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2012

Iplayco Corporation Ltd.

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2011

Unaudited (*Expressed in Canadian dollars*)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

Unaudited *(Expressed in Canadian dollars)*

	December 31, 2011	September 30, 2011	October 1, 2010
Assets			
Current assets			
Cash	$ -	$ -	$ 369,573
Trade and other receivables (Note 16)	605,867	833,458	706,544
Inventories (Note 6)	953,690	741,630	974,078
Prepaid expenses	253,286	169,995	89,873
	1,812,843	1,745,083	2,140,068
Non-current assets			
Restricted cash (Note 10)	300,000	250,000	-
Property, plant, and equipment (Note 7)	1,747,715	1,813,247	2,018,753
Net deferred income tax asset (Note 14)	469,147	421,753	179,077
Total Assets	$ 4,329,705	$ 4,230,083	$ 4,337,898
Liabilities and Shareholders' Equity			
Current liabilities			
Operating loan (Note 9)	$ 24,007	$ 157,045	$ -
Trade payables and accrued charges	1,177,393	1,450,544	911,615
Warranty provision	10,157	9,500	34,931
Customer deposits	812,207	184,684	288,473
Non-hedging financial derivatives (Note 16)	-	4,474	-
Current portion of rent inducement (Note 13)	36,000	32,958	22,817
Current portion of finance lease liability (Note 8)	123,480	137,458	145,048
Loan payable	-	-	152,775
	2,183,244	1,976,663	1,555,659
Non-current liabilities			
Rent inducement (Note 13)	185,451	175,329	55,140
Finance lease liability (Note 8)	38,427	60,652	198,110
Notes payable (Note 10)	300,000	250,000	-
Total Liabilities	2,707,122	2,462,644	1,808,909
Shareholders' Equity			
Share capital	1,757,643	1,757,643	1,757,643
Share-based payments reserve	256,858	256,858	256,858
Retained earnings (deficit)	(391,918)	(247,062)	514,488
Total Shareholders' Equity	1,622,583	1,767,439	2,528,989
Total Liabilities and Shareholders' Equity	$ 4,329,705	$ 4,230,083	$ 4,337,898

Nature of business and corporate information (Note 1)

Commitments (Note 13)

Approved and authorized for issue by the Board of Directors on February 16, 2012.

"Franco Aquila" .... Chief Executive Officer

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

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

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

	Three months ended December 31,	
	2011	2010
Sales	**$ 1,784,328**	$ 1,790,531
Cost of sales (Note 12)	**1,099,320**	1,312,317
Gross profit	**685,008**	478,214
Selling and administrative expenses (Note 12)	**839,586**	958,637
Foreign exchange loss	**15,328**	28,782
	854,914	987,419
Operating loss	**(169,906)**	(509,205)
Finance cost	**22,344**	11,554
Loss before income taxes	**(192,250)**	(520,759)
Deferred income taxes (Note 14)	**(47,394)**	(123,630)
Net loss and total comprehensive loss for the period	**(144,856)**	(397,129)
Net loss per share		
Basic and diluted	**$ (0.01)**	$ (0.04)
Weighted average number of common shares outstanding		
Basic and diluted	**10,220,187**	10,220,187

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Unaudited *(Expressed in Canadian dollars)*

	Share capital[1]				
	Number of common shares	Amount	Share-based payments reserve[2]	Retained earnings (deficit)	Total shareholders' equity
Balance at October 1, 2010	10,220,187	$ 1,757,643	$ 256,858	$ 514,488	$ 2,528,989
Net loss and total comprehensive loss				(397,129)	(397,129)
Balance at December 31, 2010	10,220,187	1,757,643	256,858	117,359	2,131,860
Net loss and total comprehensive loss				(364,421)	(364,421)
Balance at September 30, 2011	10,220,187	1,757,643	256,858	(247,062)	1,767,439
Net loss and total comprehensive loss				(144,856)	(144,856)
Balance at December 31, 2011	**10,220,187**	**$1,757,643**	**$ 256,858**	**$ (391,918)**	**$1,622,583**

[1] Authorized share capital is comprised of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

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

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

Iplayco Corporation Ltd.

Condensed Consolidated Interim Statements of Cash Flows

Unaudited *(Expressed in Canadian dollars)*

	Three months ended December 31,	
	2011	2010
Operating activities		
Net loss for the period	**$ (144,856)**	$ (397,129)
Items not affecting cash		
Depreciation (Note 7)	**78,840**	114,289
Deferred income taxes (Note 14)	**(47,394)**	(123,630)
Non-hedging financial derivative (Note 16)	**4,474**	-
Rent inducement	**13,164**	56,930
Unrealized foreign exchange loss	**6,043**	11,752
Finance cost	**22,344**	11,554
	(67,385)	(326,234)
Change in non-cash operating working capital		
Trade and other receivables (Note 16)	**221,548**	159,391
Inventories (Note 6)	**(212,060)**	(149,625)
Prepaid expenses	**(83,291)**	8,198
Trade payables and accrued charges	**(284,041)**	49,716
Warranty provision	**657**	-
Customer deposits	**627,523**	(18,038)
	270,336	49,642
Interest paid	**(22,344)**	(11,554)
Cash provided by (used in) operating activities	**180,607**	(288,146)
Investing activities		
Increase in restricted cash (Note 10)	**(50,000)**	-
Purchase of property, plant and equipment (Note 7)	**(11,366)**	(40,443)
Cash used in investing activities	**(61,366)**	(40,443)
Financing activities		
Proceeds from notes payable (Note 10)	**50,000**	-
Repayment of finance lease liability (Note 8)	**(36,203)**	(37,161)
Repayment of loan payable	**-**	(41,664)
Cash used in financing activities	**13,797**	(78,825)
Net increase (decrease) in cash	**133,038**	(407,414)
Cash (overdraft) at beginning of period	**(157,045)**	369,573
Overdraft at end of period	**$ (24,007)**	$ (37,841)
Supplemental cash flow disclosure		
Non-cash transactions - property, plant and equipment (Note 7)	**$ 1,942**	$ -

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

1. Nature of business and corporate information

The Corporation is incorporated under the Alberta Business Corporations Act and its shares trade on the TSX Venture Exchange (TSX-V: IPC).

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

The Corporation's head office is located at #215 – 27353, 58th Crescent, Langley, British Columbia, Canada, V4W 3W7 and its registered office is located at Suite 1200, 700 – 2nd Street, S.W., Calgary, Alberta, T2P 4V5.

The Corporation has incurred a net operating loss of $144,856 for the three-month period ended December 31, 2011, has a deficit of $391,918 and a working capital deficit of $370,401 as at December 31, 2011. 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. Basis of preparation and adoption of International Financial Reporting Standards

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of IFRS*. Subject to certain transition elections disclosed in Note 18, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at October 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's annual consolidated financial statements for the year ended September 30, 2011.

The policies applied in these Condensed Consolidated Interim Financial Statements are based on IFRS issued and outstanding as of February 16, 2012, the date the Board of Directors approved these statements. Any subsequent changes to IFRS, that are given effect in the Corporation's annual consolidated financial statements for the year ending September 30, 2012 could result in restatement of these Condensed Consolidated Interim Financial Statements, including the transition adjustments recognized on change-over to IFRS.

2. Basis of preparation and adoption of IFRS (continued)

These Condensed Consolidated Interim Financial Statements are the Corporation's first financial statements prepared under IFRS, with a transition date to IFRS of October 1, 2010. Consequently, the comparative figures for the year ended September 30, 2011 and the Corporation's statement of financial position as of October 1, 2010 have been restated to comply with IFRS. Note 18 provides reconciliations to IFRS from the previously published consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. In addition, IFRS 1 on first time adoption allows certain exemptions from retrospective application of IFRS in the opening statement of financial position that are also explained in Note 18.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgments

The preparation of the Condensed Consolidated Interim Financial Statements in conformity with IFRS requires the Corporation's management to make judgments, estimates and assumptions that affect the amounts reported in these Condensed Consolidated Interim Financial Statements and notes. 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 trade and other receivables, the net realizable value of inventory, the useful lives and impairment of property, plant and equipment, the recoverability of deferred tax assets, accrued charges, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The estimates and judgments that have a significant risk of causing material adjustments to the carrying amounts of the Corporation's assets and liabilities are discussed in Note 4.

3. Significant accounting policies

Basis of consolidation

These Condensed Consolidated Interim Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries, IPC and OPC. Subsidiaries are entities over which the Corporation exercises control, where control is defined as the power to govern financial and operating policies, which is generally the case when owning more than half of the voting rights. The accounts of subsidiaries are included in consolidated financial statements from the date that control commences to the date that control ceases. Intercompany balances and transactions have been eliminated in the Condensed Consolidated Interim Financial Statements. The accounting policies of the Corporation's subsidiaries are consistent with the policies adopted by the Corporation.

3. Significant accounting policies (continued)

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Corporation and its subsidiaries at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at each reporting date. The resulting exchange gains and losses are recognized through profit or loss. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of the transaction.

Foreign currency gains and losses are reported on a net basis in profit or loss.

Financial instruments

(i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated and all other financial assets on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset.

Financial assets at fair value through profit or loss:

Financial assets are classified at fair value through profit or loss if they are held for trading or if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented treasury policies. Financial assets at fair value through profit or loss are measured at fair value, with changes to their fair value recognized through profit or loss. Financial assets at fair value through profit or loss are comprised of the Corporation's cash, cash equivalents and restricted cash.

The Corporation's cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less.

The Corporation enters periodically into foreign exchange forward contracts to limit its exposure to foreign currency rate fluctuations. These derivative contracts are initially recorded at fair value and are recorded as either assets or liabilities based on their fair value. Subsequent to initial recognition, these derivatives are measured at fair value and changes to their value are recognized through profit or loss as foreign exchange gains or losses. The Corporation does not designate these financial instruments as hedges.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, net of transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of the Corporation's trade and other receivables.

3. Significant accounting policies (continued)

Financial instruments (continued)

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value, with changes to their fair value, other than impairment losses and foreign currency differences, recognized in other comprehensive income. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Determination of fair value:

The fair value of financial assets at fair value through profit or loss and available-for-sale are determined by reference to their quoted closing bid price at the reporting date if they are traded in an active market. For derivative instruments, including foreign exchange forward contracts, fair value is based on their listed market price and reflect the credit risk of the instrument, and include adjustments to take account of the credit risk of the Corporation and the counterparty, when appropriate. The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Financial liabilities

Financial liabilities are comprised of the Corporation's trade payables and accrued charges, and notes payable. The financial liabilities are initially recognized on the date they are originated and are derecognized when the contractual obligations are discharged or cancelled or expire. These financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently are measured at amortized cost using the effective interest method, when materially different from the initial amount. Fair value is determined based on the present value of future cash flows, discounted at the market rate of interest.

(iii) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of shares and share options are recognized as a deduction from equity. When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from equity. When treasury shares are subsequently reissued, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Inventories

Inventories are recorded 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 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 any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand and design, which would impair the value of inventory on hand.

3. Significant accounting policies (continued)

Property, plant, and equipment and depreciation

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Property, plant and equipment are amortized from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use, using the following methods less residual value over the estimated useful lives of the assets as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

Leases

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and not recognized in the statement of financial position.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized through profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the lease expense over the term of the lease.

Impairment

(i) Financial assets

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3. Significant accounting policies (continued)

Impairment (continued)

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in accumulated other comprehensive income in equity, to profit or loss.

The cumulative loss that is removed from other comprehensive income and recognized through profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value less any impairment loss previously recognized through profit or loss.

If subsequently the fair value of an impaired available-for-sale financial asset increases then the impairment loss is reversed, with the amount of the reversal recognized through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale financial asset is recognized in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset, or cash-generating unit, is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized through profit or loss. Impairment losses recognized in respect of the cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

For non-financial assets other than goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. Significant accounting policies (continued)

Warranty provision

A provision for warranty costs is recorded on product sales at the time the sale is recognized. In establishing the warranty provision, 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.

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.

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.

Finance income

Finance income is comprised of interest income on funds invested, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance cost

Finance cost is comprised of interest expense on the operating loan, finance leases, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

Income taxes

Income taxes are comprised of current and deferred income taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible for income tax purposes. Current income tax is calculated using income tax rates and laws that were enacted or substantively enacted at the reporting date.

Deferred income tax is recorded using the asset and liability method. Under this method, the Corporation calculates temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the period end date. Deferred income tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using income tax rates that are expected to apply to the year of realization or settlement based on income tax rates and laws enacted or substantively enacted at the period end date.

Temporary differences are not recorded for the initial recognition of assets or liabilities that do not affect accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable such differences will not reverse in the foreseeable future.

3. Significant accounting policies (continued)

Income taxes (continued)

Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the Corporation intends to settle its current income tax assets and liabilities on a net basis.

Employee future benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Corporation's defined contribution plan is 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.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash or share bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based compensation plan

The Corporation uses the fair-value based method of accounting for share-based compensation for all awards of share options granted. The resulting compensation expense, based on the fair value of the awards granted is charged through profit or loss over the period that the employees unconditionally become entitled to the award, with a corresponding increase to the share-based payments reserve. Fair values of share options are calculated using the Black-Scholes valuation method as of the grant date and estimated for forfeitures. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At each reporting date, the Corporation reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision through profit or loss with a corresponding adjustment to equity.

The Corporation issues share options under its share-based compensation plans as described in Note 11. Any consideration paid by employees on exercise of share options or purchase of shares, together with the amount initially recorded in the share-based payments reserve, is credited to share capital.

3. Significant accounting policies (continued)

Net income (loss) per share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period, adjusted for treasury shares, if any. Diluted net income per share is calculated using the treasury stock method. Under the treasury stock method, the dilution is calculated based upon the number of common shares issued should "in the money" options, if any, be exercised. When the effects of outstanding share-based compensation arrangements would be anti-dilutive, diluted loss per share is not calculated.

Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Corporation's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the Corporation's Chief Executive Officer. The Corporation's Chief Executive Officer is considered the chief operating decision-maker and has the authority for resource allocation and is responsible for assessing the Corporation's performance.

4. Critical accounting estimates and judgments

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions critical to the determination of carrying value of the Corporation's assets and liabilities are discussed below:

Revenue

Revenues under long-term fixed price contracts provide for receipt of payment based on achieving defined milestones. Revenues are recognized under these contracts based on management's estimate of progress achieved against these milestones. Changes in management's estimated costs to complete a contract may result in an adjustment to previously recognized revenues.

Inventory

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

4. Critical accounting estimates and judgments (continued)

Inventory (continued)

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

Property plant and equipment

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

Income taxes

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

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

5. Recent accounting pronouncements

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2011. Pronouncements that are not applicable to the Corporation have been excluded from those described below.

The following new standards were issued by the IASB in May 2011, and are effective for annual periods beginning on or after January 1, 2013. The Corporation does not plan to early adopt these new standards and their implementation is not expected to have a material impact on the Corporation's consolidated financial statements:

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") will replace existing guidance on consolidation in IAS 27, *Consolidated and Separate Financial Statements,* and SIC 12, *Consolidation – Special Purpose Entities*. The portion of IAS 27 that deals with separate financial statements will remain.

5. Recent accounting pronouncements (continued)

Consolidated Financial Statements (continued)

IFRS 10 changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition focuses on the need to have both "power" and "variable returns" for control to be present. Power is the current ability to direct the activities that significantly influence returns. Variable returns can be positive, negative or both. IFRS 10 requires continuous assessment of control of an investee in line with any changes in facts and circumstances.

Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") will replace IAS 31 *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. The focus is not solely on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement. IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the Standard categorizes joint arrangements as either joint operations or joint ventures.

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity.

Separate Financial Statements

IAS 27, *Separate Financial Statements* ("IAS 27") has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9, *Financial Instruments.* The amended IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27, *Consolidated and Separate Financial Statements* that is replaced by IFRS 10.

Investments in Associates and Joint Ventures

IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28") has been revised and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of IAS 28, *Investments in Associates* does not include joint ventures.

Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

5. Recent accounting pronouncements (continued)

The following new standard was issued by the IASB in June 2011, and is effective for annual periods beginning on or after July 1, 2012. The Corporation does not plan to early adopt this new standard and its implementation is not expected to have a material impact on the Corporation's consolidated financial statements:

Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements* ("IAS 1") requires companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the Consolidated Statement of Operations. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

The IASB is also expected to publish new standards on leases and revenue recognition in 2012. The Corporation will assess the impact of these new standards as they are published.

6. Inventories

	December 31, 2011	September 30, 2011	October 1, 2010
Raw materials	**$ 909,305**	$ 724,066	$ 921,341
Work in progress	**27,788**	17,564	27,419
Finished goods	**16,597**	-	25,318
Total inventory	**$ 953,690**	$ 741,630	$ 974,078

At December 31, 2011, raw materials include inventories measured at net realizable value of $94,604 (September 30, 2011 - $104,456; October 1, 2010 - Nil).

Inventories included in cost of sales during the three months ended December 31, 2011 amount to $1,311,380 (December 31, 2010 - $1,461,942).

Write-downs of inventories and reversals of write-downs are included in cost of sales. During the three months ended December 31, 2011 and 2010, there were no write-downs of inventories to net realizable value, and there were no reversals of write-downs.

The following table reflects the movement in allowance for inventory obsolescence:

	December 31, 2011	September 30, 2011
Balance at beginning of period	**$ 63,382**	$ 33,555
Write-offs	**(30,446)**	(29,217)
Increase in allowance	**-**	59,044
Balance at end of period	**$ 32,936**	$ 63,382

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

7. Property, plant and equipment

	Automotive	Computer Equipment	Furniture and Fixtures	Machinery and Equipment	Moulds	Leasehold Improvements	Total
Balance at October 1, 2010 comprised of:							
Cost	$ 49,113	$ 331,455	$ 149,489	$ 1,750,523	$ 186,491	$ 844,899	$ 3,311,970
Accumulated depreciation	(29,218)	(216,796)	(72,893)	(609,511)	(134,170)	(230,629)	(1,293,217)
Carrying amount	$ 19,895	$ 114,659	$ 76,596	$ 1,141,012	$ 52,321	$ 614,270	$ 2,018,753
Carrying amount at October 1, 2010	$ 19,895	$ 114,659	$ 76,596	$ 1,141,012	$ 52,321	$ 614,270	$ 2,018,753
Additions	-	66,822	7,394	21,542	-	132,563	228,321
Depreciation	(3,367)	(71,861)	(22,687)	(221,167)	(13,045)	(101,700)	(433,827)
Carrying amount at September 30, 2011	$ 16,528	$ 109,620	$ 61,303	$ 941,387	$ 39,276	$ 645,133	$ 1,813,247
Balance at September 30, 2011 comprised of:							
Cost	$ 49,113	$ 183,996	$ 104,306	$ 1,650,587	$ 126,663	$ 823,420	$ 2,938,085
Accumulated depreciation	(32,585)	(74,376)	(43,003)	(709,200)	(87,387)	(178,287)	(1,124,838)
Carrying amount	$ 16,528	$ 109,620	$ 61,303	$ 941,387	$ 39,276	$ 645,133	$ 1,813,247
Carrying amount at September 30, 2011	**$ 16,528**	**$ 109,620**	**$ 61,303**	**$ 941,387**	**$ 39,276**	**$ 645,133**	**$1,813,247**
Additions	**-**	**750**	**6,107**	**3,026**	**-**	**3,425**	**13,308**
Depreciation	**(3,454)**	**(7,893)**	**(3,171)**	**(44,249)**	**(2,872)**	**(17,201)**	**(78,840)**
Carrying amount at December 31, 2011	**$ 13,074**	**$ 102,477**	**$ 64,239**	**$ 900,164**	**$ 36,404**	**$ 631,357**	**$1,747,715**
Balance at December 31, 2011 comprised of:							
Cost	**$ 32,528**	**$ 184,746**	**$ 110,413**	**$1,655,915**	**$ 126,663**	**$ 826,847**	**$2,937,112**
Accumulated depreciation	**(19,454)**	**(82,269)**	**(46,174)**	**(755,751)**	**(90,259)**	**(195,490)**	**(1,189,397)**
Carrying amount	**$ 13,074**	**$ 102,477**	**$ 64,239**	**$ 900,164**	**$ 36,404**	**$ 631,357**	**$1,747,715**

During the three months ended December 31, 2011 the Corporation acquired property, plant and equipment totalling $13,308 of which $1,942 was included in trade payables and accrued charges and $11,366 was purchased with cash. The Corporation did not enter into any new finance lease arrangements during the three months ended December 31, 2011 and 2010.

Included in property, plant and equipment are the following assets under finance leases:

	Assets under finance leases			
	Automotive	Computer Equipment	Machinery and Equipment	Total
Balance at October 1, 2010 comprised of:				
Cost	$ 32,528	$ 92,219	$ 521,424	$ 646,171
Accumulated depreciation	(13,743)	(45,530)	(175,293)	(234,566)
Carrying amount	$ 18,785	$ 46,689	$ 346,131	$ 411,605
Balance at September 30, 2011 comprised of:				
Cost	$ 32,528	$ 85,802	$ 443,229	$ 561,559
Accumulated depreciation	(18,422)	(52,475)	(184,524)	(255,421)
Carrying amount	$ 14,106	$ 33,327	$ 258,705	$ 306,138
Balance at December 31, 2011 comprised of:				
Cost	**$ 32,528**	**$ 85,802**	**$ 443,229**	**$ 561,559**
Accumulated depreciation	**(19,454)**	**(54,913)**	**(197,244)**	**(271,611)**
Carrying amount	**$ 13,074**	**$ 30,889**	**$ 245,985**	**$ 289,948**

8. Obligations under finance leases

In the normal course of business, the Corporation enters into finance lease arrangements to finance the purchase of vehicles and other equipment used for operations. These finance leases are with multiple vendors and are issued at interest rates varying from 6.00% up to 15.12% and mature on various dates up to 2014. The obligations under these leases are secured by the assets acquired. The interest rates applied to the finance lease obligations are not considered to be materially different from market rates, thus the carrying value of the finance lease obligations approximate fair value.

The following is a schedule of future minimum lease payments under finance lease arrangements, together with the balance of the obligations under finance leases at December 31, 2011:

	Present value of minimum lease payments	Less amount representing interest	**Obligations under finance leases**
Due within 1 year	$ 132,436	$ 8,956	**$ 123,480**
Between 1 year and 5 years	39,648	1,221	**38,427**
	$ 172,084	$ 10,177	**$ 161,907**

9. Operating loan

On October 7, 2011, 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 3.50% and is secured by a general security agreement covering all property of the Corporation. At December 31, 2011, $380,000 has been drawn on this facility (September 30, 2011 - $85,000; October 1, 2010 - $0).

10. 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%, and 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% ("Notes Payable"). The Corporation invested the proceeds from the Notes Payable 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, expiring on December 31, 2012, in favour of Export Development Canada ("Letter of Credit") to underwrite a performance bond of U.S. $1,444,000 for a customer of the Corporation ("Performance Bond"). On October 19, 2011, the Performance Bond of U.S. $1,444,000 (or $1,473,169 – approximate value in Canadian dollars at October 19, 2011) was issued to the Corporation's customer ("Holder of the Performance Bond"), and on November 17, 2011, 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. The Corporation is expected to complete its obligations under this contract on or after December 31, 2012, at which time the Performance Bond would expire and payment of interest and capital from the Notes Payable would become due.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

11. Share options

The Corporation has an incentive share option plan (the “Option Plan”). Under the terms of this Option Plan, the Board of Directors may grant incentive share 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 shares 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 share options available to be granted under the Option Plan as at December 31, 2011 and September 30, 2011 is 1,022,018.

There are no share options outstanding at December 31, 2011, September 30, 2011, and October 1, 2010.

12. Cost of sales, selling and administrative expenses

	December 31, 2011	December 31, 2010
Cost of materials	**$ 450,395**	$ 447,020
Shipping, installation and other	**175,640**	434,253
Short-term employee benefits	**469,295**	426,538
Post-employment benefits	**3,990**	4,506
Total cost of sales	**$ 1,099,320**	$ 1,312,317

	December 31, 2011	December 31, 2010
Short-term employee benefits	**$ 316,537**	$ 330,056
Post-employment benefits	**12,748**	13,476
Marketing, advertizing and related expenditures	**100,329**	131,247
Travel and related expenditures	**36,449**	23,663
Rent, utilities, telecom and occupancy costs	**184,175**	244,339
Professional fees and insurance costs	**95,708**	96,673
Depreciation	**78,840**	114,289
Bank charges and bad debts	**14,800**	4,894
Total selling and administrative expenses	**$ 839,586**	$ 958,637

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

12. Cost of sales, selling and administrative expenses (continued)

Selling and administrative expenses include the following compensation paid to key management personnel comprised of the Corporation's Chief Executive Officer, Chief Financial Officer, President, and Executive Vice-President:

	December 31, 2011	December 31, 2010
Short-term employee benefits	**$ 155,590**	$ 154,037
Post-employment benefits	**7,173**	8,340
	$ 162,763	$ 162,377

13. 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 to $3,386,866 and include the following amounts payable, including estimated occupancy costs:

	December 31, 2011
Due within 1 year	**$ 579,466**
Between 1 year and 5 years	**1,897,592**
More than 5 years	**909,808**
	$ 3,386,866

For the three months ended December 31, 2011, selling and administrative expenses include operating lease costs of $124,736 (December 31, 2010 - $134,166).

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.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

14. Income taxes

The approximate tax effect of temporary differences and non-capital losses carried forward for income tax purposes that give rise to the Corporation's net deferred income tax asset is as follows:

	December 31, 2011	September 30, 2011	October 1, 2010
Net deferred income tax asset at the beginning of the financial period	**$ 421,753**	$ 179,077	$ 67,773
Deferred tax income recorded in the statement of operations	**47,394**	242,676	111,304
Net deferred income tax asset at the end of the financial period	**$ 469,147**	$ 421,753	$ 179,077
Components of deferred income tax assets:			
Non-capital losses carried forward	**$ 469,165**	$ 394,359	$ 168,573
Timing differences on expenses	**70,780**	87,519	51,528
Share issue expenses	**1,962**	2,341	4,631
	541,907	484,219	224,732
Component of deferred income tax liability:			
Property, plant and equipment	**(72,760)**	(62,466)	(45,655)
Net deferred income tax asset at the end of the financial period	**$ 469,147**	$ 421,753	$ 179,077

The future benefit of these temporary differences and non-capital losses carried forward for income tax purposes has been recognized in these Condensed Consolidated Interim Financial Statements as management estimates that it is probable the future income tax benefit will be utilized.

At December 31, 2011, September 30, 2011 and October 1, 2010, the Corporation has capital losses carried forward for income tax purposes of $51,750 for which no benefit was recognized. Future benefits, if any, will be restricted to one half of enacted rates and will be recognized when realized.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

14. Income taxes (continued)

The Corporation has $1,876,661 of non-capital losses carried forward for income tax purposes expiring as follows:

	December 31, 2011
2026	$ 1,611
2027	1,228
2028	66,810
2029	46,649
2030	557,995
2031	904,234
2032	298,134
	$ 1,876,661

The Corporation's effective income tax rate differs from the combined Canadian federal and provincial statutory income tax rate for manufacturing and processing companies. The principal factors causing the difference are as follows:

	Three months ended December 31,	
	2011	2010
Loss before income taxes	**$ (192,250)**	$ (520,759)
Combined Canadian and provincial statutory income tax rate	**26.50%**	28.50%
Expected tax income	**$ (50,946)**	$ (148,416)
Effect of changes in income tax rates	**1,695**	18,227
Non-deductible expenses and other	**1,857**	6,559
Deferred tax income recorded in the statement of operations	**$ (47,394)**	$ (123,630)
Effective income tax rate	**24.65%**	23.74%

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

15. Capital management

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 (December 31, 2011 - $1,622,583, September 30, 2011 - $1,767,439, October 1, 2010 - $2,528,989) and cash flow from operating activities (December 31, 2011 - $180,607; December 31, 2010 - $-288,146). 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 December 31, 2011 and September 30, 2011 the Corporation complied with these margin requirements.

In management's opinion, the Corporation's available borrowing capacity under its bank operating facility and ongoing cash flow from operations are sufficient to fund its anticipated contractual obligations, future operations, and capital expenditures.

16. 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:

		Carrying Amounts		
Class of Financial Instruments	**Categories in Consolidated Interim Statements of Financial Position**	**December 31, 2011**	September 30, 2011	October 1, 2010
Held for trading financial assets measured at fair value through profit or loss	Cash and restricted cash	**$ 300,000**	$ 250,000	$ 369,573
Loans and receivables financial assets measured at amortized cost	Trade and other receivables	**605,867**	833,458	706,544
Financial liabilities measured at amortized cost	Operating loan, trade payables and accrued charges, loan payable and notes payable	**1,501,400**	1,857,589	1,064,390
Non-hedging financial derivative designated as held for trading and measured at fair value through profit or loss	Non-hedging financial derivative liability	**-**	4,474	-

16. Financial instruments and risk management (continued)

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

The carrying values of cash, restricted cash, trade and other receivables, and trade payables and accrued charges approximate their fair market values due to their short-term maturities. The loan payable bears interest at current market rates and as a result its carrying value approximates its fair value. The interest rates applied to the finance lease obligations are not considered to be materially different from market rates, thus the carrying value of the finance 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 10.

Fair value measurements recognized in the statements of financial position 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).

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 three months ended December 31, 2011, the average monthly balance outstanding on this facility amounted to $293,333 and resulted in an interest expense of $5,546 (three months ended December 31, 2010 – average monthly balance of $166,667; interest expense of $1,448). Finance lease liabilities and the notes payable bear interest at fixed rates.

16. Financial instruments and risk management (continued)

(b) Risks and risk management (continued)

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 total comprehensive loss for the three months ended December 31, 2011 would increase by approximately $7,600 (December 31, 2010 – $6,900). 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 therefore exposes the Corporation 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 December 31, 2011 and October 1, 2010, the Corporation had not entered into any 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. 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 statement of operations.

A sensitivity analysis has been performed assuming the foreign exchange rate changes by 5% as at December 31, 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 total comprehensive loss would decrease by approximately $46,000 (December 31, 2010 - $34,000). 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 trade receivables in the condensed interim consolidated statements of financial position represent the Corporation's maximum exposure to credit risk.

The Corporation's credit risk is primarily attributable to its trade receivables. Trade receivables are disclosed in the statements of financial position net of allowance for bad debts, estimated by management based on prior experience and an assessment of the current economic environment. The Corporation believes that the credit risk from trade receivables 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.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

16. Financial instruments and risk management (continued)

(ii) Credit risk (continued)

Trade receivables with three customers represent approximately 49% of the balance of trade receivables as at December 31, 2011 (September 30, 2011 – four customers representing approximately 60%, October 1, 2010 – two customers representing approximately 48%). 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 high investment grade ratings.

The following table provides the aging of trade receivables:

	December 31, 2011	September 30, 2011	October 1, 2010
Trade receivables			
Current	**$ 285,944**	$ 536,066	$ 464,062
31 to 60 days	**154,193**	165,010	68,617
61 to 90 days	**126,350**	7,871	51,863
91 days +	**259,699**	303,129	373,622
	826,186	1,012,076	958,164
Other receivables	**26,612**	86,402	36,930
Allowance for doubtful accounts	**(246,931)**	(265,020)	(288,550)
	$ 605,867	$ 833,458	$ 706,544

The following table reflects the movement in the allowance for doubtful accounts:

	December 31, 2011	September 30, 2011
Balance, beginning of period	**$ 265,020**	$ 288,550
Write-offs	**(22,850)**	(41,166)
Increase in allowance	**4,761**	17,636
Balance at end of period	**$ 246,931**	$ 265,020

(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.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

16. Financial instruments and risk management (continued)

(iii) Liquidity risk (continued)

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 15.

The following table provides a summary of the Corporation's contractual obligations at December 31, 2011:

		Payments due by period			
	Total	Within 1 year	1-3 years	4-5 years	After 5 years
Operating loan, including interest	**$ 404,700**	$ 404,700	$ -	$ -	$ -
Trade payables and accrued charges	**1,177,393**	1,177,393	-	-	-
Warranty provision	**10,157**	10,157	-	-	-
Finance leases, including interest	**172,084**	132,436	39,648	-	-
Notes payable, including interest	**367,040**	-	367,040	-	-
Operating leases	**3,386,866**	579,466	1,291,180	606,412	909,808
	$ 5,518,240	$ 2,304,152	$ 1,697,868	$ 606,412	$ 909,808

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

17. Segment reporting 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 Condensed Consolidated Interim Financial Statements. Inter-segment transactions are eliminated upon consolidation.

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

	Three months ended December 31, 2011		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 1,406,403	$ 377,925	$ 1,784,328
Cost of sales	899,051	200,269	1,099,320
Gross profit	507,352	177,656	685,008
Selling and administrative expenses	696,295	143,291	839,586
Foreign exchange loss	15,328	-	15,328
Finance cost	19,062	3,282	22,344
Income taxes	(46,200)	(1,194)	(47,394)
Net income (loss)	$ (177,133)	$ 32,277	$ (144,856)
Total assets	$ 3,077,242	$ 1,252,463	$ 4,329,705
Acquisition of property, plant and equipment	$ 8,393	$ 4,915	$ 13,308

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

17. Segment reporting and concentration of sales (continued)

(a) Business segments (continued)

	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	767,879	190,758	958,637
Foreign exchange loss	28,782	-	28,782
Finance cost	2,416	9,138	11,554
Income taxes	(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

(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:

	Three months ended December 31,	
	2011	2010
Sales		
Canada	**$ 561,086**	$ 461,186
Americas	**912,173**	996,066
Other	**311,069**	333,279
	$ 1,784,328	$ 1,790,531

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

17. Segment reporting and concentration of sales (continued)

(b) Geographic and customer information (continued)

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

	Three months ended December 31,	
	2011	2010
Customer A	$ **227,017**	$ 379,319
Customer B	**215,063**	-
Customer C	**-**	248,053
Customer D	**-**	227,917

18. Transition to IFRS

As stated in note 2, these are the Corporation's first Condensed Consolidated Interim Financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the Condensed Consolidated Interim Financial Statements for the three months ended December 31, 2011, the comparative information presented for both the three months ended December 31, 2010 and the year ended September 30, 2011, and in the preparation of the opening IFRS statement of financial position at October 1, 2010 (the Corporation's "Transition Date").

In preparing the opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with Canadian GAAP. The following is an explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows.

(a) IFRS 1, First-Time Adoption of International Financial Reporting Standards

IFRS 1, *First-Time Adoption of International Financial Reporting Standard*, permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS at the time of transition. The following are the initial IFRS 1 mandatory elections and optional exemptions applied by the Corporation upon initial adoption of IFRS from Canadian GAAP:

Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for the application of IFRS, except where necessary to reflect any differences in accounting policies.

Share-based payments

The Corporation has elected to apply IFRS 2, *Share-based Payments*, to all equity instruments granted after November 7, 2002 that had not vested as of the Transition Date and elected not to apply the standard to any equity instruments issued prior to this date.

As of the Transition Date, no equity instruments granted after November 7, 2002 remain unvested.

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

18. Transition to IFRS (continued)

(b) Reconciliations of Canadian GAAP to IFRS

Shareholder's equity under Canadian GAAP and IFRS as at:

	September 30, 2011	December 31, 2010	October 1, 2010
Shareholders' equity - Canadian GAAP	$ 1,767,439	$ 2,131,860	$ 2,528,989
Total shareholders' equity - IFRS	$ 1,767,439	$ 2,131,860	$ 2,528,989

Net loss and comprehensive loss under Canadian GAAP and IFRS for the following periods:

	Year ended September 30, 2011	Three months ended December 31, 2010
Net loss and comprehensive loss - Canadian GAAP	$ (761,550)	$ (397,129)
Net loss and total comprehensive loss - IFRS	$ (761,550)	$ (397,129)

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

18. Transition to IFRS (continued)

(b) Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Consolidated Statements of Financial Position under Canadian GAAP and IFRS as at:

		September 30, 2011			December 31, 2010			October 1, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	**IFRS**	Canadian GAAP	Effect of transition to IFRS	**IFRS**	Canadian GAAP	Effect of transition to IFRS	**IFRS**
Assets										
Current assets										
Cash		$ -	$ -	**$ -**	$ -	$ -	**$ -**	$ 369,573	$ -	**$ 369,573**
Trade and other receivables		833,458	-	**833,458**	535,401	-	**535,401**	706,544	-	**706,544**
Inventories		741,630	-	**741,630**	1,123,703	-	**1,123,703**	974,078	-	**974,078**
Prepaid expenses		169,995	-	**169,995**	81,675	-	**81,675**	89,873	-	**89,873**
		1,745,083	-	**1,745,083**	1,740,779	-	**1,740,779**	2,140,068	-	**2,140,068**
Non-current assets										
Restricted cash		250,000	-	**250,000**	-	-	**-**	-	-	**-**
Property, plant, and equipment		1,813,247	-	**1,813,247**	1,944,907	-	**1,944,907**	2,018,753	-	**2,018,753**
Net deferred income tax asset		421,753	-	**421,753**	302,707	-	**302,707**	179,077	-	**179,077**
Total Assets		$ 4,230,083	$ -	**$ 4,230,083**	$ 3,988,393	$ -	**$ 3,988,393**	$ 4,337,898	$ -	**$ 4,337,898**
Liabilities and Shareholders' Equity										
Current liabilities										
Operating loan		$ 157,045	$ -	**$ 157,045**	$ 37,841	$ -	**$ 37,841**	$ -	$ -	**$ -**
Trade payables and accrued charges	**(b)(iv)**	1,460,044	(9,500)	**1,450,544**	996,262	(34,931)	**961,331**	946,546	(34,931)	**911,615**
Warranty provision	**(b)(iv)**	-	9,500	**9,500**	-	34,931	**34,931**	-	34,931	**34,931**
Customer deposits		184,684	-	**184,684**	270,435	-	**270,435**	288,473	-	**288,473**
Non-hedging financial derivatives		4,474	-	**4,474**	-	-	**-**	-	-	**-**
Current portion of rent inducement		32,958	-	**32,958**	42,352	-	**42,352**	22,817	-	**22,817**
Current portion of finance lease liability		137,458	-	**137,458**	144,090	-	**144,090**	145,048	-	**145,048**
Loan payable		-	-	**-**	111,111	-	**111,111**	152,775	-	**152,775**
		1,976,663	-	**1,976,663**	1,602,091	-	**1,602,091**	1,555,659	-	**1,555,659**
Non-current liabilities										
Rent inducement		175,329	-	**175,329**	92,535	-	**92,535**	55,140	-	**55,140**
Finance lease liability		60,652	-	**60,652**	161,907	-	**161,907**	198,110	-	**198,110**
Notes payable		250,000	-	**250,000**	-	-	**-**	-	-	**-**
Total Liabilities		2,462,644	-	**2,462,644**	1,856,533	-	**1,856,533**	1,808,909	-	**1,808,909**
Shareholders' Equity										
Share capital		1,757,643	-	**1,757,643**	1,757,643	-	**1,757,643**	1,757,643	-	**1,757,643**
Share-based payments reserve		256,858	-	**256,858**	256,858	-	**256,858**	256,858	-	**256,858**
Retained earnings (deficit)		(247,062)	-	**(247,062)**	117,359	-	**117,359**	514,488	-	**514,488**
Total Shareholders' Equity		1,767,439	-	**1,767,439**	2,131,860	-	**2,131,860**	2,528,989	-	**2,528,989**
Total Liabilities and Shareholders' Equity		$ 4,230,083	$ -	**$ 4,230,083**	$ 3,988,393	$ -	**$ 3,988,393**	$ 4,337,898	$ -	**$ 4,337,898**

Unaudited (Tabular amounts expressed in Canadian dollars, except number of shares)

18. Transition to IFRS (continued)

(b) Reconciliations of Canadian GAAP to IFRS (continued)

Reconciliation of Consolidated Statements of Operations and Comprehensive Loss under Canadian GAAP and IFRS for the following periods:

		Year ended September 30, 2011			Three months ended December 31, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 8,467,618	$ -	**$ 8,467,618**	$ 1,790,531	$ -	**$ 1,790,531**
Cost of sales		5,952,947	-	**5,952,947**	1,312,317	-	**1,312,317**
Gross profit		2,514,671	-	**2,514,671**	478,214	-	**478,214**
Selling and administrative expenses	**(b)(v)**	3,026,968	433,827	**3,460,795**	844,348	114,289	**958,637**
Depreciation expense	**(b)(v)**	433,827	(433,827)	**-**	114,289	(114,289)	**-**
Foreign exchange loss		13,524	-	**13,524**	28,782	-	**28,782**
		3,474,319	-	**3,474,319**	987,419	-	**987,419**
Operating loss		(959,648)	-	**(959,648)**	(509,205)	-	**(509,205)**
Finance cost		44,578	-	**44,578**	11,554	-	**11,554**
Loss before income taxes		(1,004,226)	-	**(1,004,226)**	(520,759)	-	**(520,759)**
Deferred income taxes		(242,676)	-	**(242,676)**	(123,630)	-	**(123,630)**
Net loss and total comprehensive loss for the period		(761,550)	-	**(761,550)**	(397,129)	-	**(397,129)**
Net loss per share							
Basic and diluted		$ (0.07)	$ -	**$ (0.07)**	$ (0.04)	$ -	**$ (0.04)**
Weighted average number of common shares outstanding							
Basic and diluted		10,220,187	-	**10,220,187**	10,220,187	-	**10,220,187**

18. Transition to IFRS (continued)

(b) Reconciliations of Canadian GAAP to IFRS (continued)

The following is a summary of the effects of differences between IFRS and Canadian GAAP on the Corporation's accounting policies, Consolidated Statements of Financial Position, and Consolidated Statements of Operations and Comprehensive Loss for the periods previously reported under Canadian GAAP, subsequent to the Transition Date to IFRS. The adoption of IFRS did not change the Corporation's actual cash flows, but has resulted in changes to the Corporation's Statements of Financial Position and Statements of Operations and Comprehensive Loss.

(i) Share-based payments

Under IFRS, the valuation of share options requires individual "tranche-based" valuations for those option plans with graded vesting, while Canadian GAAP allows a single valuation for all tranches. Therefore, under IFRS each instalment of option awards is treated as a separate option, and the fair value of each instalment is amortized over each instalment's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant. This change has no impact on the Corporation's statement of operations on transition to IFRS.

(ii) Property, plant and equipment

Under IFRS, property, plant and equipment may be accounted for using either a cost or revaluation model. The Corporation has elected to use the cost model for all classes of property, plant and equipment. This is consistent with the Corporation's accounting policy under Canadian GAAP and therefore has no impact on the balances of the Corporation's property, plant and equipment.

(iii) Impairment of assets

If there is an indication that an asset may be impaired, an impairment test must be performed. Under Canadian GAAP, this is a two-step impairment test in which (i) undiscounted future cash flows are compared to the carrying value; and (ii) if those undiscounted cash flows are less than the carrying value, the asset is written down to fair value. Under IFRS, an entity is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such a condition exists, the entity shall estimate the recoverable amount of an asset by performing a one-step impairment test, which requires a comparison of the carrying value of an asset to the higher of (1) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. In addition, IFRS requires property, plant and equipment to be assessed for impairment at the cash-generating unit ("CGU") level, rather than the reporting unit level considered by Canadian GAAP. As a result of this difference, in principle, impairment write downs may be more likely under IFRS than under Canadian GAAP.

Also under IFRS, when circumstances have changed such that impairments have been reduced, any previous impairment losses on assets other than goodwill and indefinite-lived intangible assets should be reversed while Canadian GAAP prohibits the reversal of impairment losses.

The Corporation has concluded that the adoption of these standards does not result in a change to the carrying value of the Corporation's property, plant and equipment on transition to IFRS.

18. Transition to IFRS (continued)

(b) Reconciliations of Canadian GAAP to IFRS (continued)

(iv) Provisions

Under Canadian GAAP, a provision is required to be recorded in the financial statements when required payment is considered “likely” and can be reasonably estimated. The threshold for recognition of provisions under IFRS is lower than that under Canadian GAAP as provisions must be recognized if required payment is “probable”. Therefore, in principle, it is possible that there may be provisions which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

There are also differences in the measurement of provisions under IFRS and Canadian GAAP, including the requirement under IFRS for provisions to be discounted where material and the methodology for determining the best estimate where there is a range of equally possible outcomes. Under IFRS, the mid-point of the range is used, whereas Canadian GAAP applies the low end of the range.

The Corporation has concluded that there is no adjustment to the Corporation’s consolidated financial statements on transition to IFRS for the measurement of provisions; however, certain reclassifications have been made in the statements of financial position in classifying provisions.

(v) Functional presentation

Under IFRS, the Statements of Operations and Comprehensive Loss must be presented on a basis either by function or by nature. Under Canadian GAAP, the Statements of Operations and Comprehensive Loss could be presented using a mix of both function and nature of expenditure. The Corporation has elected to use the functional classification basis for the presentation of its Consolidated Statements of Operations and Comprehensive Loss. As a result, the operating expense of depreciation, which is presented separately under Canadian GAAP, has been reallocated to selling and administrative expenses under IFRS.

Management's Discussion and Analysis

This discussion and analysis of financial condition and results of operations ("MD&A") of Iplayco Corporation Ltd. ("Iplayco", "the Corporation", "we", "us", or "our") is prepared as of February 17, 2012 and should be read together in conjunction with the unaudited condensed consolidated interim financial statements and the accompanying notes for the three months ended December 31, 2011 and with the audited consolidated financial statements and accompanying notes for the year ended September 30, 2011.

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

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

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

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

Overview

Our business is carried out through the Corporation's wholly owned subsidiaries International Play Company Inc. and Outdoor Play Company Inc. We operate in two business segments: (1) We design, manufacture and install customized 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 December 31, 2011 ("Q1-12") decreased by 0.3% to $1,784,328 from $1,790,531 for the three-month period ended December 31, 2010 ("Q1-11"). Gross profit percentage was 38.4% of sales in Q1-12 compared to 26.7% in Q1-11. Operating expenses were $877,258 or 49.2% of sales in Q1-12 compared to $998,973 or 55.8% of sales in Q1-11. Net loss in Q1-12 was $144,856, or loss per share of $0.01, compared to net loss of $397,129, or loss per share of $0.04, in Q1-11.

Manufacturing Operations

The time required to manufacture, deliver, and install playgrounds is largely dependent on the size and complexity of the play structures ordered by our customers. Factors such as customer location, capital expenditure budgets, and theme requirements, may cause project completion timelines to vary from 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 decreased marginally by 0.2% to $1,406,403 in Q1-12 from $1,409,897 in Q1-11. This decrease is due to the combined effect of lower sales to our customers located in the Americas, but excluding Canada, who accounted for sales of $912,173 (or 64.9% of total Manufacturing sales) in Q1-12, compared to $996,066 (or 70.6%) in Q1-11, and lower sales to our customers located outside of the Americas, who accounted for sales of $311,069 (or 22.1%) in Q1-12, compared to $333,279 (or 23.6%) in Q1-11, partially offset by higher sales to our customers located in Canada who accounted for sales of $183,161 (or 13.0%) in Q1-12, compared to $80,552 (or 5.7%) in Q1-11.

We generate a significant portion of our total sales in 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 taking measures to broaden our customer base in markets located outside of North America.

We expected sales generated by our Manufacturing operations in Q1-12 to be in-line with Q3-11 however we did not meet expectations due primarily to lower than expected progress to completion on two larger orders. Sales by our Manufacturing operations decreased to $1,406,403 in Q1-12 compared to $1,582,484 in Q3-11. During Q4-11 we entered into two 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) and we continue to expect that a substantial portion of these two contracts will favourably impact our operating results in 2012. Based on our updated sales forecast, we are expecting Q2-12 sales to increase moderately as compared to Q1-12.

Gross profit percentage increased to 36.1% of sales from our Manufacturing operations in Q1-12 from 21.3% in Q1-11. This increase is due primarily to sales mix resulting from higher margin sales in Q1-12 as compared to Q1-11. We expected our gross profit percentage to increase marginally in Q1-12 as compared to Q4-11 however we exceeded expectations due primarily to margins on our larger sales orders. Gross profit percentage increased to 36.1% of sales from our Manufacturing operations in Q1-12 from 30.8% in Q4-11. Based on our updated sales-mix forecast, we are expecting gross profit percentage in Q2-12 to remain in-line with Q1-12.

Our Manufacturing operations generated a net loss of $177,133 in Q1-12 compared to a net loss of $389,260 in Q1-11. The decrease in net loss is due primarily to sales mix resulting in a considerably higher gross profit in Q1-12 as compared to Q1-11. We expected our net operating results in Q1-12 to remain in-line with Q4-11 however we did not meet expectations due primarily to lower than expected sales volume. Our Manufacturing operations generated a net loss of $177,133 in Q1-12 compared to net income of $132,575 in Q4-11. Based on our updated forecast, we are expecting the net operating results to improve considerably in Q2-12 as compared to Q1-12.

Family Entertainment Centre Operations

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

Sales generated by our FEC operations decreased marginally by 0.7% to $377,925 in Q1-12 from $380,634 in Q1-11 due primarily to a lower volume of customer visits. We expect sales in Q2-12 to increase moderately as compared to Q1-12 due primarily to seasonality.

Our FEC operations generated net income of $32,277 in Q1-12, compared to a net loss of $7,869 in Q1-11. The change in net operating results is due primarily to lower selling and administrative expenses in Q1-12 as compared to Q1-11. We expect net operating results in Q2-12 to increase moderately as compared to Q1-12 due primarily to higher sales.

Net operating results from our FEC operations will continue to fluctuate from quarter to quarter based on seasonality factors, such as weather conditions and school holidays. Seasonality trends have developed in sales and net operating results, with Q2 historically generating the strongest operating results, due primarily to 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.

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 months ended December 31, 2011 and 2010, expressed as a percentage of total sales:

	Three months ended December 31, 2011			Three months ended December 31, 2010		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales to external customers	**78.8 %**	**21.2 %**	**100.0 %**	78.7 %	21.3 %	100.0 %
Cost of sales	**50.4**	**11.2**	**61.6**	62.0	11.3	73.3
Gross profit	**28.4**	**10.0**	**38.4**	16.7	10.0	26.7
Selling and administrative expenses	**39.0**	**8.0**	**47.0**	42.9	10.7	53.6
Foreign exchange loss	**0.9**	**-**	**0.9**	1.6	-	1.6
Finance cost	**1.1**	**0.2**	**1.3**	0.1	0.5	0.6
Income taxes	**(2.6)**	**(0.1)**	**(2.7)**	(6.1)	(0.8)	(6.9)
Net income (loss)	**(10.0) %**	**1.9 %**	**(8.1) %**	(21.8) %	(0.4) %	(22.2) %

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

	Three months ended December 31, 2011			Three months ended December 31, 2010		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**10.3 %**	**21.2 %**	**31.5 %**	4.5 %	21.3 %	25.8 %
Americas	**51.1**	**-**	**51.1**	55.6	-	55.6
Other	**17.4**	**-**	**17.4**	18.6	-	18.6
	78.8 %	**21.2 %**	**100.0 %**	78.7 %	21.3 %	100.0 %

Results of Operations – Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

Sales

Sales decreased marginally by $6,203 (or 0.3%) to $1,784,328 in Q1-12 from $1,790,531 in Q1-11 due to a decrease in sales of $3,494 from our Manufacturing operations and a decrease of $2,709 from our FEC operations.

In Q1-12, two significant customers accounted for 24.8% of our total sales. In Q1-11, three significant customers accounted for 47.8% of our total sales.

We expected our sales to decrease considerably in Q1-12 as compared to Q4-11 due primarily to reduced sales orders from our Manufacturing operations. Sales decreased by $1,637,930 (or 47.9%) to $1,784,328 in Q1-12 from $3,422,258 in Q4-11. Based on our updated sales forecasts, we expect sales from our Manufacturing and FEC operations to increase moderately in Q2-12 as compared to Q1-12.

Gross Profit

Gross profit percentage in Q1-12 is 38.4% of sales, compared to 26.7% in Q1-11. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 36.1% in Q1-12, compared to 28.4% in Q1-11. Higher margins from our larger sales orders contributed to significantly increase gross profit percentage in Q1-12 as compared to Q1-11.

We expected our gross profit percentage to increase moderately in Q1-12 as compared to Q4-11, due primarily to sales mix from our Manufacturing operations. Gross profit percentage increased significantly to 38.4% in Q1-12, compared to 30.9% in Q4-11. Based on our updated sales-mix forecast, we expect our gross profit percentage in Q2-12 to remain in-line with Q1-12 due primarily to expected margins from our Manufacturing operations.

Operating Expenses

Operating expenses decreased in Q1-12 by $121,715 (or 12.2%) to $877,258, from $998,973 in Q1-11. This decrease is due primarily to lower selling and administrative expenses from our Manufacturing operations in Q1-12 as compared to Q1-11.

We expected our operating expenses to increase moderately, as a percentage of total sales, in Q1-12 as compared to Q4-11, due primarily to lower forecast sales for our Manufacturing operations in Q1-12 as compared to Q4-11. Our operating expenses in Q1-12 amounted to 49.2% of total sales, compared to 27.4% in Q4-11. Based on our updated forecast, we are expecting operating expenses in Q2-12 to decrease moderately, as a percentage of total sales, compared to Q1-12, due primarily to higher forecast sales for our Manufacturing operations in Q2-12 as compared to Q1-12.

Income Taxes

The income tax recovery of $47,394 in Q1-12 is comprised of a deferred income tax recovery of $46,200 on the loss before tax from our Manufacturing operations, and a deferred income tax recovery of $1,194 from our FEC operations. The income tax recovery of $123,630 in Q1-11 is due to deferred income tax recoveries of $109,644 and $13,986 from our Manufacturing and FEC operations, respectively.

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

Net Operating Results

Net loss and total comprehensive loss in Q1-12 is $144,856, or loss per share of $0.01, compared to net loss and total comprehensive loss of $397,129, or loss per share of $0.04, in Q1-11. This decrease in net loss is due primarily to the net loss of $177,133 generated by our Manufacturing operations in Q1-12 as compared to the net loss of 389,260 in Q1-11.

We expected our net operating results in Q1-12 to remain in-line with Q4-11, due primarily to expected net income from our Manufacturing operations. Our Manufacturing operations generated a net loss of $177,133 in Q1-12, compared to net income of $132,575 in Q4-11. Based on our updated forecasts, we are expecting stronger net operating results in Q2-12 as compared to Q1-12 for our Manufacturing and FEC 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 unaudited condensed consolidated interim financial statements for the three months ended December 31, 2011. 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.

	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	**Q1-12**
CONSOLIDATED	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	**31-Dec-11**
Sales	$1,935,266	$1,712,123	$ 2,492,158	$ 1,790,531	$ 1,319,650	$ 1,935,179	$ 3,422,258	**$1,784,328**
Cost of sales	1,290,633	1,136,654	1,423,955	1,312,317	845,835	1,430,395	2,364,400	**1,099,320**
Gross profit	644,633	575,469	1,068,203	478,214	473,815	504,784	1,057,858	**685,008**
Selling and administrative expenses	853,156	891,815	1,034,204	958,637	719,611	837,951	944,727	**839,586**
Foreign exchange loss (gain)	11,685	(27,437)	3,935	28,782	5,333	(5,305)	(15,417)	**15,328**
Finance cost	14,288	13,389	12,071	11,554	12,019	11,800	9,205	**22,344**
Income taxes	(64,820)	(9,321)	(63,846)	(123,630)	(64,745)	(104,747)	50,446	**(47,394)**
Net income (loss)	$ (169,676)	$ (292,977)	$ 81,839	$ (397,129)	$ (198,403)	$ (234,915)	$ 68,897	**$ (144,856)**
Basic and diluted earnings (loss) per share	(0.02)	(0.03)	0.01	(0.04)	(0.02)	(0.02)	0.01	**(0.01)**

	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	**Q1-12**
MANUFACTURING	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	**31-Dec-11**
Sales	$1,530,242	$1,368,469	$ 2,191,177	$ 1,409,897	$ 892,856	$ 1,582,484	$ 3,147,834	**$1,406,403**
Cost of sales	1,079,722	963,611	1,244,699	1,109,724	643,571	1,244,564	2,177,564	**899,051**
Gross profit	450,520	404,858	946,478	300,173	249,285	337,920	970,270	**507,352**
Selling and administrative expenses	695,442	738,686	883,968	767,879	570,857	692,695	777,162	**696,295**
Foreign exchange loss (gain)	11,685	(27,437)	3,935	28,782	5,333	(5,305)	(15,417)	**15,328**
Finance cost	1,213	1,354	1,458	2,416	4,212	5,361	4,139	**19,062**
Income taxes	(71,333)	(7,641)	(20,464)	(109,644)	(72,441)	(89,933)	71,811	**(46,200)**
Net income (loss)	$ (186,487)	$ (300,104)	$ 77,581	$ (389,260)	$ (258,676)	$ (264,898)	$ 132,575	**$ (177,133)**

	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	**Q1-12**
FEC	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	**31-Dec-11**
Sales	$ 405,024	$ 343,654	$ 300,981	$ 380,634	$ 426,794	$ 352,695	$ 274,424	**$ 377,925**
Cost of sales	210,911	173,043	179,256	202,593	202,264	185,831	186,836	**200,269**
Gross profit	194,113	170,611	121,725	178,041	224,530	166,864	87,588	**177,656**
Selling and administrative expenses	157,714	153,129	150,236	190,758	148,754	145,256	167,565	**143,291**
Finance cost	13,075	12,035	10,613	9,138	7,807	6,439	5,066	**3,282**
Income taxes	6,513	(1,680)	(43,382)	(13,986)	7,696	(14,814)	(21,365)	**(1,194)**
Net income (loss)	$ 16,811	$ 7,127	$ 4,258	$ (7,869)	$ 60,273	$ 29,983	$ (63,678)	**$ 32,277**

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 consolidated interim financial statements and MD&A.

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

- The decrease in net operating results from 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 lower sales and lower gross profit percentage in Q1-11 compared to Q4-10.
- The increase in net operating results from Q1-11 to Q2-11 is due primarily to higher gross profit percentage and 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 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.
- The decrease in net operating results from Q4-11 to Q1-12 is due primarily to lower sales, partially offset by higher gross profit percentage and lower operating expenses in Q1-12 compared to Q4-11.

International Financial Reporting Standards ("IFRS")

Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. The three months ended December 31, 2011 is our first reporting period under IFRS. Due to the requirement to present comparative financial information, our effective transition date is October 1, 2010.

Our IFRS conversion plan is comprised of four phases: (1) Assessment and Planning; (2) Design; (3) Implementation; and (4) Post-Implementation. We have completed the first three phases of our conversion plan and are now into our fourth phase. The Post-Implementation phase will continue in future periods, as outlined below.

Our consolidated financial statements for the year ended September 30, 2012 will be our first annual financial statements that comply with IFRS. As this will be our first year of reporting under IFRS, IFRS 1 – *First-time Adoption of IFRS* is applicable. In accordance with IFRS 1, we have applied IFRS retrospectively as of October 1, 2010, for comparative purposes, as if IFRS had always been in effect, subject to certain mandatory exceptions and optional exemptions applicable to us, discussed below.

Management and the Audit Committee have approved the Corporation's IFRS accounting policies which are presented in our unaudited condensed consolidated interim financial statements for the three months ended December 31, 2011. However, as IFRS are evolving and the International Accounting Standards Board ("IASB") has several ongoing projects and may issue new accounting standards throughout 2012, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known which could also affect the differences currently identified between Canadian GAAP and IFRS.

Transitional Elections under IFRS 1 – First Time Adoption

The following transitional provisions were adopted effective October 1, 2010:

- *Share Based Payments (IFRS 2, Share Based Payment)*: As allowed, we did not restate share based payment balances in relation to fully vested awards of share based payments prior to October 1, 2010.
- *Property, plant and equipment*: No transitional elections were taken. The Corporation has retained assets at historical cost upon transition rather than taking the allowed election to recognize assets at fair value.

Opening Statement of Financial Position under IFRS

Note 18 to the Corporation's condensed consolidated interim financial statements summarizes the quantitative impact on the consolidated statement of financial position of our transition to IFRS at October 1, 2010. Differences have been identified with reference to IFRS effective at the date of this MD&A. In the event that new or amended accounting standards or interpretations become effective prior to the inclusion of the Corporation's statement of financial position in its first annual audited IFRS financial statements at September 30, 2012, the differences currently identified between historic Canadian GAAP and IFRS may change.

IFRS Accounting Policies Choices

In addition to the effects of transition to IFRS described above, the following main accounting policy choices under IFRS apply to the Corporation effective October 1, 2011, with comparatives presented for 2010:

- *Share-based payments*: All share-based payments will be valued at fair value under IFRS using an option-pricing model. The Corporation has selected the Black-Scholes option-pricing model. This is consistent with the Corporation's current accounting policy. However, under IFRS, the valuation of share options requires individual "tranche-based" valuations for those option plans with graded vesting, while former Canadian GAAP allows a single valuation for all tranches. Therefore, under IFRS each instalment of option awards will be treated as a separate option, and the fair value of each instalment will be amortized over each instalment's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant. This change has had no impact on the Corporation's statement of operations on transition to IFRS.
- *Property, Plant and Equipment ("PP&E")*: Under IFRS, PP&E may be accounted for using either a cost or revaluation model. We have elected to use the cost model under IFRS for all classes of PP&E. As this is consistent with our historic accounting policy under former Canadian GAAP, this election has had no impact on our PP&E balances.
- *Impairment of Assets*: If there is an indication that an asset may be impaired, an impairment test must be performed. Under former Canadian GAAP, this is a two-step impairment test in which (i) undiscounted future cash flows are compared to the carrying value; and (ii) if those undiscounted cash flows are less than the carrying value, the asset is written down to fair value. Under IFRS, an entity is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such a condition exists, the entity shall estimate the recoverable amount of the asset by performing a one-step impairment test, which requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. In addition, IFRS requires PP&E to be assessed for impairment at the cash-generating unit ("CGU") level, rather than the reporting unit level considered by former Canadian GAAP. As a result of this difference, in principle, impairment write downs may be more likely under IFRS than are currently identified and recorded under Canadian GAAP. The extent of any new write downs,

however, may be partially offset by the requirement under IAS 36 – *Impairment of Assets*, to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. We have concluded that the adoption of these standards has not resulted in a change to the carrying value of our PP&E on transition to IFRS at October 1, 2010.

- *Provisions*: Under former Canadian GAAP, a provision is required to be recorded in the financial statements when required payment is considered "likely" and can be reasonably estimated. The threshold for recognition of provisions under IFRS is lower than under Canadian GAAP as provisions must be recognized when required payment is considered "probable". Therefore, in principle, it is possible that there may be provisions which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (i.e. IFRS uses the mid-point of the range, whereas Canadian GAAP use the low end of the range), and the requirement under IFRS for provisions to be discounted when material. We have reviewed our provisions and have concluded that there is no adjustment to our financial statements on transition to IFRS arising from the application of provisions recognized and measured under IFRS.
- *Functional Presentation*: Under IFRS, operating expenses must be presented either by function or by nature (i.e. type of expenditure). Under former Canadian GAAP, operating expenses could be presented using a mix of both function and nature. We have elected to present our statements of operations by function. As a result, our depreciation expense which was presented separately in the statements of operations under former Canadian GAAP has been reallocated to selling and administrative expenses under IFRS.

We continue to monitor standards to be issued by the IASB which may become effective at the end of our first annual IFRS reporting period on September 30, 2012.

Other Effects of Transition to IFRS

In addition to the above noted effects of transition to IFRS on our financial statements and accounting policies, we have also reviewed the effects of transition to IFRS on our information technology and data systems, internal controls over financial reporting, business processes, contractual arrangements and compensation arrangements and have made the appropriate adjustments to transition from former Canadian GAAP to IFRS.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities in Q1-12 amounted to $180,607, compared to cash used in operating activities of $288,146 in Q1-11. This increase is due primarily to a decrease in net loss and an increase in change in non-cash operating working capital in Q1-12 as compared to Q1-11.

We expect cash flows from our operating activities to 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 in Q1-12 amounted to $61,366, compared to $40,443 in Q1-11. This increase is due to an increase in restricted cash of $50,000, partially offset by a decrease in purchases of property, plant and equipment in Q1-12 as compared to Q1-11.

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.

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 in Q1-12 amounted to $13,797, compared to cash used by financing activities of $78,825 in Q1-11. This increase is due primarily to cash inflows of $50,000 from notes payable (see "Related Party Transactions") and a decrease in cash outflows of $41,664 from repayment of the loan payable.

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.

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

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repayment of our 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 December 31, 2011, our cash balance was nil, excluding $300,000 of restricted cash (see "Related Party Transactions") (September 30, 2011 – cash balance of nil, excluding restricted cash of $250,000).
- At December 31, 2011, our accounts receivable balance amounted to $953,690, compared to $741,630 at September 30, 2011.
- 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 favourably impact our operating results in 2012 and we started receiving progress payments in December 2011.
- 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 favourably impact our operating results in 2012 and we expect to receive progress payments starting in March 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 favourably impact our operating results in 2012 and we started receiving progress payments in December 2011.

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 December 31, 2011, $380,000 has been drawn on this facility (September 30, 2011 – $85,000 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. We do not enter into foreign exchange forward contracts for speculative purposes.

In Q1-12 and Q1-11 we did not enter into any foreign exchange forward contracts.

At September 30, 2011, we had one foreign exchange forward contract outstanding with a commitment to sell $275,000 of U.S. dollars on or before November 30, 2011 at a rate of $1.0325. 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.

Credit risk

Our credit risk is primarily attributable to our trade receivables. Trade receivables are disclosed in our consolidated statements of financial position 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 our trade receivables 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.

At December 31, 2011, three customers represent approximately 49% of the trade receivables balance (September 30, 2011 – four customers representing approximately 60%). 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 these assets are held through large Canadian financial institutions with high investment grade ratings.

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 finance lease obligations and the notes payable bear interest at fixed rates.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. We manage our liquidity risk through maintaining cash and access to credit facilities, as outlined above in "Liquidity and Capital Resources". 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.

Legal Proceedings

We are not engaged in any legal actions.

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%, and 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% ("Notes Payable"). The Corporation invested the proceeds from the Notes Payable 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, expiring on December 31, 2012, in favour of Export Development Canada ("Letter of Credit") to underwrite a performance bond of U.S. $1,444,000 for a customer of the Corporation ("Performance Bond"). On October 19, 2011, the Performance Bond of U.S. $1,444,000 (or $1,473,169 – approximate value in Canadian dollars at October 19, 2011) was issued to the Corporation's customer ("Holder of the Performance Bond"), and on November 17, 2011, 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. The Corporation is expected to complete its obligations under this contract on or after December 31, 2012, at which time the Performance Bond would expire and payment of interest and capital from the Notes Payable would become due.

Outstanding Share Capital

At December 31, 2011 and February 17, 2012, there are 10,220,187 common shares issued and outstanding and there are no share options outstanding.

Cautionary Note Regarding Forward-looking Statements

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