable with two specific customers represent approximately 58% of the balance of accounts receivable as at September 30, 2009 (September 30, 2008 – two customers represented approximately 59% of accounts receivable). It is our view that these accounts do not represent a significant credit risk. We believe that the credit risk of accounts receivable is limited because of our policy to receive significant upfront deposits from our customers prior to product shipment, as well as our ongoing credit evaluations of our customers.

Despite lower sales in 2009 as compared to 2008, we controlled production costs and increased our gross margin from 37.3% of total sales from our manufacturing operations in 2008, to 42.8% in 2009. This significant improvement was due primarily to the combined effect of implementing various labour cost reduction measures, reducing pre-assembly costs for smaller and less complex play structures, and manufacturing play areas with “Tuff Stuff”, a premium soft foam that is durable, colourful and resistant to wet and dry weather. The manufacturing of Tuff Stuff had a positive impact on gross margin in 2009, because our manufacturing costs were lower than the costs of purchasing similar foam products from third party suppliers.

During 2010, we expect that our gross margin percentage will continue to fluctuate from quarter to quarter depending on the design, size, and complexity of the play structures sold, the competitive selling prices, our ability to reduce costs, and changes in sales volume.

In 2009, the manufacturing operations generated a net loss of $129,217 as compared to net income of $151,292 in 2008. The decrease of $280,509 was primarily due to an increase of $316,839 in foreign exchange losses. We are exposed to foreign currency fluctuations because a significant portion or our revenues are denominated in U.S. dollars and a significant portion of our expenses are incurred in Canadian dollars. In 2009, we incurred foreign exchange losses of $375,784, of which $237,317 resulted from foreign exchange losses on forward contracts from commitments to sell U.S. dollars and receive Canadian dollars. $115,895 of the $237,317 in foreign exchange losses on forward contracts was due to the very sharp decline of the Canadian dollar against the U.S. dollar in October 2008. We had entered into one foreign exchange forward contract at an exchange rate of 1.063 Canadian dollars per U.S. dollar. Over the term of the contract, the Canadian dollar weakened significantly against the U.S. dollar to a rate of 1.247 at the settlement date of the contract, which resulted in the foreign exchange loss of $115,895. We are in the process of reviewing our hedging policies that manage our foreign currency risk and we will review other potential strategies such as increasing expenses in U.S. dollars to create a natural hedge against our U.S. dollar earnings. See further discussion on our exposure to currency risk in the section on “Market Risk Disclosure”.

During 2010, we expect that our net earnings will continue to fluctuate from quarter to quarter due primarily to variability in our gross margins and exposure to foreign currency risk between the Canadian and U.S. dollar.

OPC

On December 19, 2008, we began operating a family entertainment business in Langley, British Columbia. Our decision to enter into the consumer entertainment business was to create a new revenue stream that would stabilize earnings from our manufacturing operations, which as described above, are inherently subject to fluctuations from certain market risks.

During the first three months of operations of the family entertainment centre, our ability to generate revenue was limited due to delays with the installation of certain large play structures. It was not until March 2009 that the family entertainment centre was fully operational.

For the year ended September 30, 2009, the family entertainment centre generated revenues of $1,099,062 and incurred operating expenses of $1,168,836, which resulted in a net loss of $69,774.

In 2010, we expect that our operating expenses will decrease as a percentage of sales, since the 2009 expenses included various start-up costs which will not recur in 2010. Further, we expect that our sales and net earnings from the family entertainment centre will continue to fluctuate from quarter to quarter depending on competition for consumer entertainment spending.

Our business plan for 2010 is to continue to search for new growth opportunities for our family entertainment business. Our decision to expand will depend on finding an appropriate facility and obtaining additional financing. In order to continue our growth strategy, we will likely require additional financing to open new family entertainment centres, however, should our expansion plans succeed, it is our belief that our manufacturing business would benefit by supplying play structures for the new entertainment centres and in turn, these centers would serve as a valuable showcase for our new play structures.

Results of Operations

The following table sets forth selected annual information which is derived from our consolidated financial statements for the three years ended September 30, 2009:

	2009	**2008**	**2007**
Sales	9,326,085	9,143,192	10,692,128
Net income (loss)	(198,991)	51,608	593,064
Basic and diluted earnings (loss) per share	(0.02)	0.01	0.06
Total assets	4,828,111	6,074,877	3,959,188
Total loan payable	319,443	486,111	---
Cash dividends declared	---	---	---

Results of Operations – Year Ended September 30, 2009 Compared to Year Ended September 30, 2008

Revenue

Revenue increased by 2.0% in 2009 to $9,326,085 from $9,143,192 in 2008. The increase was due to revenues of $1,099,062 from our family entertainment centre that began operations in December 2008, offset by a decrease in revenues from our manufacturing operations. Sales generated by our manufacturing operations decreased by 10.0% in 2009 due primarily to lower sales to our U.S. customers, who accounted for $4,899,034 (or 59.5%) of total manufacturing revenue in 2009 as compared to $5,588,050 (or 61.1%) in 2008.

We expect that in the first quarter of 2010, revenue from our manufacturing operations will be lower than in the fourth quarter of 2009 mainly as a result of lower expected sales from our U.S. customers who account for a significant portion of our revenues. We also expect that in the first quarter of 2010, revenue from our family entertainment centre operation will be in line with revenue from the fourth quarter of 2009.

Gross margin

Gross margin was 43.0% of revenue in 2009, compared to 37.3% in 2008. This significant improvement was due primarily to the combined effect of implementing various labour cost reduction measures, reducing pre-assembly costs for smaller and less complex play structures, and manufacturing play areas with “Tuff Stuff”, a premium soft foam that is durable, colourful and resistant to wet and dry weather. The manufacturing of Tuff Stuff had a positive impact on gross margin in 2009, because our manufacturing costs were lower than the costs of purchasing similar foam products from third party suppliers.

During 2010, we expect that our gross margin percentage will continue to fluctuate from quarter to quarter depending on the design, size, and complexity of the play structures sold, the competitive selling prices, our ability to reduce costs, and changes in sales volume.

Operating expenses

Operating expenses were $4,186,790, or 44.9% of revenue, in 2009, compared to $3,278,904, or 35.9% of revenue, in 2008. This increase was primarily due to an increase of $316,839 in foreign exchange losses in our manufacturing operations combined with an increase of $464,670 in operating expenses in our family entertainment centre operations. The increase in operating expenses from our family entertainment centre operations was due to start-up costs, which will not recur in 2010.

Income tax expense

Income tax expense decreased to $24,516 in 2009 from 80,415 in 2008 due to the decrease in current income tax expense resulting from the net loss before tax of 174,475 in 2009 as compared to the net income before tax of $132,023 in 2008.

Net earnings

Net losses in 2009 were $198,991, or losses per share of $0.02, compared to net earnings of $51,608, or diluted earnings per share of $0.01 in 2008.

During 2010, we expect that net earnings from our manufacturing operations will continue to fluctuate from quarter to quarter due primarily to variability in our gross margins and exposure to foreign currency risk between the Canadian and U.S. dollar. We also expect that our operating expenses from our family entertainment centre operations will decrease as a percentage of sales, since the 2009 expenses included various start-up costs which will not recur in 2010. Further, we expect that our sales and net earnings from the family entertainment centre will continue to fluctuate from quarter to quarter depending on competition for consumer entertainment spending.

Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statements of operations data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended September 30, 2009. The unaudited consolidated 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. You should not rely on them to predict our future performance.

Quarters Ended	Sales	Net Income (Loss)	Earnings and Diluted Earnings per Share
September 30, 2009	1,682,700	(188,962)	(0.02)
June 30, 2009	2,060,291	75,695	0.01
March 31, 2009	2,119,948	(313,091)	(0.03)
December 31, 2008	3,463,146	227,367	0.02
September 30, 2008	3,838,358	538,723	0.05
June 30, 2008	1,333,742	(459,472)	(0.05)
March 31, 2008	2,167,310	260,541	0.03
December 31, 2007	1,803,782	(288,184)	(0.03)

Our quarterly results fluctuate from quarter to quarter because our operating expenses are determined based on anticipated sales, however these operating expenses are generally fixed and are incurred throughout each fiscal quarter. The impact of significant items incurred during the first three interim periods of each fiscal year are discussed in more detail and disclosed in our quarterly reports and MD&A. Items affecting our results were as follows:

– The decrease in net earnings in the first quarter of 2009 compared to the fourth quarter of 2008 was due primarily to an increase of $165,445 in foreign exchange losses.

– The increase in net earnings in the third quarter of 2009 compared to the second quarter of 2009 was due primarily to a decrease of $183,202 in salary expenses relating to the completion of the installations of play structures at the family entertainment centre.

– The decrease in sales and in net earnings in the fourth quarter of 2009 compared to the third quarter of 2009 was due primarily to lower sales to our U.S. customers by our manufacturing operations and to an increase in operating costs by our manufacturing operations due to trade show expenses.

Results of Operations – Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Revenue

Revenue for the fourth quarter ended September 30, 2009 (Q4-09) decreased by 56.2% to $1,682,700, compared to $3,838,358 in the fourth quarter of 2008 (Q4-08) due to significant market turmoil and tightening of credit in 2009, particularly in the U.S., which led to significantly lower sales volumes in Q4-09 as compared to Q4-08.

Gross margin

Gross margin was $921,849 or 54.8% of revenue in Q4-09, compared to $1,606,960 or 41.9% in Q4-08. The improvement in gross margin was primarily due to the combined effect of implementing various labour cost reduction measures and reducing pre-assembly costs for smaller and less complex play structures.

Operating expenses

Operating expenses were $1,073,657, or 63.8% of revenue, in Q4-09, compared to $987,822, or 25.7% of revenue, in Q4-08 primarily due trade show expenses incurred in Q4-09.

Income tax expense

Income tax expense decreased in Q4-09 compared to Q4-08 due to the decrease in current income tax expense resulting from the net loss before tax of $151,808 in Q4-09 as compared to the net income before tax of $619,138 in 2008.

Net earnings

Net losses in Q4-09 were $188,962, or losses per share of $0.02, compared to net earnings of $538,723, or diluted earnings per share of $0.05 in Q4-08.

Changes in accounting policies

During the year ended September 30, 2009, the Company adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

a) Section 1400, *General Standards of Financial Statement Presentation*. This Section requires an entity to discuss an entity's ability to continue as a going concern and was adopted by the Company effective October 1, 2008.

b) Section 1000, *Financial Statement Concepts*. This Section clarifies the criteria for recognition of an asset and the timing of expense recognition.

c) Section 3031, *Inventories*. This Section provides guidance on the determination of the cost of inventories and its subsequent recognition as an expense, and includes additional disclosure requirements. This Section also requires entities to account for the reversal of write-downs previously recognized when there is a subsequent increase in the value of inventories. This Section was adopted by the Company effective October 1, 2008 on a retrospective basis.

d) EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.* This EIC was issued in January 2009 and clarifies that an entity's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments, for presentation and disclosure purposes. This standard was adopted by the Company on a retrospective basis.

The adoption of these standards did not have a significant effect on the Company's consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian Generally Accepted Accounting Principles ("GAAP") with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that the year 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company is currently evaluating the impact the adoption of IFRS will have on its consolidated financial statements.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities was $190,193 for the year ended September 30, 2009, compared to cash provided by operating activities of $368,365 in the same period of 2008. The reduction of cash in operating activities in 2009 primarily resulted from significant decreases in accounts payable of $515,513 and customer deposit balances of $715,408. These decreases were primarily due to lower sales and lower production activity as compared to the same period of 2008, which ultimately resulted in lower purchases of raw material inventory and lower amounts of customer deposits on hand at year end.

Investing Activities

Cash used by investing activities was $756,866 in 2009, compared to cash used by investing activities of $459,326 in 2008. The increase in cash used by investing activities was primarily due to the increase in purchases of property, plant and equipment of $328,444 in 2009 as compared to 2008. This increase in capital expenditures was primarily due to equipment installations at our family entertainment center in Langley, BC. The entertainment centre began operations in December 2008.

Financing Activities

Cash used by financing activities was $176,345 in 2009, compared to cash provided by financing activities of $473,701 in 2008. The decrease was primarily due to cash outflows of $166,668 for repayment of the loan payable in 2009 as compared to net cash inflows of $486,111 from the loan payable in 2008.

As of September 30, 2009, we did not have any 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 loan payable and repayment of our capital lease obligations, and capital expenditures. Although we believe that based on our current business plan, our sources of cash which include cash, accounts receivable, cash from customer deposits, and cash from operations will be sufficient to fund our expected working capital requirements for at least the next twelve months, we may require the use of our $500,000 operating loan facility, described below.

Sources and Uses of Cash

The source of funds for our future capital expenditures and commitments includes cash, accounts receivable, borrowings, and cash from operations, as follows:

– Cash amounted to $420,010 at September 30, 2009 compared to $1,163,028 at September 30, 2008.

– Accounts receivable amounted to $760,445 at September 30, 2009, compared to $1,444,557 at September 30, 2008.

– We have two credit facilities with a Canadian chartered bank as described below.

Credit Facilities

We have a non-revolving term loan maturing in August 2010 which bears interest at prime plus 3.95%. The loan is repayable in monthly instalments of $13,889 plus interest. It is currently our intent to renew this term loan prior to its maturity.

We have an operating loan facility with a limit of $500,000, subject to certain margin requirements on trade receivables and inventory. The operating loan bears interest at prime plus 1.50%. No amounts were drawn on this facility at September 30, 2009 and September 30, 2008.

Market Risk Disclosure

Currency risk

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

We are exposed to foreign currency fluctuations because a significant portion or our revenues 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 Canadian and the U.S. dollar and manage this risk by entering into foreign exchange forward contracts for larger U.S. dollar receivable balances. We do not enter into foreign exchange forward contracts for speculative purposes.

We have one foreign exchange forward contract outstanding at September 30, 2009 for which we have a commitment to sell $15,800 (2008 - $1,968,316) of U.S. dollars at a weighted average rate of $1.085 (2008 - $1.045) on December 1, 2009 (2008 - various dates up to March 31, 2009). The fair value of this contract is a liability of $202 (2008 – liability of $30,000) and is recorded as a foreign exchange loss in the consolidated statement of operations. During the year ended September 30, 2009, we incurred foreign exchange losses totalling $237,317 on foreign exchange forward contracts (2008 - $49,680). Of the $237,317 foreign exchange loss incurred in 2009 on foreign exchange contracts, $115,895 resulted from one foreign exchange contract for which we had committed to sell U.S. dollars and receive Canadian dollars at an exchange rate of 1.063 Canadian dollars per U.S. dollar. Over the term of the contract, the Canadian dollar weakened against the U.S. dollar to a rate of 1.247 at the settlement date of the contract, which resulted in the foreign exchange loss of $115,895.

Credit risk

Our credit risk is primarily attributable to our accounts receivable. Accounts receivable is disclosed on our consolidated balance sheet net of provision for bad debts, estimated based on our prior experience and assessment of the current economic environment. We believe that the credit risk of accounts receivable is limited because of our policy to receive significant upfront deposits from our customers prior to product shipment, as well as our ongoing credit evaluations of our customers.

Accounts receivable with two specific customers represent approximately 58% of the balance of accounts receivable as at September 30, 2009 (September 30, 2008 – two customers represented approximately 59% of accounts receivable). It is our view that these accounts do not represent a significant credit risk.

The credit risk associated with our cash and term deposits is limited because these financial assets are held through a large Canadian chartered bank with a high investment grade rating. The term deposits held as at September 30, 2008 matured January 30, 2009.

Interest rate risk

Our interest rate risk arises primarily from our loan payable which bears interest at variable rates and exposes us to changes in debt servicing cash flows. We also have an operating loan which is subject to variable interest rates; however, no amounts were drawn on this facility during the years ended September 30, 2009 and 2008. Capital lease obligations bear interest at fixed rates.

Liquidity risk

We manage our liquidity risk through maintaining cash and term deposits and access to undrawn 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

During the year ended September 30, 2009, there were no material related party transactions.

Outstanding Share Capital

As at January 6, 2010, there were 10,220,187 common shares issued and outstanding and 991,500 common shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of $0.26 per share.

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, revenue, gross margin, 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.