Q1
2011

Consolidated financial statements of

Iplayco Corporation Ltd.

As at and for the three months ended December 31, 2010

(Unaudited – Prepared by management, not reviewed by an auditor)

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Consolidated balance sheets

	December 31, 2010	September 30, 2010
	(Unaudited)	
Assets		
Current		
Cash	**$ -**	$ 369,573
Accounts receivable	**535,401**	706,544
Inventories (Note 3)	**1,123,703**	974,078
Prepaid expenses	**81,675**	89,873
	1,740,779	2,140,068
Property, plant, and equipment	**1,944,907**	2,018,753
Future income taxes	**302,707**	179,077
	$ 3,988,393	$ 4,337,898
Liabilities		
Current		
Operating loan (note 2)	**$ 37,841**	$ -
Accounts payable and accrued liabilities	**996,262**	946,546
Customer deposits	**270,435**	288,473
Current portion of rent inducement (Note 4)	**42,352**	22,817
Current portion of capital lease obligations (Note 5)	**144,090**	145,048
Loan payable	**111,111**	152,775
	1,602,091	1,555,659
Rent inducement (Note 4)	**92,535**	55,140
Capital lease obligations (Note 5)	**161,907**	198,110
	1,856,533	1,808,909
Shareholders' equity		
Capital stock	**1,757,643**	1,757,643
Contributed surplus	**256,858**	256,858
Retained earnings	**117,359**	514,488
	2,131,860	2,528,989
	$ 3,988,393	$ 4,337,898

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 income (loss) and retained earnings
Three months ended December 31
(Unaudited)

	2010	2009
Sales	**$ 1,790,531**	$ 1,801,951
Cost of sales	**1,312,317**	1,017,193
Gross profit	**478,214**	784,758
Expenses		
Selling and administration	**844,348**	582,902
Depreciation	**114,289**	108,257
Foreign exchange loss	**28,782**	5,994
Interest expense	**11,554**	15,440
	998,973	712,593
Income (loss) before income taxes	**(520,759)**	72,165
Income tax expense (recovery)		
Current	**-**	23,993
Future	**(123,630)**	2,690
	(123,630)	26,683
Net income (loss) and comprehensive income (loss) for the period	**(397,129)**	45,482
Retained earnings at beginning of the period	**514,488**	849,820
Retained earnings at end of the period	**$ 117,359**	$ 895,302
Earnings (loss) per share		
Basic and diluted	**$ (0.04)**	$ 0.00
Weighted average number of common shares		
Basic and diluted	**10,220,187**	10,220,187

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Consolidated statements of cash flows
Three months ended December 31
(Unaudited)

	2010	2009
Operating activities		
Net income (loss) for the period	$ (397,129)	$ 45,482
Items not involving cash		
Depreciation	114,289	108,257
Future income taxes	(123,630)	2,690
Non-hedging financial derivatives	-	(164)
Rent inducement	56,930	(5,705)
Unrealized foreign exchange loss	11,752	7,349
	(337,788)	157,909
Change in non-cash operating working capital		
Accounts receivable	159,391	(77,958)
Inventories	(149,625)	(25,182)
Prepaid expenses	8,198	(503)
Accounts payable	49,716	15,256
Customer deposits	(18,038)	(169,300)
	49,642	(257,687)
	(288,146)	(99,778)
Investing activities		
Purchase of property, plant and equipment	(40,443)	(19,192)
Financing activities		
Repayment of loan payable	(41,664)	(41,667)
Repayment of capital lease obligations	(37,161)	(32,348)
	(78,825)	(74,015)
Change in cash during the period	(407,414)	(192,985)
Cash at beginning of the period	369,573	420,010
Cash at end of the period	$ (37,841)	$ 227,025
Supplemental cash flow information:		
Interest paid	$ 11,554	$ 15,440
Non-cash transactions - capital leases	-	66,261

See accompanying notes to the consolidated financial statements

1. Basis of presentation

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the Corporation's most recently completed fiscal period ended September 30, 2010. They do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. They have been prepared using the same accounting policies and methods as those used in the September 30, 2010 accounts.

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of interim financial statements and the sales and expenses during the reporting periods. Actual results could differ from those estimates.

These interim financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for fair presentation of the results for the periods reported.

2. 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 prime plus 1.50%, and is secured by a general security agreement covering all property of the Corporation. At December 31, 2010, $345,000 has been drawn on this facility (September 30, 2010 - no amount drawn), and is presented net of cash of $307,159.

3. Inventories

	December 31, 2010	September 30, 2010
Raw materials	**$ 1,088,993**	$ 921,341
Work in progress	**34,710**	27,419
Finished goods	**-**	25,318
	$ 1,123,703	$ 974,078

Inventories recognized as an expense during the three months ended December 31, 2010 amount to $1,461,942 (2009 - $1,042,375).

4. Rent inducement

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. At December 31, 2010, rent inducement of $117,380 from this operating lease is included in these financial statements and is recognized into income over the term of the lease.

4. Rent inducement (continued)

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. At December 31, 2010, rent inducement of $17,507 from this operating lease is included in these financial statements and is recognized as a lease expense.

5. 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:

	December 31, 2010
2011	$ 125,965
2012	149,553
2013	61,197
2014	1,841
	338,556
Less amount representing interest at 9.47%	(32,559)
	305,997
Less current portion	(144,090)
	$ 161,907

6. 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 1 to these interim consolidated financial statements. Inter-segment transactions are eliminated upon consolidation.

6. Segmented information and concentration of sales (continued)

(a) Business segments (continued)

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

	Three months ended December 31, 2010		
	Manufacturing	**Family Entertainment Centre**	**Total**
Sales to external customers	**$ 1,409,897**	**$ 380,634**	**$ 1,790,531**
Cost of sales	**1,109,724**	**202,593**	**1,312,317**
Gross profit	**300,173**	**178,041**	**478,214**
Selling and administrative expenses	**700,076**	**144,272**	**844,348**
Depreciation expense	**67,803**	**46,486**	**114,289**
Foreign exchange loss	**28,782**	**-**	**28,782**
Interest expense	**2,416**	**9,138**	**11,554**
Income tax recovery	**(109,644)**	**(13,986)**	**(123,630)**
Net loss	**$ (389,260)**	**$ (7,869)**	**$ (397,129)**
Total assets	**$ 2,610,952**	**$ 1,377,441**	**$ 3,988,393**
Acquisition of property, plant and equipment	**$ 36,214**	**$ 4,229**	**$ 40,443**

	Three months ended December 31, 2009		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 1,498,579	$ 303,372	$ 1,801,951
Cost of sales	827,605	189,588	1,017,193
Gross profit	670,974	113,784	784,758
Selling and administrative expenses	492,836	90,066	582,902
Depreciation expense	54,697	53,560	108,257
Foreign exchange loss	5,994	-	5,994
Interest expense	1,478	13,962	15,440
Income tax expense (recovery)	35,943	(9,260)	26,683
Net income (loss)	$ 80,026	$ (34,544)	$ 45,482
Total assets	$ 3,176,733	$ 1,529,193	$ 4,705,926
Acquisition of property, plant and equipment	$ 37,590	$ 47,863	$ 85,453

6. 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:

	2010	2009
Sales		
Canada	$ 461,186	$ 369,519
United States	948,773	1,174,927
Europe	244,984	63,261
Middle East	88,295	74,142
Latin America	47,293	120,102
	$ 1,790,531	$ 1,801,951

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

	2010	2009
Customer A	$ 379,319	$ 471,861
Customer B	248,053	-
Customer C	227,917	322,880

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 ended December 31, 2010, and up to and including February 3, 2011. This MD&A should be read together with our unaudited interim consolidated financial statements and the accompanying notes for the three-month period ended December 31, 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, and our Management Proxy Circular, can be found on SEDAR at www.sedar.com, or on our corporate website at www.iplaycoltd.com.

Overview

Our business is carried out through Iplayco'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"). Our FEC operations began in December 2008.

Consolidated Results

Sales for the three-month period ended December 31, 2010 ("Q1-11") decreased by 0.6% to $1,790,531, compared to $1,801,951 for the three months ended December 31, 2009 ("Q1-10"). Gross profit percentage was 26.7% of sales in Q1-11, compared to 43.6% in Q1-10. Operating expenses were $998,973, or 55.8% of sales, in Q1-11, compared to $712,593, or 39.5% of sales, in Q1-10. Net loss in Q1-11 was $397,129, or loss per share of $0.04, compared to net income of $45,482, or diluted earnings per share of $0.00 in Q1-10.

Manufacturing

The time required to manufacture, ship, and install individual playgrounds is largely dependent on the size and complexity of the play structures ordered by our customers. Factors such as customer locations, capital expenditure budgets, 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 centers, theme parks, shopping malls, day care centers, fitness clubs, municipalities and other not for profit organizations. Over the past few years, there has been an increase in customer demand for larger and more complex play structures however the general state of the economy has a significant impact on the volume of orders for our larger and more complex play structures.

In Q1-11, sales generated by our Manufacturing operations decreased by 5.9% to $1,409,897, compared to $1,498,579 in Q1-10. This decrease was due primarily to the combined effect of lower sales to our customers in the U.S., who accounted for $948,773 (or 67.3% of total Manufacturing sales) in Q1-11, compared to $1,174,927 (or 78.4%) in Q1-10, and lower sales to our customers in Latin America, who accounted for $47,293 (or 3.4% of total Manufacturing sales) in Q1-11, compared to $120,102 (or 8.0%) in Q1-10, partially offset by higher sales to our customers in Europe who accounted for $244,984 (or 17.4% of total Manufacturing sales) in Q1-11, compared to $63,261 (or 4.2%) for in Q1-10.

We generate a significant portion of our total sales from the 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 productions 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.

Since the economic environment in our industry remains challenging, especially in the U.S., we are currently forecasting sales from our Manufacturing operations, for the three-month period ended March 31, 2011 ("Q2-11"), to be in-line with Q1-11.

Gross profit percentage decreased to 21.3% of sales from our Manufacturing operations in Q1-11, compared to 44.8% in Q1-10. The decrease in gross profit percentage in Q1-11 as compared to Q1-10 was due primarily to a very competitive market environment in Q1-11 which contributed to significantly reduce pricing and margins on sales of our larger play structures. We expect that our gross profit percentage will continue to fluctuate depending on the design, size, and complexity of the play structures sold, the competitive selling prices, our ability to reduce costs, and changes in sales volume.

In Q1-11, our Manufacturing operations generated a net loss of $389,260 compared to net income of $80,026 in Q1-10. The significant decrease in net operating results in Q1-11 as compared to Q1-10 was due primarily to considerably lower gross profit margins resulting from continued challenging economic conditions in our industry. Market conditions have lowered selling prices, particularly for larger play structures, which typically yield higher margins. We expect that our net operating results will continue to fluctuate based on variability in our gross profit and exposure to foreign currency risk between the U.S. dollar and the Canadian dollar.

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 certain market risks.

Sales generated by our FEC operations increased by 25.5% to $380,634 in Q1-11, compared to $303,372 in Q1-10. This increase was due to higher admission fee revenue resulting from increased marketing efforts, new party packages, and the introduction of new games.

In Q1-11, our FEC operations generated a net loss of $7,869 compared to a net loss of $34,544 in Q1-10. The increase in net operating results was due primarily to higher sales in Q1-11 as compared to Q1-10.

We are forecasting moderate growth in sales from our FEC operations in Q2-11 as compared to Q1-11 due primarily to seasonality. The combined effect of winter weather conditions and school holidays has historically contributed to strong sales in the month of March. We are also expecting that our operating expenses will continue to decrease as a percentage of our FEC sales due to our continuing efforts to reduce operating expenses, and due to lower interest expense resulting from fixed repayments on our existing loan payable balance and capital lease obligations.

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 table sets forth our operating results for our Manufacturing and our FEC business segments for the three-month periods ended December 31, 2010 and 2009, expressed as a percentage of total sales:

	Q1-11						Q1-10					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**78.7**	**%**	**21.3**	**%**	**100.0**	**%**	83.2	%	16.8	%	100.0	%
Cost of sales	**62.0**		**11.3**		**73.3**		45.9		10.5		56.4	
Gross profit	**16.7**		**10.0**		**26.7**		37.3		6.3		43.6	
Selling and administrative expenses	**39.1**		**8.1**		**47.2**		27.4		5.0		32.4	
Depreciation expense	**3.8**		**2.6**		**6.4**		3.0		3.0		6.0	
Foreign exchange loss	**1.6**		**0.0**		**1.6**		0.3		0.0		0.3	
Interest expense	**0.1**		**0.5**		**0.6**		0.1		0.8		0.9	
Income tax expense (recovery)	**(6.1)**		**(0.8)**		**(6.9)**		2.0		(0.5)		1.5	
Net income (loss)	**(21.8)**	**%**	**(0.4)**	**%**	**(22.2)**	**%**	4.5	%	(2.0)	%	2.5	%

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

	Q1-11						Q1-10					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**4.5**	**%**	**21.3**	**%**	**25.8**	**%**	3.7	%	16.8	%	20.5	%
United States	**53.0**		**-**		**53.0**		65.2		-		65.2	
Europe	**13.7**		**-**		**13.7**		3.5		-		3.5	
Middle East	**4.9**		**-**		**4.9**		4.1		-		4.1	
Latin America	**2.6**		**-**		**2.6**		6.7		-		6.7	
	78.7	**%**	**21.3**	**%**	**100.0**	**%**	83.2	%	16.8	%	100.0	%

Results of Operations – Three Months Ended December 31, 2010 Compared to Three Months Ended December 31, 2009

Sales

Sales decreased by $11,420 (or 0.6%) in Q1-11 to $1,790,531 from $1,801,951 in Q1-10 due to a decrease in sales of $88,682 from our Manufacturing operations, partially offset by an increase in sales of $77,262 from our FEC operations.

In Q1-11, three customers accounted for 47.8% of our total sales. In Q1-10, two customers accounted for 44.1% of our total sales.

We are currently forecasting modest growth of our sales in Q2-11 as compared to Q1-11, primarily due to an expected increase in sales from our FEC operations.

Gross profit

Gross profit percentage was 26.7% of sales in Q1-11, compared to 43.6% in Q1-10. This significant decrease was due primarily to market conditions which lowered selling prices, particularly for larger play structures, which typically yield higher margins.

We expect that our gross profit percentage will continue to fluctuate due to market conditions and sales mix from our Manufacturing operations.

Operating expenses

Operating expenses were $998,973 in Q1-11, compared to $712,593 in Q1-10. This increase was due primarily to higher selling and administrative expenses resulting from higher wages and benefits, rent, insurance and advertizing expenses.

We expect that our operating expenses will continue to fluctuate from quarter to quarter, however, on an annual basis we are forecasting the following as compared to 2010:

- 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.
- Lower depreciation expense resulting from a decrease in budgeted capital expenditures.
- Higher foreign exchange losses due to the strengthening of the Canadian dollar versus the U.S. dollar.
- Interest expense to remain in-line with 2010.

Income taxes

The income tax recovery of $123,630 in Q1-11 was due to future income tax recoveries of $109,644 and $13,986 from our Manufacturing and FEC operations, respectively. The income tax expense of $26,683 in Q1-10 was due primarily to the future income tax expense from our Manufacturing operations.

Although our income tax expense (recovery) 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 in 2011.

Net results from operations

Net loss and comprehensive loss in Q1-11 was $397,129, or loss per share of $0.04, compared to net income and comprehensive income of $45,482, or diluted earnings per share of $0.00, in Q1-10. This decrease was due primarily to the net operating results from our Manufacturing operations.

For our Manufacturing operations, we expect our net operating results to continue to fluctuate from quarter to quarter due to market conditions, variability in our gross profits, and exposure to foreign currency risk between the U.S. dollar and the Canadian dollar.

For our FEC operations, we expect our net operating results to continue to fluctuate from quarter to quarter based on competition for consumer entertainment spending.

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, 2010 and 2009. 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.

	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	**Q1-11**
CONSOLIDATED	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	**31-Dec-10**
Sales	$2,119,948	$2,060,291	$1,682,700	$1,801,951	$1,935,266	$1,712,123	$ 2,492,158	**$1,790,531**
Cost of sales	1,352,719	1,136,124	760,851	1,017,193	1,290,633	1,136,654	1,423,955	**1,312,317**
Gross profit	767,229	924,167	921,849	784,758	644,633	575,469	1,068,203	**478,214**
Selling and administrative expenses	1,013,905	663,220	886,150	582,902	741,768	780,715	885,475	**844,348**
Depreciation expense	110,299	119,158	124,727	108,257	110,698	111,189	148,649	**114,289**
Foreign exchange loss (gain)	44,303	64,770	48,817	5,994	12,375	(27,526)	4,015	**28,782**
Interest expense	13,963	13,962	13,963	15,440	14,288	13,389	12,071	**11,554**
Income tax expense (recovery)	(102,150)	(12,638)	37,154	26,683	(64,820)	(9,321)	(63,846)	**(123,630)**
Net income (loss)	$ (313,091)	$ 75,695	$ (188,962)	$ 45,482	$ (169,676)	$ (292,977)	$ 81,839	**$ (397,129)**
Basic and diluted earnings (loss) per share	(0.03)	0.01	(0.02)	0.00	(0.02)	(0.03)	0.01	**(0.04)**

	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	**Q1-11**
MANUFACTURING	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	**31-Dec-10**
Sales	$1,706,948	$1,713,007	$1,360,869	$1,498,579	$1,530,242	$1,368,469	$ 2,191,177	**$1,409,897**
Cost of sales	1,153,987	948,871	596,132	827,605	1,079,722	963,611	1,244,699	**1,109,724**
Gross profit	552,961	764,136	764,737	670,974	450,520	404,858	946,478	**300,173**
Selling and administrative expenses	839,605	565,239	861,968	492,836	639,724	682,382	790,412	**700,076**
Depreciation expense	58,653	67,420	70,571	54,697	55,718	56,304	93,556	**67,803**
Foreign exchange loss (gain)	44,303	64,770	48,817	5,994	11,685	(27,437)	3,935	**28,782**
Interest expense	1,157	1,158	1,157	1,478	1,213	1,354	1,458	**2,416**
Income tax expense (recovery)	(94,850)	(12,638)	3,441	35,943	(71,333)	(7,641)	(20,464)	**(109,644)**
Net income (loss)	$ (295,907)	$ 78,187	$ (221,217)	$ 80,026	$ (186,487)	$ (300,104)	$ 77,581	**$ (389,260)**

	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	**Q1-11**
FEC	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	**31-Dec-10**
Sales	$ 413,000	$ 347,284	$ 321,831	$ 303,372	$ 405,024	$ 343,654	$ 300,981	**$ 380,634**
Cost of sales	198,732	187,253	164,719	189,588	210,911	173,043	179,256	**202,593**
Gross profit	214,268	160,031	157,112	113,784	194,113	170,611	121,725	**178,041**
Selling and administrative expenses	174,300	97,981	24,182	90,066	102,044	98,333	95,063	**144,272**
Depreciation expense	51,646	51,738	54,156	53,560	54,980	54,885	55,093	**46,486**
Foreign exchange loss (gain)	-	-	-	-	690	(89)	80	**-**
Interest expense	12,806	12,804	12,806	13,962	13,075	12,035	10,613	**9,138**
Income tax expense (recovery)	(7,300)	-	33,713	(9,260)	6,513	(1,680)	(43,382)	**(13,986)**
Net income (loss)	$ (17,184)	$ (2,492)	$ 32,255	$ (34,544)	$ 16,811	$ 7,127	$ 4,258	**$ (7,869)**

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 increase in net operating results from Q2-09 to Q3-09 is due primarily to lower wage expenses in Q3-09 compared to Q2-09. Wage expenses are higher in Q2-09 compared to Q3-09 due to the completion of play structures installations at our FEC in Q2-09.
- The decrease in net operating results from Q3-09 to Q4-09 is due primarily to higher operating expenses in Q4-09 compared to Q3-09. Q4-09 operating expenses are higher than Q3-09 due to international trade show expenses incurred in Q4-09.
- The increase in net operating results from Q4-09 to Q1-10 is due primarily to higher operating expenses in Q4-09 as a result of international trade show expenses.
- 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.

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 income (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 are planning to prepare and present preliminary draft IFRS financial statements to the Audit Committee in the third quarter of 2011. The Corporation's external auditors will perform audit procedures on the opening balance sheet and the draft IFRS financial statements in the fourth quarter of 2011.

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 2011.

Liquidity and Capital Resources

Operating Activities

Cash used by operating activities was $288,146 in Q1-11, compared to $99,778 in Q1-10. This increase was due primarily to the net loss of $397,129 in Q1-11 as compared to net income of $45,482 in Q1-10, partially offset by the difference in change in non-cash operating working capital items.

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 $40,443 in Q1-11, compared to $19,192 in Q1-10. This increase was due to higher purchases of property, plant and equipment in Q1-11 as compared to Q1-10.

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 2011.

Financing Activities

Cash used by financing activities was $78,825 in Q1-11, compared to $74,015 in Q1-10. This increase was due to higher cash outflows for repayment of capital lease obligations as a result of entering into new capital leases.

We expect to continue to use our operating loan in 2011. 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.

At December 31, 2010, 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, loan payable, 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 December 31, 2010, our cash balance was Nil, compared to $369,573 at September 30, 2010.
- At December 31, 2010, our accounts receivable balance was $535,401, compared to $706,544 at September 30, 2010.
- We have two credit facilities with a Canadian chartered bank. See "Credit Facilities".

Credit Facilities

We have a non-revolving term loan maturing in August 2011 which bears interest at prime plus 2.95%. This loan is repayable in monthly instalments of $13,889 plus interest.

We have an operating loan facility with a limit of $500,000, subject to certain margin requirements on trade receivables and inventory. The operating loan bears interest at prime plus 1.50%. At December 31, 2010, $345,000 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 or our sales are denominated in U.S. dollars and a significant portion of our expenses are incurred in Canadian dollars. We monitor our exposure to fluctuations between the U.S. dollar and the Canadian dollar and manage this risk by entering into foreign exchange forward contracts for our U.S. dollar receivable balances. We do not enter into foreign exchange forward contracts for speculative purposes.

At December 31, 2010 and September 30, 2010, there were no foreign exchange forward contracts outstanding.

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 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.

Two customers represent approximately 36% of the accounts receivable balance at December 31, 2010, compared to two customers representing approximately 48% of the accounts receivable balance at September 30, 2010. In our view, these accounts do not represent significant credit risks.

The credit risk associated with our 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 and our loan payable, which bear interest at variable rates and exposes us to changes in debt servicing cash flows. Capital lease obligations 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

At December 31, 2010 and February 3, 2011, we were not engaged in any legal proceedings.

Related Party Transactions

During the three-month period ended December 31, 2010 there were no material related party transactions.

Outstanding Share Capital

At December 31, 2010 and February 3, 2011, there were 10,220,187 common shares issued and outstanding and there were 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.