



2011

Consolidated financial statements of

**Iplayco Corporation Ltd.**

As at and for the years ended September 30, 2011 and 2010

# **Iplayco Corporation Ltd.**

## Table of contents

Auditors' Report .....	1-2
Consolidated balance sheets .....	3
Consolidated statements of operations, comprehensive loss and retained earnings (deficit) .....	4
Consolidated statements of cash flows .....	5
Notes to consolidated financial statements .....	6-23

## **Independent Auditor's Report**

To the Shareholders of Iplayco Corporation Ltd.

We have audited the accompanying consolidated financial statements of Iplayco Corporation Ltd., which comprise the consolidated balance sheets as at September 30, 2011 and September 30, 2010, and consolidated statements of operations, comprehensive loss and retained earnings (deficit) and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Iplayco Corporation Ltd. as at September 30, 2011 and September 30, 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred net losses over the past several years and has a working capital deficit in the amount of \$231,580, and has an accumulated deficit of \$247,062. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte & Touche LLP

Chartered Accountants  
Vancouver, British Columbia  
December 1, 2011

# Iplayco Corporation Ltd.

## Consolidated balance sheets

September 30

	2011	2010
<b>Assets</b>		
Current		
Cash	\$ -	\$ 369,573
Accounts receivable (Note 12)	833,458	706,544
Inventories (Note 4)	741,630	974,078
Prepaid expenses	169,995	89,873
	<b>1,745,083</b>	2,140,068
Restricted cash (Note 8)	250,000	-
Property, plant, and equipment (Note 5)	1,813,247	2,018,753
Future income taxes (Note 11)	421,753	179,077
	<b>\$ 4,230,083</b>	<b>\$ 4,337,898</b>
<b>Liabilities</b>		
Current		
Operating loan (Note 7)	\$ 157,045	\$ -
Accounts payable and accrued liabilities	1,460,044	946,546
Customer deposits	184,684	288,473
Non-hedging financial derivatives (Note 12)	4,474	-
Current portion of rent inducements (Note 10)	32,958	22,817
Current portion of capital lease obligations (Note 6)	137,458	145,048
Loan payable	-	152,775
	<b>1,976,663</b>	1,555,659
Rent inducements (Note 10)	175,329	55,140
Capital lease obligations (Note 6)	60,652	198,110
Notes payable (Note 8)	250,000	-
	<b>2,462,644</b>	1,808,909
<b>Shareholders' equity</b>		
Capital stock (Note 9)	1,757,643	1,757,643
Contributed surplus	256,858	256,858
Retained earnings (deficit)	(247,062)	514,488
	<b>1,767,439</b>	<b>2,528,989</b>
	<b>\$ 4,230,083</b>	<b>\$ 4,337,898</b>

Commitments (Note 10)

Subsequent events (Notes 8 and 15)

### Approved by the Directors

"David A. Perkins"  
.....

"David L. Wood"  
.....

See accompanying notes to the consolidated financial statements

## Iplayco Corporation Ltd.

Consolidated statements of operations,  
comprehensive loss and retained earnings (deficit)  
September 30

	2011	2010
<b>Sales</b>	<b>\$8,467,618</b>	\$ 7,941,498
Cost of sales	<b>5,952,947</b>	4,868,435
<b>Gross profit</b>	<b>2,514,671</b>	3,073,063
<b>Expenses</b>		
Selling and administration	<b>3,026,968</b>	2,990,860
Depreciation	<b>433,827</b>	478,793
Foreign exchange loss (gain)	<b>13,524</b>	(5,142)
Interest expense	<b>44,578</b>	55,188
	<b>3,518,897</b>	3,519,699
<b>Loss before income taxes</b>	<b>(1,004,226)</b>	(446,636)
<b>Future income tax recovery (Note 11)</b>	<b>(242,676)</b>	(111,304)
<b>Net loss and comprehensive loss for the year</b>	<b>(761,550)</b>	(335,332)
Retained earnings at beginning of the year	<b>514,488</b>	849,820
<b>Retained earnings (deficit) at end of the year</b>	<b>\$ (247,062)</b>	\$ 514,488
Loss per share		
Basic and diluted	<b>\$ (0.07)</b>	\$ (0.03)
Weighted average number of common shares		
Basic and diluted	<b>10,220,187</b>	10,220,187

See accompanying notes to the consolidated financial statements

**Iplayco Corporation Ltd.**  
Consolidated statements of cash flows  
September 30

	2011	2010
<b>Operating activities</b>		
Net loss for the year	\$ (761,550)	\$ (335,332)
Items not involving cash		
Depreciation	433,827	478,793
Future income taxes (Note 11)	(242,676)	(111,304)
Non-hedging financial derivatives (Note 12)	4,474	-
Rent inducement	130,330	(22,817)
Unrealized foreign exchange loss (gain)	(25,859)	6,638
	<b>(461,454)</b>	<b>15,978</b>
Change in non-cash operating working capital		
Accounts receivable	(101,055)	47,262
Inventories	232,448	186,389
Prepaid expenses	(80,122)	(27,549)
Accounts payable	491,513	2,694
Customer deposits	(103,789)	104,333
	<b>438,995</b>	<b>313,129</b>
	<b>(22,459)</b>	<b>329,107</b>
<b>Investing activities</b>		
Increase in restricted cash (Note 8)	(250,000)	-
Purchase of property, plant and equipment (Note 5)	(206,336)	(74,192)
	<b>(456,336)</b>	<b>(74,192)</b>
<b>Financing activities</b>		
Proceeds from notes payable (Note 8)	250,000	-
Repayment of loan payable	(152,775)	(166,668)
Repayment of capital lease obligations	(145,048)	(138,684)
	<b>(47,823)</b>	<b>(305,352)</b>
<b>Change in cash during the period</b>	<b>(526,618)</b>	<b>(50,437)</b>
Cash at beginning of the year	369,573	420,010
<b>Cash (overdraft) at end of the year (Note 7)</b>	<b>\$ (157,045)</b>	<b>\$ 369,573</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 44,578	\$ 55,188
Non-cash transactions - property, plant and equipment (Note 5)	21,985	-
Non-cash transactions - capital leases (Note 5)	-	66,262

See accompanying notes to the consolidated financial statements

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

### September 30, 2011 and 2010

#### 1. Business operations

The Corporation is incorporated under the Alberta Business Corporations Act. The Corporation's business is carried out through its wholly owned subsidiaries, International Play Company Inc. ("IPC") and Outdoor Play Company Inc. ("OPC"). IPC designs, manufactures and installs customized indoor and outdoor play structures for children. OPC owns and operates a family entertainment centre.

The Corporation has incurred net operating losses of \$761,550 in 2011 and 335,332 in 2010, has a deficit of \$247,062 as at September 30, 2011 (2010 – retained earnings of \$514,488) and a working capital deficit of \$231,580 as at September 30, 2011 (2010 – working capital of \$584,409). The Corporation's future operations are dependent on Management's business plan to implement growth strategies to increase sales and gross profit and to contain operating expenses in order to ultimately generate future profitable operations. On July 26, 2011, September 6, 2011 and November 17, 2011, the Corporation entered into three significant sales agreements of U.S. \$1,752,000 (or \$1,652,000 – approximate contract value in Canadian dollars at July 26, 2011), U.S. \$1,358,000 (or \$1,344,000 – approximate contract value in Canadian dollars at September 6, 2011), and U.S. \$1,750,000 (or \$1,790,000 – approximate contract value in Canadian dollars at November 17, 2011), respectively, which are expected to favourably impact the Corporation's operating results for the year ending September 30, 2012. In management's opinion, cash flow from these significant sales agreements combined with the Corporation's available borrowing capacity under its bank operating facility, and ongoing cash flow from operations are considered sufficient to fund anticipated contractual obligations, future operations, and capital expenditures for at least the next fiscal year.

#### 2. New accounting pronouncements

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("Canadian GAAP") in 2011 for profit-oriented Canadian publicly accountable enterprises. Effective October 1, 2011, the Corporation will adopt IFRS as the basis for preparing its consolidated financial statements. The Corporation will issue its financial results for the three-month period ended December 31, 2011 prepared on an IFRS basis and will provide comparative data on an IFRS basis as required.

#### 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 Corporation and its wholly-owned subsidiaries, IPC and OPC. Intercompany balances and transactions have been eliminated on consolidation.

##### *Use of estimates*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates and assumptions are used for, but are not limited to, revenue recognition, specifically for contracts recorded using the percentage-of-completion method of accounting, the recoverability of accounts receivable, the net residual value of inventory, the useful lives and impairment of property, plant and equipment, the recoverability of future tax assets, accrued liabilities, the fair value of share-based compensation, the fair value of derivative financial instruments from foreign exchange contracts, and the provision for warranty liabilities. Actual results could differ from those estimates.



# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

### September 30, 2011 and 2010

#### 3. Significant accounting policies (continued)

##### *Translation of foreign currencies*

The measurement currency of the Corporation is the Canadian dollar. Transactions in foreign currencies are translated at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the measurement currency are translated at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in earnings. Non-monetary assets and liabilities are translated at the historical rates.

##### *Revenue recognition*

The Corporation generates revenue from the following principle sources:

- The sale and installation of play structure equipment by its manufacturing operations ("Manufacturing Operations"); and
- Admission fees, redemption games, and the sale of concession goods by its family entertainment centre operations ("FEC Operations").

Revenue is measured at the fair value of the consideration received or receivable.

##### (i) Revenue Recognition – Manufacturing Operations

Revenue from the sale of equipment is recognized when all the following conditions are satisfied:

- The Corporation has transferred to the customer the significant risks and rewards of ownership of the equipment;
- The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the equipment sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Arrangements that include the sale of equipment and installation services are accounted for as multiple element revenue transactions. The equipment and the installation services are separate units of accounting in the arrangement because the equipment has stand-alone value, as it is sometimes sold separately, and because there are no general return or refund rights. Arrangement consideration is allocated to the separate units of accounting based on their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable is determined using vendor-specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Corporation uses its best estimate of the selling price for that deliverable when applying the relative selling price method. None of the amount allocable to the equipment is contingent upon performing the installation. The consideration allocated to the installation services is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue upon completion of the installation of equipment and when the Corporation's obligations have been fulfilled.

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

### September 30, 2011 and 2010

#### 3. Significant accounting policies (continued)

##### *Revenue recognition (continued)*

On long-term fixed price contracts for the sale of larger play structures, revenues are recognized on the percentage-of-completion basis over the duration of the contract, which 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. The cumulative effect of changes to anticipated revenues and anticipated costs for completing the contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on the contract, such loss is recognized in its entirety in the period it becomes known.

Amounts received from customers in excess of revenue recognized on uncompleted contracts are recorded as customer deposits.

##### (ii) Revenue Recognition – FEC Operations:

Revenue from admission fees, redemption games, and the sale of concession goods are recognized at the point of sale. Amounts received from customers for future admissions are recorded as customer deposits.

##### *Financial instruments*

The Corporation measures its financial assets in the balance sheet at fair value, except for loans and receivables, which are measured at amortized cost. Financial liabilities classified as held for trading, including derivatives, are measured in the balance sheet at fair value; all other financial liabilities are measured at amortized cost.

Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. The Corporation classifies its accounts receivables as loans and receivables and its accounts payable and warranty liabilities as other financial liabilities.

Periodically, the Corporation enters into forward exchange contracts to limit its exposure to foreign currency rate fluctuations. These derivative contracts are recorded as either assets or liabilities in the consolidated balance sheet at fair value. Any changes in fair value are recognized in earnings as foreign exchange gains or losses. The Corporation does not designate its financial instruments as hedges.

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.

The Corporation 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.

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

### September 30, 2011 and 2010

#### 3. Significant accounting policies (continued)

##### *Inventories*

Inventories are valued at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes materials, labour and the appropriate share of production overhead based on normal operating capacity. Costs of materials are determined on an average per unit basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In establishing the appropriate inventory obsolescence provision, management estimates the likelihood that inventory carrying values will be affected by changes in market demand, technology and design, which could make inventory on hand recoverable at less than its cost or even obsolete.

##### *Property, plant, and equipment and depreciation*

Property, plant and equipment are recorded at cost. Depreciation 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	Straight-line over lease term

##### *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.

##### *Accrued warranty liabilities*

A provision for warranty costs is recorded on product sales at the time of shipment. In establishing the accrued warranty liability, management estimates the likelihood that products sold will experience warranty claims and the estimated cost to resolve claims received, taking into account the nature of the contract and past and projected experience with the products.

##### *Leases*

Leases are classified as capital or operating depending upon the terms and conditions of the contracts. Leases, which transfer substantially all the benefits and risks incident to ownership of the leased property to the Corporation, are accounted for as capital leases. The cost of assets under capital leases represent the present value of minimum lease payments and are depreciated in accordance with the methods and rates described in the accounting policies on property, plant, and equipment and depreciation. Assets under capital leases are presented in property, plant and equipment in the consolidated balance sheet.

Leases that do not transfer substantially all benefits and risks incident to ownership of the property are accounted for as operating leases.

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements September 30, 2011 and 2010

### 3. Significant accounting policies (continued)

#### *Income taxes*

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences) and for loss carry-forwards. The resulting changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

The effect on future income tax assets and liabilities, of a change in tax rates, is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated, and if realization is not considered to be "more likely than not," a valuation allowance is provided.

#### *Stock-based compensation*

The Corporation 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.

#### *Employee future benefits*

The Corporation contributes funding to a group registered retirement savings plan ("Group Plan") in which full-time employees are eligible to participate. The Group Plan provides for eligible employees to receive matching contributions from the Corporation at pre-defined rates. The Corporation recognizes this cost as an expense in the period it is incurred.

#### *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 Corporation uses the treasury stock method in calculating diluted earnings (loss) per share.

### 4. Inventories

	<u>2011</u>	<u>2010</u>
Raw materials	\$ 724,066	\$ 921,341
Work in progress	17,564	27,419
Finished goods	-	25,318
	<u>\$ 741,630</u>	<u>\$ 974,078</u>

Inventories recognized as an expense during the year amount to \$5,720,499 (2010 - \$4,682,046).

# Iplayco Corporation Ltd.

Notes to consolidated financial statements  
September 30, 2011 and 2010

## 5. Property, plant and equipment

	2011		
	Cost	Accumulated depreciation	Net book value
Automotive	\$ 49,113	\$ 32,585	\$ 16,528
Computer equipment	183,996	74,376	109,620
Furniture and fixtures	104,306	43,003	61,303
Machinery and equipment	1,650,587	709,200	941,387
Moulds	126,663	87,387	39,276
Leasehold improvements	823,420	178,287	645,133
	<b>\$ 2,938,085</b>	<b>\$ 1,124,838</b>	<b>\$ 1,813,247</b>

During the year ended September 30, 2011 the Corporation acquired property, plant and equipment totalling \$228,321 of which \$21,985 was included in accounts payable and accrued liabilities at September 30, 2011 and \$206,336 was purchased with cash. Included in property, plant and equipment at September 30, 2011 are assets under capital leases with a cost of \$561,559 and a net book value of \$306,138.

	2010		
	Cost	Accumulated depreciation	Net book value
Automotive	\$ 49,113	\$ 29,218	\$ 19,895
Computer equipment	331,455	216,796	114,659
Furniture and fixtures	149,489	72,893	76,596
Machinery and equipment	1,750,523	609,511	1,141,012
Moulds	186,491	134,170	52,321
Leasehold improvements	844,899	230,629	614,270
	<b>\$ 3,311,970</b>	<b>\$ 1,293,217</b>	<b>\$ 2,018,753</b>

During the year ended September 30, 2010 the Corporation acquired property, plant and equipment totalling \$140,454 of which \$66,262 was financed by means of capital leases and \$74,192 was purchased with cash. Included in property, plant and equipment at September 30, 2010 are assets under capital leases with a cost of \$646,171 and a net book value of \$411,605.

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

September 30, 2011 and 2010

### 6. Capital lease obligations

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

	<b>2011</b>
2012	\$ 149,553
2013	61,197
2014	1,841
	<b>212,591</b>
Less amount representing interest at 9.32%	<b>(14,481)</b>
	<b>198,110</b>
Less current portion	<b>(137,458)</b>
	<b>\$ 60,652</b>

### 7. Operating loan

On August 13, 2010, the operating loan facility was renewed with a limit of \$500,000, subject to certain margin requirements, bears interest at Royal Bank of Canada's prime rate plus 1.50% and is secured by a general security agreement covering all property of the Corporation. At September 30, 2011, \$85,000 was drawn on this facility (2010 – \$0).

### 8. Related party transactions

On September 30, 2011, the Corporation entered into promissory note agreements with four of its directors, including the Corporation's President and Executive Vice-President, to borrow \$250,000 at an annual interest rate of 18.00% ("Notes Payable"). Proceeds from the Notes Payable are restricted to securing an irrevocable standby letter of credit in favour of Export Development Canada to underwrite a performance bond for a customer of the Corporation ("Performance Bond"). The Performance Bond is to expire once the Corporation completes certain obligations under its contract with the customer. The Notes Payable are unsecured and interest and capital are payable upon expiry of the Performance Bond. Pursuant to the subsequent events of October 4, 2011, October 19, 2011, and November 17, 2011, described in Note 15, the Corporation is expected to complete its obligations under this contract on or after October 31, 2012, at which time the Performance Bond would expire and payment of interest and capital from the Notes Payable would become due.

# Iplayco Corporation Ltd.

Notes to consolidated financial statements  
September 30, 2011 and 2010

## 9. Capital stock

### *Authorized and issued*

A summary of the issued and outstanding shares of the Corporation is as follows:

	<b>Number of shares</b>	<b>Amount</b>
Authorized		
Unlimited Common shares, without par value		
Unlimited Preferred shares, without par value		
Issued, Common shares		
<b>Balance, September 30, 2011 and 2010</b>	<b>10,220,187</b>	<b>\$ 1,757,643</b>

### *Stock options*

The Corporation 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 Corporation and the exercise price is generally determined by reference to the market price of the Corporation's stock on the grant date. Vesting and expiry of options may vary at the discretion of the Corporation's Compensation Committee, subject to the rules of the stock exchange. The contractual life of the options is 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, 2011 and 2010 is 1,022,018.

A summary of stock option activity is as follows:

	<b>Stock options</b>	
	<b>Number</b>	<b>Price</b>
Outstanding at September 30, 2009	991,500	\$0.26
Expired on January 14, 2010	(991,500)	\$0.26
<b>Outstanding at September 30, 2011 and 2010</b>	<b>-</b>	<b>-</b>

# Iplayco Corporation Ltd.

Notes to consolidated financial statements  
September 30, 2011 and 2010

## 10. Commitments

The Corporation leases premises and certain equipment under long-term operating lease agreements that expire at various dates up to 2020. Future minimum lease payments aggregate \$3,506,256 and include the following amounts payable, including estimated occupancy costs:

2012	<b>\$ 556,150</b>
2013	<b>597,481</b>
2014	<b>435,153</b>
2015	<b>326,483</b>
2016	<b>299,073</b>
Thereafter	<b>1,291,916</b>
	<hr/> <b>\$ 3,506,256</b> <hr/>

Included in selling and administration expenses is \$416,505 (2010 - \$560,979) of premise lease costs.

On February 6, 2008, the Corporation entered into an operating lease agreement commencing on March 1, 2008 to February 29, 2014 with basic rent escalating annually, and ten months of basic rent forgiven.

On July 6, 2010, the Corporation entered into an operating lease agreement for office and warehouse space, commencing on December 1, 2010 to November 30, 2020, with basic rent escalating every two years, and seven months of basic rent forgiven.



**Iplayco Corporation Ltd.**  
Notes to consolidated financial statements  
September 30, 2011 and 2010

**11. Income taxes**

The approximate tax effect of temporary differences and tax loss carry-forwards that give rise to the Corporation's future income tax assets are as follows:

	<b>2011</b>	2010
Future income tax assets		
Tax loss carryforwards	\$ 394,359	\$ 168,573
Timing differences on expenses	87,519	51,528
Share issue expenses	2,341	4,631
	<b>484,219</b>	224,732
Future income tax liability		
Property, plant and equipment	<b>(62,466)</b>	(45,655)
<b>Net future income tax asset</b>	<b>\$ 421,753</b>	<b>\$ 179,077</b>

The future benefit of these temporary differences and tax loss carry-forwards has been recognized in the financial statements as at September 30, 2011, as it is more likely than not they will be utilized.

As at September 30, 2011 the Corporation has \$1,577,434 of tax loss carry-forwards expiring as follows:

2026	\$ 1,611
2027	1,228
2028	66,810
2029	46,649
2030	557,995
2031	903,141
	<b>1,577,434</b>

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

	<b>2011</b>	2010
Canadian basic statutory rate	<b>27.00%</b>	28.88%
Expected income tax recovery	\$ (271,141)	\$ (128,988)
Changes in tax rates	20,965	7,381
Non-deductible expenses	7,500	10,303
	<b>\$ (242,676)</b>	<b>\$ (111,304)</b>

**Iplayco Corporation Ltd.**  
Notes to consolidated financial statements  
September 30, 2011 and 2010

**12. Financial instruments and risk management**

*(a) Classification of financial instruments and fair value*

The following table summarizes information relating to the Corporation's financial instruments for the years ending September 30, 2011 and 2010.

Class of Financial Instruments	Categories in Consolidated Balance Sheets	Carrying Values	
		2011	2010
Held for trading financial assets measured at fair value	Cash and restricted cash	\$ 250,000	369,573
Loans and receivables financial assets measured at amortized cost	Accounts receivable	833,458	706,544
Other financial liabilities measured at amortized cost	Operating loan, accounts payable and accrued liabilities, loan payable and notes payable	1,867,089	1,099,321
Non-hedging financial derivative designated as held for trading measured at fair value	Non-hedging financial derivative - liability	4,474	-

The carrying values of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair market values due to their short-term maturities. The interest rates applied to the capital lease obligations are not considered to be materially different from market rates, thus the carrying value of the capital lease obligations approximate fair value. The fair value of the notes payable, accounted for at amortized cost, is not practical to determine because the notes are not publicly traded and the borrowing terms have been concluded with related parties, as described in Note 8.

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

- (i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- (ii) Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability directly (as prices) or indirectly (derived from prices); and
- (iii) Level 3 – Inputs that are not based on observable market data (involves assumptions and estimates by management of how market participants would price the asset or liability).

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

September 30, 2011 and 2010

### 12. Financial instruments and risk management (continued)

#### (a) Classification of financial instruments and fair value (continued)

The Corporation categorizes the fair value measurement of its cash, restricted cash and non-hedging financial derivative liability in Level 1 as they are directly from quoted (unadjusted) prices in active markets.

#### (b) Risks and risk management

Financial instruments may expose the Corporation to a number of financial risks, including market risk (interest rate risk and currency risk), credit risk and liquidity risk. The Corporation'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 Corporation's financial instruments and the Corporation'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 Corporation's interest rate risk arises primarily from its operating loan which is subject to variable interest rates. During the year, the average monthly balance outstanding on this facility amounted to \$314,167 and resulted in an annual interest expense of \$14,168 (2010 – average monthly balance of \$28,750; annual interest expense of \$570). Capital lease obligations and the notes payable bear interest at fixed rates.

The Corporation 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 \$1,700 (2010 – \$1,000). 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 Corporation 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 Corporation manages this risk by entering into foreign exchange forward contracts.

At September 30, 2011, the Corporation had entered into one foreign exchange forward contract with a commitment to sell \$275,000 of U.S. dollars on or before November 30, 2011 at a rate of \$1.0325. At September 30, 2010, the Corporation had not entered into any foreign exchange forward contracts.

# Iplayco Corporation Ltd.

## Notes to consolidated financial statements

### September 30, 2011 and 2010

#### 12. Financial instruments and risk management (continued)

##### b) Currency risk (continued)

The fair value of the foreign exchange forward contract at September 30, 2011 is a liability of \$4,474 and is recorded as a foreign exchange loss in the consolidated statement of operations.

During the year ended September 30, 2011, the Corporation incurred a net foreign exchange loss of \$12,150 on foreign exchange forward contracts (2010 – net gain of \$29,345).

A sensitivity analysis has been performed assuming the foreign exchange rate changes by 5% as at September 30, 2011 and 2010. For every 5% strengthening of the U.S. dollar against the Canadian dollar, with all other variables held constant, the net loss and comprehensive loss would decrease by approximately \$48,000 (2010 - \$52,000). A weakening 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, restricted cash and accounts receivable on the consolidated balance sheet represent the Corporation's maximum exposure to credit risk.

The Corporation'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 Corporation believes that the credit risk of accounts receivable is generally 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 four customers represent approximately 60% of the balance of accounts receivable as at September 30, 2011 (September 30, 2010 – two customers represent approximately 48% 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 Corporation's cash and restricted cash is limited because these financial assets are held through large Canadian financial institutions with a high investment grade rating.

**Iplayco Corporation Ltd.**  
Notes to consolidated financial statements  
September 30, 2011 and 2010

**12. Financial instruments and risk management (continued)**

(ii) Credit risk (continued)

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

	<b>2011</b>	2010
Trade receivables		
Current	<b>\$ 536,066</b>	\$ 464,062
Aged between 31 - 60 days	<b>165,010</b>	68,617
Aged between 61 - 90 days	<b>7,871</b>	51,863
Aged greater than 90 days	<b>303,129</b>	373,622
	<b>1,012,076</b>	958,164
Other receivables	<b>86,402</b>	36,930
Allowance for doubtful accounts	<b>(265,020)</b>	(288,550)
	<b>\$ 833,458</b>	\$ 706,544

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

	<b>2011</b>	2010
Opening balance	<b>\$ 288,550</b>	\$ 122,130
Write-offs	<b>(41,166)</b>	(122,130)
Increase in allowance	<b>17,636</b>	288,550
Closing balance	<b>\$ 265,020</b>	\$ 288,550

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. As described in Note 1, The Corporation's future operations are dependent on Management's business plan to implement growth strategies to increase sales and gross profit and to contain operating expenses in order to ultimately generate future profitable operations. The Corporation manages its liquidity risk through maintaining cash and access to undrawn credit facilities, and adheres to its capital management policies outlined in Note 14.

# Iplayco Corporation Ltd.

Notes to consolidated financial statements  
September 30, 2011 and 2010

## 12. Financial instruments and risk management (continued)

(iii) Liquidity risk (continued)

The Corporation's contractual maturities of its financial liabilities as at September 30, 2011 are as follows:

	Carrying Amounts	Contractual Cash Flow Obligations (including interest)	Less than 6 Months	6 to 12 Months	Between 1 and 2 Years	Between 2 and 5 Years
Operating loan	\$ 85,000	\$ 90,525	\$ 90,525	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	1,460,044	1,460,044	1,460,044	-	-	-
Capital lease obligations	198,110	212,591	79,410	70,143	61,197	1,841
Notes payable	250,000	306,250	-	-	306,250	-
	\$ 1,993,154	\$ 2,069,410	\$ 1,629,979	\$ 70,143	\$ 367,447	\$ 1,841

## 13. Segmented information and concentration of sales

(a) *Business segments*

The Corporation operates in two business segments: Manufacturing of indoor and outdoor play structures for children, and operating a Family Entertainment Centre.

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

# Iplayco Corporation Ltd.

Notes to consolidated financial statements  
September 30, 2011 and 2010

## 13. Segmented information and concentration of sales (continued)

(a) Business segments (continued)

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

	Year ended September 30, 2011		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 7,033,071	\$ 1,434,547	\$ 8,467,618
Cost of sales	\$ 5,175,423	777,524	5,952,947
Gross profit	1,857,648	657,023	2,514,671
Selling and administrative expenses	2,576,694	450,274	3,026,968
Depreciation expense	231,899	201,928	433,827
Foreign exchange loss	13,393	131	13,524
Interest expense	16,128	28,450	44,578
Income tax recovery	(200,207)	(42,469)	(242,676)
Net income (loss)	\$ (780,259)	\$ 18,709	\$ (761,550)
Total assets	\$ 2,976,543	\$ 1,253,540	\$ 4,230,083
Acquisition of property, plant and equipment	\$ 216,421	\$ 11,900	\$ 228,321

  

	Year ended September 30, 2010		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 6,588,467	\$ 1,353,031	\$ 7,941,498
Cost of sales	4,115,637	752,798	4,868,435
Gross profit	2,472,830	600,233	3,073,063
Selling and administrative expenses	2,605,354	385,506	2,990,860
Depreciation expense	260,275	218,518	478,793
Foreign exchange loss (gain)	(5,823)	681	(5,142)
Interest expense	5,503	49,685	55,188
Income tax recovery	(63,495)	(47,809)	(111,304)
Net loss	\$ (328,984)	\$ (6,348)	\$ (335,332)
Total assets	\$ 2,932,970	\$ 1,404,928	\$ 4,337,898
Acquisition of property, plant and equipment	\$ 69,141	\$ 71,313	\$ 140,454

# Iplayco Corporation Ltd.

Notes to consolidated financial statements  
September 30, 2011 and 2010

## 13. Segmented information and concentration of sales (continued)

### (b) Geographic and customer information

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

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

	2011	2010
<b>Sales</b>		
Canada	<b>\$ 2,129,871</b>	\$ 2,383,125
Americas	<b>3,707,330</b>	4,053,916
Other	<b>2,630,417</b>	1,504,457
	<b>\$ 8,467,618</b>	\$ 7,941,498

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

	2011	2010
Customer A	<b>\$ 1,870,901</b>	\$ -
Customer B	-	1,276,953
	<b>\$ 1,870,901</b>	\$ 1,276,953

## 14. Capital disclosures

The Corporation's objective when managing capital is to provide sufficient capacity to cover normal operating and capital expenditures, while maintaining an adequate return for shareholders. The Corporation's primary source of capital is its shareholders' equity (September 30, 2011 - \$1,767,439, September 30, 2010 - \$2,528,989). The Corporation augments these capital sources with an operating loan facility with a limit of \$500,000, subject to certain margin requirements, which can be used to finance its net working capital and general corporate requirements. 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 risks.

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

The Corporation 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 facility. At September 30, 2011 and 2010 the Corporation complied with these margin requirements.



# **Iplayco Corporation Ltd.**

## Notes to consolidated financial statements

### September 30, 2011 and 2010

#### **15. Subsequent events**

On October 4, 2011, pursuant to the transactions described in Note 8, the Corporation invested \$300,000, comprised of \$250,000 in restricted cash and \$50,000 in cash on hand, in non-redeemable Guaranteed Investment Certificates with the Royal Bank of Canada ("GICs"), maturing on December 31, 2012 and earning interest at 1.10% per annum. The GICs are pledged as collateral to secure an irrevocable standby letter of credit of \$300,000 in favour of Export Development Canada ("Letter of Credit"). The Letter of Credit expires on December 31, 2012.

On October 7, 2011, the operating loan facility described in Note 7 was renewed with a limit of \$500,000, subject to certain margin requirements, bears interest at Royal Bank of Canada's prime rate plus 3.50% and is secured by a general security agreement covering all property of the Corporation.

On October 19, 2011, the Corporation entered into a promissory note agreement with its Chief Executive Officer to borrow \$50,000 at an annual interest rate of 18.00% ("Note Payable"). The Note Payable is subject to the same terms and conditions as the Notes Payable described in Note 8, except for the use of proceeds, which are not restricted.

On October 19, 2011, pursuant to the transactions described in Note 8, and the events of October 4, 2011, described above, a performance bond of U.S. \$1,444,000 (or \$1,473,169 – approximate value in Canadian dollars at October 19, 2011) was issued to a customer of the Corporation ("Holder of the Performance Bond").

On November 17, 2011, pursuant to the transactions described in Note 8, and the events of October 4, 2011 and October 19, 2011, described above, the Corporation entered into a sales agreement of U.S. \$1,750,000 (or \$1,790,000 – approximate value in Canadian dollars at November 17, 2011) to design, manufacture and install a large indoor play structure for the Holder of the Performance Bond.



## 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 "Corporation") provides information for the three-month period and year ended September 30, 2011, and up to and including December 1, 2011. This MD&A should be read together with our audited annual consolidated financial statements and the accompanying notes for the years ended September 30, 2011 and 2010 (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 for the fiscal year ended September 30, 2011, and our Management Proxy Circular, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on our corporate website at [www.iplaycoltd.com](http://www.iplaycoltd.com).

### Overview

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

### Consolidated Results

Sales for the three-month period ended September 30, 2011 ("Q4-11") increased by 37.3% to \$3,422,258 from \$2,492,158 for the three-month period ended September 30, 2010 ("Q4-10"). Gross profit percentage was 30.9% of sales in Q4-11 compared to 42.9% in Q4-10. Operating expenses were \$938,515 or 27.4% of sales in Q4-11 compared to \$1,050,210 or 42.1% of sales in Q4-10. Net income in Q4-11 was \$68,897, or diluted earnings per share of \$0.01, compared to net income of \$81,839, or diluted earnings per share of \$0.01, in Q4-10.

Sales for the year ended September 30, 2011 ("2011") increased by 6.6% to \$8,467,618 from \$7,941,498 for the year ended September 30, 2010 ("2010"). Gross profit was 29.7% of sales in 2011 compared to 38.7% in 2010. Operating expenses were \$3,518,897 or 41.6% of sales in 2011 compared to \$3,519,699 or 44.3% of sales in 2010. Net loss in 2011 was \$761,550, or loss per share of \$0.07, compared to net loss of \$335,332, or a loss per share of \$0.03, in 2010.

### Manufacturing

The time required to manufacture, deliver, and install playgrounds is largely dependent on the size and complexity of the play structures ordered by our customers. Factors such as customer location, capital expenditure budgets, and theme requirements, may cause project completion timelines to vary from a few weeks to a few months. Our products are sold and installed worldwide. Our customer base includes family entertainment centres, theme parks, shopping malls, day care centres, fitness clubs, municipalities and 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 the general state of the



economy has had a significant impact on the volume of orders for our larger and more complex play structures.

Sales generated by our Manufacturing operations increased by 43.7% to \$3,147,834 in Q4-11 from \$2,191,177 in Q4-10. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for \$1,661,363 (or 52.8% of total Manufacturing sales) in Q4-11, compared to \$837,098 (or 38.2%) in Q4-10.

Sales generated by our Manufacturing operations increased by 6.7% to \$7,033,071 in 2011 from \$6,588,467 in 2010. This increase is due primarily to higher sales to our customers located outside of the Americas, who accounted for \$2,630,417 (or 37.4% of total Manufacturing sales) in 2011, compared to \$1,504,457 (or 22.8%) in 2010, partially offset by lower sales to our customers in the Americas, including Canada, who accounted for \$4,402,654 (or 62.6% of total Manufacturing sales) in 2011, compared to \$5,084,010 (or 77.2%) in 2010.

We generate a significant portion of our total sales from the United States of America ("U.S.") therefore our Manufacturing operations continue to be affected by the challenging economic environment in the U.S. 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 sales and profitability could decline, perhaps materially. To manage this risk, we are increasing our efforts to rationalize production costs in order to improve our competitive pricing, and we are increasing our marketing activities in an effort to increase sales and broaden our customer base, particularly in markets outside of North America. In 2011, we broadened our customer base by increasing sales to customers located outside of the Americas to 31.1% of total sales in 2011 from 18.9% of total sales in 2010.

We expected Q4-11 sales generated by our Manufacturing operations to increase considerably as compared to Q3-11 and we met expectations due primarily to two significant orders in Q4-11. Sales generated by our Manufacturing operations increased by 98.9% to \$3,147,834 in Q4-11 from \$1,582,484 in Q3-11. During Q4-11 we entered into two other significant sales agreements for U.S. \$1,752,000 (or \$1,652,000 - approximate contract value in Canadian dollars at the announcement date of July 26, 2011) and U.S. \$1,358,000 (or \$1,344,000 - approximate contract value in Canadian dollars at the announcement date of September 6, 2011). We expect a substantial portion of these two contracts to impact our operating results in 2012.

Gross profit percentage decreased to 30.8% of sales from our Manufacturing operations in Q4-11 from 43.2% in Q4-10 and decreased to 26.4% in 2011 from 37.5% in 2010. Decreases in gross profit percentage during these periods are due primarily to the combined effect of very challenging economic conditions in our industry, particularly during the first nine-months of our 2011 fiscal year, which contributed to significantly reduce pricing and margins, fixed overhead production costs, which reduced margins due to the low sales volume, and the strengthening of the Canadian dollar against the U.S. dollar. We expected our gross profit percentage to increase considerably in Q4-11 as compared to Q3-11 and we met expectations due primarily to margins on our larger sales orders. Gross profit percentage increased to 30.8% of sales from our Manufacturing operations in Q4-11 from 21.4% in Q3-11.

Our Manufacturing operations generated net income of \$132,575 in Q4-11 (or net loss of \$780,259 in 2011) compared to net income of \$77,581 in Q4-10 (or net loss of \$328,984 in 2010). Net income in Q4-11 and Q4-10 is due primarily to high sales volume, and net loss in 2011 and 2010 is due primarily to low sales volumes and weak gross profit margins generated during the first nine-months of 2011 and 2010. We expected our net operating results to increase considerably in Q4-11 as compared to Q3-11 and we met expectations with net income of \$132,575 in Q4-11 compared to a net loss of \$264,898 in Q3-11.



## Family Entertainment Centre

Our FEC began operating in December 2008. Our decision to enter into the consumer entertainment business was to create a new sales stream that would stabilize earnings from our Manufacturing operations, which as described above, are inherently subject to fluctuations from various market risks.

Sales generated by our FEC operations decreased by 8.8% to \$274,424 in Q4-11 from \$300,981 in Q4-10 due primarily to a lower volume of customer visits. Sales increased by 6.0% to \$1,434,547 in 2011 from \$1,353,031 in 2010 due to higher admission fee revenues resulting from increased marketing efforts, new party packages, and the introduction of new games.

Our FEC operations generated a net loss of \$63,678 in Q4-11, compared to net income of \$4,258 in Q4-10, and generated net income of \$18,709 in 2011 as compared to a net loss of \$6,348 in 2010. The difference in net operating results for each comparative period is due primarily to changes in sales resulting from the number of customer visits.

We expected sales from our FEC operations in Q4-11 to remain in-line with Q3-11 however we did not meet expectations as sales decreased by 22.2% to \$274,424 in Q4-11 from \$352,695 in Q3-11. This decrease is due primarily to late summer weather conditions that reduced the number of customer visits in Q4-11 as compared to Q3-11.

Our business plan is to continue to search for new growth opportunities for our FEC operations. Our decision to expand will depend on finding appropriate facilities and obtaining additional financing. In order to continue our growth strategy, we will require additional financing to open new FECs, however, should our expansion plans succeed, it is our belief that our Manufacturing operations would benefit by supplying play structures for the new FECs and in turn, these FECs would serve as a valuable showcase for our new play structures.



## Results of Operations

The following tables set forth our operating results for our Manufacturing and our FEC business segments for the three-month periods and years ended September 30, 2011 and 2010, expressed as a percentage of total sales:

	Three months ended September 30, 2011			Three months ended September 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	92.0 %	8.0 %	100.0 %	87.9 %	12.1 %	100.0 %
Cost of sales	63.6	5.5	69.1	49.9	7.2	57.1
Gross profit	28.4	2.5	30.9	38.0	4.9	42.9
Selling and administrative expenses	20.3	2.9	23.2	31.7	3.8	35.5
Depreciation expense	2.4	2.0	4.4	3.8	2.2	6.0
Foreign exchange loss (gain)	(0.5)	-	(0.5)	0.2	-	0.2
Interest expense	0.1	0.1	0.2	0.1	0.4	0.5
Income tax expense (recovery)	2.1	(0.6)	1.5	(0.8)	(1.7)	(2.5)
<b>Net income (loss)</b>	<b>4.0 %</b>	<b>(1.9) %</b>	<b>2.1 %</b>	<b>3.0 %</b>	<b>0.2 %</b>	<b>3.2 %</b>

	Year ended September 30, 2011			Year ended September 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	83.1 %	16.9 %	100.0 %	83.0 %	17.0 %	100.0 %
Cost of sales	61.1	9.2	70.3	51.8	9.5	61.3
Gross profit	22.0	7.7	29.7	31.2	7.5	38.7
Selling and administrative expenses	30.4	5.3	35.7	32.8	4.8	37.6
Depreciation expense	2.7	2.4	5.1	3.3	2.8	6.1
Foreign exchange loss (gain)	0.2	-	0.2	(0.1)	-	(0.1)
Interest expense	0.2	0.3	0.5	0.1	0.6	0.7
Income tax recovery	(2.4)	(0.5)	(2.9)	(0.8)	(0.6)	(1.4)
<b>Net income (loss)</b>	<b>(9.1) %</b>	<b>0.2 %</b>	<b>(8.9) %</b>	<b>(4.1) %</b>	<b>(0.1) %</b>	<b>(4.2) %</b>



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

	Three months ended September 30, 2011			Three months ended September 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	3.9 %	8.0 %	11.9 %	4.5 %	12.1 %	16.6 %
Americas	39.5	-	39.5	49.8	-	49.8
Other	48.6	-	48.6	33.6	-	33.6
	<u>92.0 %</u>	<u>8.0 %</u>	<u>100.0 %</u>	<u>87.9 %</u>	<u>12.1 %</u>	<u>100.0 %</u>

  

	Year ended September 30, 2011			Year ended September 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	8.2 %	16.9 %	25.1 %	13.0 %	17.0 %	30.0 %
Americas	43.8	-	43.8	51.0	-	51.0
Other	31.1	-	31.1	19.0	-	19.0
	<u>83.1 %</u>	<u>16.9 %</u>	<u>100.0 %</u>	<u>83.0 %</u>	<u>17.0 %</u>	<u>100.0 %</u>

## Results of Operations – Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

### Sales

Sales increased by \$930,100 (or 37.3%) to \$3,422,258 in Q4-11 from \$2,492,158 in Q4-10 due primarily to an increase in sales of \$956,657 from our Manufacturing operations.

In Q4-11, one significant customer accounted for 47.0% of our total sales. In Q4-10, two significant customers accounted for 25.1% of our total sales.

We expected our sales to increase considerably in Q4-11 as compared to Q3-11 and we met expectations as our sales increased by \$1,487,079 (or 76.8%) to \$3,422,258 in Q4-11 from \$1,935,179 in Q3-11 due primarily to two large sales orders for our Manufacturing operations. We expect sales for the three-month period ended December 31, 2011 ("Q1-12") to be in-line with our sales from Q3-11, due primarily to reduced sales orders in Q1-12 as compared to Q4-11 for our Manufacturing operations.

### Gross profit

Gross profit percentage was 30.9% of sales in Q4-11 compared to 42.9% in Q4-10. This decrease was due primarily to our Manufacturing operations which generated a gross profit percentage of 30.8% in Q4-11 compared to 43.2% in Q4-10. The combined effect of a very competitive market environment, and the strengthening of the Canadian dollar against the U.S. dollar, contributed to significantly reduce pricing and margins on sales of our larger play structures in Q4-11 as compared to Q4-10.



We expected our gross profit percentage to increase considerably in Q4-11 as compared to Q3-11 and we met expectations as our gross profit percentage increased to 30.9% in Q4-11 as compared to 26.1% in Q3-11 due primarily to two large sales orders for our Manufacturing operations. We expect that our gross profit percentage will increase moderately in Q1-12 as compared to Q4-11 due primarily to expected margins from larger sales orders for our Manufacturing operations.

#### Operating expenses

Operating expenses decreased by \$111,695 (or 10.6%) to \$938,515 in Q4-11 from \$1,050,210 in Q4-10. This decrease was due primarily to lower bad debt expenses in Q4-11 as compared to Q4-10.

Our operating expenses amounted to 27.4% of total sales in Q4-11, compared to 42.1% in Q4-10, and we are expecting operating expenses in Q1-12 to increase moderately, as a percentage of total sales, compared to Q4-11 due primarily to lower forecast sales in Q1-12 as compared to Q4-11 for our Manufacturing operations.

#### Income taxes

The income tax expense of \$50,446 in Q4-11 is comprised of a future income tax expense of \$71,811, on the income before tax from our Manufacturing operations, and a future income tax recovery of \$21,365, on the loss before tax from our FEC operations. The income tax recovery of \$63,846 in Q4-10 is due to future income tax recoveries of \$20,464 and \$43,382 from our Manufacturing and FEC operations, respectively.

Although our income taxes will continue to fluctuate based on the variability in our quarterly results from operations, we do not expect to incur a current income tax expense during our 2012 fiscal year.

#### Net results from operations

Net income and comprehensive income in Q4-11 was \$68,897, or diluted earnings per share of \$0.01, compared to net income and comprehensive income of \$81,839, or diluted earnings per share of \$0.01, in Q4-10. This decrease in net income is due primarily to the net loss of \$63,678 generated by our FEC operations in Q4-11 as compared to net income of 4,258 in Q4-10.

For our Manufacturing operations, we expected our net operating results to increase considerably in Q4-11 as compared to Q3-11 due to two large sales orders which were expected to be substantially completed before the end of our 2011 fiscal year. We met expectations as our Manufacturing operations generated net income of \$132,575 in Q4-11 as compared to a net loss of \$264,898 in Q3-11. For Q1-12, we expect our net operating results from our Manufacturing operations to remain in-line with Q4-11 due primarily to an expected increase in gross profit percentage in Q1-12 as compared to Q4-11.

For our FEC operations, we expect our net operating results to continue to fluctuate from quarter to quarter based on seasonality factors, primarily, weather conditions and school holidays. Since our FEC began operating in December 2008, seasonality trends have developed in sales and net operating results, with Q2 historically generating the strongest operating results, due primarily to winter weather conditions that are generally conducive to indoor activities for children, resulting in a higher number of customer visits at our FEC. Conversely, our Q4 operating results have historically been the weakest due to summer weather conditions that are generally conducive to outdoor activities for children, resulting in a lower number of visits at our FEC.



## Selected Annual Information

The following table sets forth selected annual information derived from our consolidated financial statements for each of the three years ended September 30, 2011:

	Sales	Net loss	Basic and diluted loss per share	Total assets	Long-term financial liabilities	Cash dividends
2009	\$9,326,085	\$(198,991)	\$ (0.02)	\$4,828,111	\$293,503	---
2010	\$7,941,498	\$(335,332)	\$ (0.03)	\$4,337,898	\$198,110	---
2011	\$8,467,618	\$(761,550)	\$ (0.07)	\$4,230,083	\$310,652	---

The downward trend in our net operating results, and basic and diluted loss per share, is due primarily to the operating results of our Manufacturing operations. Since 2008, the general decline in the state of the U.S. economy, primarily, is having a significant impact on the volume of orders for our larger and more complex play structures, which typically yield higher gross profit margins. Although sales from our Manufacturing operations have increased significantly in Q4-11 as compared to Q3-11, the economic environment in our industry remains challenging therefore we are currently not expecting significant growth in our sales in 2012 as compared to 2011. We are however expecting a significant improvement in our net operating results in 2012 as compared to 2011 due primarily to an expected increase in gross profit percentage on the current backlog of orders for our Manufacturing operations.

The downward trend in our total assets is due primarily to decreasing levels of cash on hand resulting from the downward trend in our net operating results.

The decrease in long-term financial liabilities from 2009 to 2010 is due to fixed repayments on our loan payable and capital lease obligations. The increase in long-term financial liabilities from 2010 to 2011 is due primarily to the notes payable (see "Related Party Transactions"). The balance of our loan payable was entirely repaid in August 2011.

Since inception of our operations we have not declared dividends and we do not expect to declare dividends in the foreseeable future. Excess cash would be used primarily to fund new growth opportunities for our FEC operations.

## Results of Operations – Year Ended September 30, 2011 Compared to Year Ended September 30, 2010

### Sales

Sales increased by \$526,120 (or 6.6%) to \$8,467,618 in 2011 from \$7,941,498 in 2010 due primarily to an increase in sales of \$444,604 from our Manufacturing operations.

In 2011, one significant customer accounted for 22.1% of our total sales. In 2010, one significant customer accounted for 16.1% of our total sales. Although we experienced some business concentration during 2011, we do not believe that we are exposed to significant customer concentration risks.

We expected our sales to increase moderately in 2011 as compared to 2010 and we met expectations due primarily to an increase of 6.7% in sales from our Manufacturing operations. We are forecasting modest to moderate growth in our sales in 2012 as compared to 2011 due primarily to an expected increase in sales from our Manufacturing operations.





## Gross profit

Gross profit percentage was 29.7% of sales in 2011 compared to 38.7% in 2010. This significant decrease is due primarily to the decrease in gross profit percentage from our Manufacturing operations resulting from the combined effect of a very competitive market environment, which contributed to significantly reduce pricing and margins on sales of our larger play structures, and the strengthening of the Canadian dollar against the U.S. dollar.

Although we expect our gross profit percentage to continue to fluctuate due to sales mix from our Manufacturing operations, we are forecasting a moderate increase in gross profit percentage in 2012 as compared to 2011 due primarily to expected margins from our larger sales orders.

## Operating expenses

Operating expenses decreased marginally to \$3,518,897 in 2011 from \$3,519,699 in 2010.

Actual results versus expected results for 2011 as compared to 2010 are as follows:

- We expected higher administration expenses due to higher wages and benefits resulting from increased headcount in the sales department, and higher selling and marketing expenses in an effort to broaden the customer base of our Manufacturing operations. Actual selling and administration expenses increased by \$36,108 (or 1.2%) in 2011 as compared to 2010.
- We expected lower depreciation expense resulting from a decrease in capital expenditures. Actual depreciation expense decreased by \$44,966 (or 9.4%) in 2011 as compared to 2010.
- We expected a modest foreign exchange loss due to the strengthening of the Canadian dollar versus the U.S. dollar. We incurred a net foreign exchange loss of \$13,524 in 2011, compared to a net foreign exchange gain of \$5,142 in 2010.
- We expected the interest expense to remain in-line with 2010. Actual interest expense decreased by \$10,610 (or 19.2%) in 2011 as compared to 2010, due primarily to lower debt balances from our loan payable and capital lease obligations.

We expect the following trends for fiscal 2012 as compared to 2011:

- Moderately higher selling and administrative expenses due to expected increases in wages and benefits, rent, insurance and marketing expenses.
- Moderately lower depreciation expense due to lower capital expenditures.
- Net foreign exchange loss to remain in-line with 2011.
- Significantly higher interest expense due to interest on the notes payable (see "Related Party Transactions").

## Income taxes

Income tax recovery increased to \$242,676 in 2011 from \$111,304 in 2010 due primarily to the net loss before income taxes from our Manufacturing operations.

Although our income taxes will continue to fluctuate based on the variability in our results from operations, we do not expect to incur a current income tax expense during our 2012 fiscal year.

## Net results from operations

Net loss and comprehensive loss was \$761,550, or loss per share of \$0.07, in 2011 compared to net loss and comprehensive loss of \$335,332, or loss per share of \$0.03, in 2010. The increase in net loss is due primarily to the net results of our Manufacturing operations.



We are expecting a significant improvement in our net operating results in 2012 as compared to 2011 due primarily to an expected increase in gross profit percentage on the current backlog of orders for our Manufacturing operations.

## Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the years ended September 30, 2011 and 2010. 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.

	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11
	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11
<b>CONSOLIDATED</b>								
Sales	\$1,801,951	\$1,935,266	\$1,712,123	\$ 2,492,158	\$ 1,790,531	\$ 1,319,650	\$ 1,935,179	\$ <b>3,422,258</b>
Cost of sales	1,017,193	1,290,633	1,136,654	1,423,955	1,312,317	845,835	1,430,395	<b>2,364,400</b>
Gross profit	784,758	644,633	575,469	1,068,203	478,214	473,815	504,784	<b>1,057,858</b>
Selling and administrative expenses	582,902	741,768	780,715	885,475	844,348	633,196	754,149	<b>795,275</b>
Depreciation expense	108,257	110,698	111,189	148,649	114,289	86,415	83,802	<b>149,321</b>
Foreign exchange loss (gain)	5,994	12,375	(27,526)	4,015	28,782	5,333	(5,305)	<b>(15,286)</b>
Interest expense	15,440	14,288	13,389	12,071	11,554	12,019	11,800	<b>9,205</b>
Income tax expense (recovery)	26,683	(64,820)	(9,321)	(63,846)	(123,630)	(64,745)	(104,747)	<b>50,446</b>
<b>Net income (loss)</b>	\$ 45,482	\$ (169,676)	\$ (292,977)	\$ 81,839	\$ (397,129)	\$ (198,403)	\$ (234,915)	\$ <b>68,897</b>
Basic and diluted earnings (loss) per share	0.00	(0.02)	(0.03)	0.01	(0.04)	(0.02)	(0.02)	<b>0.01</b>

	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11
	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11
<b>MANUFACTURING</b>								
Sales	\$1,498,579	\$1,530,242	\$1,368,469	\$ 2,191,177	\$ 1,409,897	\$ 892,856	\$ 1,582,484	\$ <b>3,147,834</b>
Cost of sales	827,605	1,079,722	963,611	1,244,699	1,109,724	643,571	1,244,564	<b>2,177,564</b>
Gross profit	670,974	450,520	404,858	946,478	300,173	249,285	337,920	<b>970,270</b>
Selling and administrative expenses	492,836	639,724	682,382	790,412	700,076	529,493	652,405	<b>694,720</b>
Depreciation expense	54,697	55,718	56,304	93,556	67,803	41,364	40,290	<b>82,442</b>
Foreign exchange loss (gain)	5,994	11,685	(27,437)	3,935	28,782	5,333	(5,305)	<b>(15,417)</b>
Interest expense	1,478	1,213	1,354	1,458	2,416	4,212	5,361	<b>4,139</b>
Income tax expense (recovery)	35,943	(71,333)	(7,641)	(20,464)	(109,644)	(72,441)	(89,933)	<b>71,811</b>
<b>Net income (loss)</b>	\$ 80,026	\$ (186,487)	\$ (300,104)	\$ 77,581	\$ (389,260)	\$ (258,676)	\$ (264,898)	\$ <b>132,575</b>

	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11
	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11
<b>FEC</b>								
Sales	\$ 303,372	\$ 405,024	\$ 343,654	\$ 300,981	\$ 380,634	\$ 426,794	\$ 352,695	\$ <b>274,424</b>
Cost of sales	189,588	210,911	173,043	179,256	202,593	202,264	185,831	<b>186,836</b>
Gross profit	113,784	194,113	170,611	121,725	178,041	224,530	166,864	<b>87,588</b>
Selling and administrative expenses	90,066	102,044	98,333	95,063	144,272	103,703	101,744	<b>100,555</b>
Depreciation expense	53,560	54,980	54,885	55,093	46,486	45,051	43,512	<b>66,879</b>
Foreign exchange loss (gain)	-	690	(89)	80	-	-	-	<b>131</b>
Interest expense	13,962	13,075	12,035	10,613	9,138	7,807	6,439	<b>5,066</b>
Income tax expense (recovery)	(9,260)	6,513	(1,680)	(43,382)	(13,986)	7,696	(14,814)	<b>(21,365)</b>
<b>Net income (loss)</b>	\$ (34,544)	\$ 16,811	\$ 7,127	\$ 4,258	\$ (7,869)	\$ 60,273	\$ 29,983	\$ <b>(63,678)</b>



Our quarterly results fluctuate because our operating expenses are determined based on anticipated sales, however these operating expenses are generally fixed and are incurred throughout each quarter. The impact of significant items incurred during these interim periods is discussed in more detail in our interim consolidated financial statements and MD&A.

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

- The decrease in net operating results from Q1-10 to Q2-10 is due primarily to a combination of lower gross profit, as a result of sales mix, and higher selling and administration expenses, in Q2-10 compared to Q1-10, due in part to expenses relating to year-end fillings and the shareholders' annual general meeting.
- The decrease in net operating results from Q2-10 to Q3-10 is due primarily to lower sales and gross profit in Q3-10 as compared to Q2-10.
- The increase in net operating results from Q3-10 to Q4-10 is due primarily to higher sales and gross profit in Q4-10 compared to Q3-10.
- The decrease in net operating results from Q4-10 to Q1-11 is due primarily to the combined effect of lower sales and lower gross profit percentage in Q1-11 compared to Q4-10.
- The decrease in net operating results from Q1-11 to Q2-11 is due primarily to the combined effect of lower sales partially offset by lower operating expenses in Q2-11 compared to Q1-11.
- The decrease in net operating results from Q2-11 to Q3-11 is due primarily to the combined effect of lower gross profit percentage and higher selling and administrative expenses in Q3-11 compared to Q2-11.
- The increase in net operating results from Q3-11 to Q4-11 is due primarily to higher sales and gross profit in Q4-11 compared to Q3-11.

## International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("Canadian GAAP") in 2011 for publicly accountable enterprises.

Our first interim reporting under IFRS will be for the three-month period ended December 31, 2011 and will include comparative financial information under IFRS for the three-month period ended December 31, 2010. We will be required to disclose reconciliations from Canadian GAAP to IFRS of our equity at October 1, 2010, December 31, 2010, and September 30, 2011. We will also be required to disclose reconciliations from Canadian GAAP to IFRS of our comprehensive loss for the three-month period ended December 31, 2010 and for the year ended September 30, 2011. An explanation of material adjustments to the cash flow statements for those periods will also be required.

### IFRS Conversion Project

The Corporation's IFRS conversion project continues to be on track to meet the October 1, 2011 changeover date. The following is a status update on the IFRS conversion project. A description of key activities and milestones, as well as our accounting policy choices under IFRS 1 – *First Time Adoption of IFRS*, are presented in our MD&A for the year ended September 30, 2010. New and revised IFRS developments will be monitored throughout the project and may result in changes to the project activities.



### IFRS Financial Statement Preparation

We have completed our in-depth analysis of accounting policy choices and have presented draft IFRS financial statements to the Audit Committee. The Corporation's external auditors are performing audit procedures on the opening balance sheet and the draft IFRS financial statements.

### IFRS Training

The IFRS project lead is the Corporation's Chief Financial Officer who continues to receive in-depth IFRS training. The Corporation's external advisor, with input from the Chief Financial Officer, are continuing to provide insights and training throughout the project to accounting personnel, management and the Audit Committee.

### IFRS Infrastructure

We have reviewed our business processes and accounting systems and we do not anticipate making significant changes as a result of our transition to IFRS.

### IFRS Control Environment

We have reviewed our control environment and we do not anticipate making material changes to our internal controls and disclosure controls over financial reporting.

### IFRS Expected Accounting Policy Impacts

The major accounting policy choices outlined in the Corporation 2010 Annual MD&A continue to be the Corporation's most significant areas of impact; however, at this stage of our IFRS implementation project, we are not anticipating material differences relevant to the recognition or derecognition of financial assets and liabilities included in the Corporation's opening balance sheet. Analysis of changes will be ongoing throughout Q1-12.

## Liquidity and Capital Resources

### Operating Activities

Cash provided by operating activities was \$72,307 in Q4-11 compared to \$257,205 in Q4-10. This decrease is due primarily to the change in non-cash operating working capital.

Cash used by operating activities was \$22,459 in 2011 compared to cash provided by operating activities of \$329,107 in 2010. This decrease is due primarily to the combined effect of an increase in net loss partially offset by changes in non-cash working capital.

We expect that cash flows from our operating activities will continue to fluctuate from quarter to quarter based on variability in our net operating results and changes in non-cash operating working capital.

### Investing Activities

Cash used by investing activities was \$327,298 in Q4-11 compared to \$29,003 in Q4-10. This increase is due primarily to an increase in restricted cash of \$250,000 in Q4-11 as compared to Q4-10.

Cash used by investing activities was \$456,336 in 2011 compared to \$74,192 in 2010. This increase is due to the combined effect of an increase in restricted cash and higher purchases of property, plant and equipment in 2011 as compared to 2010.

Our business plan is to continue to search for new growth opportunities for our FEC operations. Our decision to expand will depend on finding appropriate facilities and obtaining additional financing.



As of the date of this report, we have not entered into any proposed material asset or business acquisition or disposition agreements, and except in such instances, we do not anticipate to significantly increase our investment in capital expenditures in 2012.

### Financing Activities

Cash provided by financing activities was \$186,886 in Q4-11 compared to cash used by financing activities of \$77,955 in Q4-10. This increase is due to cash inflows in Q4-11 from the notes payable (see "Related Party Transactions").

Cash used by financing activities was \$47,823 in 2011 compared to \$305,352 in 2010. This decrease is due to cash inflows in Q4-11 from the notes payable (see "Related Party Transactions").

We expect to continue to use our operating loan in 2012. We do not expect to require additional financing to fund our current operations however we would depend on additional financing to fund new growth opportunities for our FEC operations.

During 2011, and as at September 30, 2011, 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 operating loan, leases, and funding of capital expenditures. We believe that based on our current business plan, our sources of cash which include cash on hand, accounts receivable, cash from customer deposits, cash from operations, and up to \$500,000 from our operating loan facility, will be sufficient to fund our expected working capital requirements for at least the next twelve months.

### Sources and Uses of Cash

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

- At September 30, 2011, our net cash balance was nil, excluding \$250,000 of restricted cash (see "Related Party Transactions"), compared to \$369,573 at September 30, 2010.
- At September 30, 2011, our accounts receivable balance was \$833,458, compared to \$706,544 at September 30, 2010.
- We have an operating loan credit facility with a Canadian chartered bank. See "Credit Facilities".
- We announced on July 26, 2011 that our Manufacturing operations entered into a significant sales agreement of U.S. \$1,752,000 (or \$1,652,000 - approximate contract value in Canadian dollars at July 26, 2011) to design, manufacture and install a large indoor play structure. We expect this contract to impact our operating results in 2012, and in accordance with the terms of the sales agreement, we are expecting to receive monthly progress payments starting in December 2012.
- We announced on September 6, 2011 that our Manufacturing operations entered into a significant sales agreement of U.S. \$1,358,000 (or \$1,344,000 - approximate contract value in Canadian dollars at September 6, 2011) to design, manufacture and install a large indoor play structure. We expect this contract to impact our operating results in 2012, and in accordance with the terms of the sales agreement, we are expecting to receive monthly progress payments starting in February 2012.



- We announced on November 17, 2011 that our Manufacturing operations entered into a significant sales agreement of U.S. \$1,750,000 (or \$1,790,000 - approximate contract value in Canadian dollars at November 17, 2011) to design, manufacture and install a large indoor play structure. We expect a substantial portion of this contract to impact our operating results in 2012, and in accordance with the terms of the sales agreement, we are expecting to receive monthly progress payments starting in January 2012.

### Credit Facility

On October 7, 2011, our operating loan facility was renewed with a limit of \$500,000, subject to certain margin requirements on trade receivables and inventory. The operating loan bears interest at the Royal Bank of Canada prime rate plus 3.50% and is secured by a general security agreement covering all property of the Corporation. At September 30, 2011, \$85,000 has been drawn on this facility (September 30, 2010 – no amounts drawn).

### 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 for our U.S. dollar receivable balances. We do not enter into foreign exchange forward contracts for speculative purposes.

At September 30, 2011, we entered into one foreign exchange forward contract with a commitment to sell \$275,000 of U.S. dollars on or before November 30, 2011 at a rate of \$1.0325 (September 30, 2010 – no foreign exchange forward contracts outstanding). The fair value of the foreign exchange forward contract at September 30, 2011 is a liability of \$4,474 and is recorded as a foreign exchange loss in the consolidated statement of operations.

In 2011, we incurred a net foreign exchange loss of \$12,150 on foreign exchange forward contracts, compared to a net gain of \$29,345 in 2010.

#### Credit risk

Our credit risk is primarily attributable to our accounts receivable. Accounts receivable is disclosed in our consolidated balance sheets 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 generally limited because of our policy to receive significant deposits from our customers prior to product shipment, as well as our ongoing credit evaluations of our customers.

Four customers represent approximately 60% of the accounts receivable balance at September 30, 2011, compared to two customers representing approximately 48% of the accounts receivable balance at September 30, 2010. In our view, these accounts do not represent a significant credit risk.

The credit risk associated with our cash and restricted cash is limited because it is held with a large Canadian chartered bank with a high investment grade rating.



### Interest rate risk

Our interest rate risk arises primarily from our operating loan which bears interest at variable rates and exposes us to changes in debt servicing cash flows. Our capital lease obligations and the notes payable bear interest at fixed rates.

### Liquidity risk

We manage our liquidity risk through maintaining cash and access to credit facilities, as outlined above in "Liquidity and Capital Resources".

### Legal Proceedings

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

### Related Party Transactions

On September 30, 2011, the Corporation entered into promissory note agreements with four of its directors, including the Corporation's President and Executive Vice-President, to borrow \$250,000 at an annual interest rate of 18.00% ("Notes Payable"). Proceeds from the Notes Payable are restricted to securing an irrevocable standby letter of credit in favour of Export Development Canada to underwrite a performance bond for a customer of the Corporation ("Performance Bond"). The Performance Bond is to expire once the Corporation completes certain obligations under its contract with the customer. The Notes Payable are unsecured and interest and capital are payable upon expiry of the Performance Bond. The Corporation is expected to complete its obligations under this contract on or after October 31, 2012, at which time the Performance Bond would expire and payment of interest and capital from the Notes Payable would become due.

On October 19, 2011, the Corporation entered into a promissory note agreement with its Chief Executive Officer to borrow \$50,000 at an annual interest rate of 18.00% ("Note Payable"). The Note Payable is subject to the same terms and conditions as the Notes Payable described above, except for the use of proceeds, which are not restricted.

### Outstanding Share Capital

At September 30, 2011 and December 1, 2011, there are 10,220,187 common shares issued and outstanding and no stock 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.