Q1
2010

Consolidated financial statements of

Iplayco Corporation Ltd.

As at and for the three months ended December 31, 2009

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

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.
Consolidated balance sheets

		December 31, 2009		September 30, 2009
		(Unaudited)		
Assets				
Current				
Cash (Note 3)	**$**	**227,025**	$	420,010
Accounts receivable		**831,054**		760,445
Inventory (Note 4)		**1,185,649**		1,160,467
Prepaid expenses		**62,827**		62,324
		2,306,555		2,403,246
Property, plant, and equipment		**2,334,288**		2,357,092
Future income taxes		**65,083**		67,773
	$	**4,705,926**	$	4,828,111
Liabilities				
Current				
Accounts payable	**$**	**958,944**	$	943,852
Customer deposits		**14,840**		184,140
Current portion of rent inducement		**22,817**		22,817
Current portion of capital lease obligations (Note 5)		**143,496**		122,077
Loan payable		**277,776**		319,443
		1,417,873		1,592,329
Rent inducement		**72,253**		77,958
Capital lease obligations (Note 5)		**305,997**		293,503
		1,796,123		1,963,790
Shareholders' equity				
Capital stock (Note 6)		**1,757,643**		1,757,643
Contributed surplus		**256,858**		256,858
Retained earnings		**895,302**		849,820
		2,909,803		2,864,321
	$	**4,705,926**	$	4,828,111

Approved by the Directors

"Franco Aquila"
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"Terence Forbes"
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See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Consolidated statements of income, comprehensive income and retained earnings

Three months ended December 31

(Unaudited)

		2009		2008
Sales	$	**1,801,951**	$	3,463,146
Cost of sales		**1,017,193**		2,064,076
Gross profit		**784,758**		1,399,070
Expenses				
Selling and administration		**582,902**		802,223
Amortization		**108,257**		35,473
Foreign exchange loss		**5,994**		217,894
Interest expense		**15,440**		13,963
		712,593		1,069,553
Income before income taxes		**72,165**		329,517
Income tax expense				
Current		**23,993**		102,150
Future		**2,690**		-
		26,683		102,150
Net income and comprehensive income for the period		**45,482**		227,367
Retained earnings at beginning of the period		**849,820**		1,048,811
Retained earnings at end of the period	$	**895,302**	$	1,276,178
Earnings per share				
Basic	$	**0.00**	$	0.02
Diluted	$	**0.00**	$	0.02
Weighted average number of common shares				
Basic		**10,220,187**		10,191,144
Diluted		**10,220,187**		10,191,144

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Consolidated statements of cash flows

Three months ended December 31

(Unaudited)

	2009	2008
Operating activities		
Net income for the period	$ 45,482	$ 227,367
Items not involving cash		
Amortization	108,257	35,473
Future income taxes	2,690	-
Non-hedging financial derivatives	(164)	25,532
Rent inducement	(5,705)	35,366
Unrealized foreign exchange loss (gain)	7,349	(53,482)
	157,909	270,256
Change in non-cash operating working capital		
Accounts receivable	(77,958)	(565,900)
Inventory	(25,182)	225,635
Prepaid expenses	(503)	(5,039)
Accounts payable	15,256	459,883
Customer deposits	(169,300)	(545,039)
	(257,687)	(430,460)
	(99,778)	(160,204)
Investing activities		
Net change in term deposits	-	400,000
Purchase of property, plant and equipment	(19,192)	(924,287)
	(19,192)	(524,287)
Financing activities		
Proceeds from exercise of stock options (Note 6)	-	85,838
Repayment of loan payable	(41,667)	(41,667)
Repayment of capital lease obligations	(32,348)	(23,608)
	(74,015)	20,563
Change in cash during the period	(192,985)	(663,928)
Cash at beginning of the period	420,010	1,163,028
Cash at end of the period	$ 227,025	$ 499,100

Supplemental cash flow information (Note 8)

See accompanying notes to the consolidated financial statements

1. Basis of presentation

These interim consolidated financial statements should be read in conjunction with the audited financial statements for the Company's most recently completed fiscal period ended September 30, 2009. They do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. They have been prepared using the same accounting policies and methods as those used in the September 30, 2009 accounts.

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

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

2. Future changes in accounting policies

In December 2009, the Accounting Standard Board issued Emerging Issues Committee Abstract 175, *Multiple Deliverable Revenue Arrangements*, addressing how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This Abstract also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This Abstract does not address when the criteria for revenue recognition are met or provide revenue recognition guidance for a given unit of accounting. The provisions in this Abstract may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. The Company is evaluating the effect of this new Abstract on its consolidated financial statements.

3. Operating loan

On June 4, 2009, the operating loan facility was renewed with a limit of $500,000, subject to certain margin requirements, bears interest at prime plus 1.50% and is secured by a general security agreement covering all personal property of the Company. At December 31, 2009, $140,000 has been drawn on this facility (September 30, 2009 - no amounts drawn), and is presented net of $367,025 in cash.

4. Inventory

	December 31, 2009	September 30, 2009
Raw materials	$ 1,122,254	$ 1,046,263
Finished goods	-	62,807
Work in progress	63,395	51,397
	$ 1,185,649	$ 1,160,467

The inventories recognized as an expense during the three months ended December 31, 2009 amount to $1,042,375 (2008 - $1,838,441).

5. Capital lease obligations

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

	December 31, 2009	September 30, 2009
2010	$ 134,853	$ 157,275
2011	170,916	148,386
2012	149,553	127,018
2013	61,197	51,809
2014	1,841	1,841
	518,360	486,329
Less amount representing interest at 9.53% (September 30, 2009 - 9.86%)	(68,867)	(70,749)
	449,493	415,580
Less current portion	(143,496)	(122,077)
	$ 305,997	$ 293,503

6. Capital stock

Authorized and issued

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

	Number of shares	Amount
Authorized		
Unlimited Common shares, without par value		
Unlimited Preferred shares, without par value		
Issued, common shares		
Balance, September 30, 2009 and December 31, 2009	**10,220,187**	**$ 1,757,643**

During the three months ended December 31, 2008, 381,500 common shares were issued on the exercise of stock options for proceeds of $85,838. The proceeds, together with the $52,266 fair value of these options previously credited to contributed surplus, has been credited to capital stock.

Stock options

The Company has an incentive stock option plan (the "Option Plan"). Under the terms of this Option Plan the Board of Directors may grant incentive stock options to directors and employees of the Company and the exercise price is generally determined by reference to the market price of the Company's stock on the grant date. Vesting and expiry of options may vary at the discretion of the committee, subject to the rules of the stock exchange. The contractual life of the options is generally for one year. The total number of shares issuable pursuant to the Option Plan cannot exceed 10% of the issued and outstanding shares. The maximum number of options available to be granted under the Option Plan as at December 31, 2009 and 2008 is 1,022,018.

A summary of stock option activity follows:

	Stock options	
		Weighted average
	Number	Price
Outstanding at September 30, 2009	991,500	$ 0.26
Expired	(991,500)	$ 0.26
Outstanding at December 31, 2009	**-**	$ -

Escrowed shares

During the three months ended December 31, 2009, 388,725 (2008 - 388,725) shares were released from escrow. At December 31, 2009, NIL (September 30, 2009 – 388,725) common shares are held in escrow. The release of the 388,725 escrowed shares is governed by the underlying escrow and pooling agreements.

7. Segmented information and concentration of sales

(a) Business segments

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

The accounting policies of the two business segments are the same as those described in Note 1 to the consolidated financial statements. Inter-segment transactions are eliminated upon consolidation.

Information related to the two business segments operations for the three months ended December 31, 2009 is as follows:

	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 1,498,579	$ 303,372	$ 1,801,951
Cost of Sales	827,605	189,588	1,017,193
Gross Profit	670,974	113,784	784,758
Selling and administrative expenses	492,836	90,066	582,902
Amortization expense	54,697	53,560	108,257
Foreign exchange loss	5,994	-	5,994
Interest expense	1,478	13,962	15,440
Income tax expense (recovery)	35,943	(9,260)	26,683
Net income (loss)	$ 80,026	$ (34,544)	$ 45,482
Total assets	$ 3,176,733	$ 1,529,193	$ 4,705,926
Acquisition of property, plant and equipment	$ 37,590	$ 47,853	$ 85,443

7. Segmented information and concentration of sales (continued)

Information related to the two business segments operations for the three months ended December 31, 2008 is as follows:

		Manufacturing		Family Entertainment Centre		Total
Sales to external customers	$	3,446,199	$	16,947	$	3,463,146
Cost of Sales		2,010,298		53,778		2,064,076
Gross Profit (loss)		1,435,901		(36,831)		1,399,070
Selling and administrative expenses		745,859		56,364		802,223
Amortization expense		23,826		11,647		35,473
Foreign exchange loss		217,894		-		217,894
Interest expense		1,158		12,805		13,963
Income tax expense (recovery)		137,444		(35,294)		102,150
Net income (loss)	$	309,720	$	(82,353)	$	227,367
Total assets	$	4,112,730	$	2,108,953	$	6,221,683
Acquisition of property, plant and equipment	$	521,537	$	432,113	$	953,650

7. Segmented information and concentration of sales (continued)

(b) Geographic and customer information

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

The Company attributes 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,	**2009**	2008
Sales		
Canada	**$ 369,519**	$ 608,764
United States	**1,174,927**	1,565,011
Europe	**63,261**	176,898
Middle East	**74,142**	1,035,260
Asia Pacific	**-**	8,860
Latin America	**120,102**	68,353
	$ 1,801,951	$ 3,463,146

During the three months ended December 31, 2009, two customers accounted for 26% and 18%, respectively, of the Company's total sales (December 31, 2008 – one customer accounted for 25%).

8. Supplemental cash flow information

Three months ended December 31,	**2009**	2008
Interest paid	**$ 15,440**	$ 21,485
Non-cash transactions - capital leases	**$ 66,261**	$ -

9. Reclassification

Certain comparative figures for the consolidated financial statements as at December 31, 2008 have been reclassified to conform to the December 31, 2009 presentation.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Iplayco Corporation Ltd. ("Iplayco" or the "Company") provides information for the three months ended December 31, 2009, and up to and including February 5, 2010. This MD&A should be read together with our unaudited interim consolidated financial statements and the accompanying notes for the three months ended December 31, 2009 (the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in Canadian dollars.

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

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

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

Overview

Our business is carried out through Iplayco's wholly owned subsidiaries International Play Company Inc. and Outdoor Play Company Inc. We operate in two business segments: (1) We manufacture custom designed children's indoor and outdoor play structures from our plant in Langley, British Columbia ("Manufacturing" or "MFG"); and (2) We own and operate a family entertainment centre in Langley, British Columbia ("Family Entertainment Centre" or "FEC"). Our FEC began operations in December 2008.

Consolidated Results

Sales for three months ended December 31, 2009 ("Q1-10") decreased by 48.0% to $1,801,951 compared to $3,463,146 for the three months ended December 31, 2008 ("Q1-09"). Gross profit was 43.6% of sales in Q1-10, compared to 40.4% in Q1-09. Operating expenses were $712,593, or 39.5% of sales, in Q1-10, compared to $1,069,553, or 30.9% of sales, in Q1-09. Net earnings in Q1-10 were $45,482, or diluted earnings per share of $0.00, compared to net earnings of $227,367, or diluted earnings per share of $0.02 in Q1-09.

Manufacturing

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

Sales generated by our Manufacturing operations decreased by 56.5% in Q1-10 to $1,498,579 from $3,446,199 in Q1-09. The decrease in sales was due primarily to a combination of lower sales to our U.S. customers, who accounted for $1,174,927 (or 78.4%) of total Manufacturing sales in Q1-10 as compared to $1,565,011 (or 45.4%) in Q1-09, and lower sales to our customers in the Middle East, who accounted for $74,142 (or 4.9%) of total Manufacturing sales in Q1-10 as compared to $1,035,260 (or 30.0%) in Q1-09.

Since a significant portion of our total sales are from the U.S., our Manufacturing operations continue to be affected by the downturn in the U.S. economy. 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 continuing to rationalize productions costs in order to improve our competitive pricing, and we expect to continue our marketing activities through attendance at international trade shows in an effort to increase sales, and broaden our customer base.

Although the general economic environment remains very challenging, we expect that for the three months ending March 31, 2010 ("Q2-10"), sales from our Manufacturing operations will increase as compared to Q1-10, mainly as a result of an increase in the number of sales quotes submitted and general sales activity from our U.S. customers who account for a significant portion of our sales.

Despite lower sales in Q1-10 as compared to Q1-09, our gross profit increased to 44.8% of our Manufacturing sales in Q1-10, compared to 41.7% in Q1-09. This improvement was due primarily to the combined effect of sales mix and implementing various labour cost reduction measures, including the decrease in pre-assembly costs for smaller and less complex play structures. In Q1-10, sales mix contributed favourably to our gross profit because sales of smaller play structures, which typically generate higher margins, increased by approximately 70% as compared to Q1-09.

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

In Q1-10, the Manufacturing operations generated net income of $80,026 as compared to net income of $309,720 in Q1-09, due to significantly lower sales in Q1-10 as compared to Q1-09.

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

Family Entertainment Centre

On December 19, 2008, our FEC began its operations. Our decision to enter into the consumer entertainment business was to create a new sales stream that would stabilize earnings from our Manufacturing operations, which as described above, are inherently subject to fluctuations from certain market risks.

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

Our FEC generated sales of $303,372 and incurred cost of sales and operating expenses of $347,176, which resulted in a net loss of $34,544 in Q1-10, as compared sales of $16,947, cost of sales and operating expenses of $134,594, and a net loss of $82,353 in Q1-09.

During 2010, we expect that sales from our FEC operations will increase as compared to Q1-10, primarily due to various marketing campaigns, which include new package offers for groups and other sales incentives. We also expect that our operating expenses will decrease as a percentage of sales, since the Q1-09 expenses included various start-up costs which will not recur in 2010.

Our business plan for 2010 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 likely 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, 2009 and 2008, expressed as a percentage of total sales:

	2009						2008					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**83.2**	**%**	**16.8**	**%**	**100.0**	**%**	99.5	%	0.5	%	100.0	%
Cost of sales	**45.9**		**10.5**		**56.4**		58.0		1.6		59.6	
Gross profit	**37.3**		**6.3**		**43.6**		41.5		(1.1)		40.4	
Selling and administrative expenses	**27.4**		**5.0**		**32.4**		21.5		1.6		23.1	
Foreign exchange loss	**0.3**		**-**		**0.3**		6.3		-		6.3	
Interest expense	**0.1**		**0.8**		**0.9**		-		0.4		0.4	
Income tax expense (recovery)	**2.0**		**(0.5)**		**1.5**		4.0		(1.0)		3.0	
Net income (loss)	**4.5**	**%**	**(2.0)**	**%**	**2.5**	**%**	9.0	%	(2.4)	%	6.6	%

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

	2009						2008					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales												
Canada	**3.7**	**%**	**16.8**	**%**	**20.5**	**%**	17.1	%	0.4	%	17.5	%
United States	**65.2**		**-**		**65.2**		45.2		-		45.2	
Europe	**3.5**		**-**		**3.5**		5.1		-		5.1	
Middle East	**4.1**		**-**		**4.1**		29.9		-		29.9	
Asia Pacific	**-**		**-**		**-**		0.3		-		0.3	
Latin America	**6.7**		**-**		**6.7**		2.0		-		2.0	
	83.2	**%**	**16.8**	**%**	**100.0**	**%**	99.6	%	0.4	%	100.0	%

Results of Operations – Three Months Ended December 31, 2009 Compared to Three Months Ended December 31, 2008

Sales

Sales decreased by $1,661,195 (or 48.0%) in Q1-10 to $1,801,951 from $3,463,146 in Q1-09. The decrease was due to $1,947,620 in lower sales from our Manufacturing operations, partially offset by an increase of $286,425 in sales from our FEC operations.

In Q1-10, two customers, both U.S. based, accounted for 26% and 18%, respectively, of our total sales. In Q1-09, one customer, U.S. based, accounted for 25% of our total sales. Although we experienced some business concentration in Q1-10, on an annual basis, we do not believe that we are exposed to significant customer concentration risks.

We expect that total sales in Q2-10 will increase as compared to Q1-10, due primarily to increased activity with our U.S. customers resulting in higher sales from our Manufacturing operations. We also expect that sales from our FEC will be higher than in Q1-10 as a result of various marketing activities.

Gross profit

Gross profit was 43.6% of sales in Q1-10, compared to 40.4% in Q1-09. This improvement was due primarily to the combined effect of sales mix and implementing various labour cost reduction measures from our Manufacturing operations.

During 2010, we expect that our gross profit percentage will continue to fluctuate from quarter to quarter, primarily due to sales mix from our Manufacturing operations.

Operating expenses

Operating expenses were $712,593 in Q1-10, compared to $1,069,553 in Q1-09. The decrease was primarily due to $211,900 in lower foreign exchange losses from our Manufacturing operations combined with a decrease of $219,321 in selling and administration expenses as a result of various cost reduction measures.

During 2010, we expect that our operating expenses will generally continue to fluctuate from quarter to quarter, however, on an annual basis we expect the following as compared to 2009:

- Lower selling and administration expenses due to various cost containment measures, primarily with administration expenses.
- Higher amortization expense due to the significant investment in capital expenditures made throughout 2009 that are being amortized in 2010.
- Lower foreign exchange loss primarily due to our revised approach when entering into foreign exchange forward contracts. In 2009, we entered into foreign exchange forward contracts to hedge our larger U.S. dollar receivable balances. In 2010, we will generally enter into foreign exchange forward contracts when the exchange rate between the Canadian and U.S. dollar reaches a certain threshold. In Q1-09, $115,895 of the $217,894 in foreign exchange losses was from one foreign exchange forward contract and was due to the very sharp decline of the Canadian dollar against the U.S. dollar in October 2008. In Q1-10, the volatility of the foreign exchange rate between the Canadian and U.S. dollar was significantly lower than in Q1-09. Should this trend continue, we would expect that lower volatility would contribute to lowering our foreign exchange losses in 2010 as compared to 2009.
- Marginally higher interest expense due to the addition of new capital leases in 2010, and use of our operating loan, which was not used in 2009.

Income tax expense

Income tax expense decreased to $26,683 in Q1-10 from $102,150 in Q1-09 due primarily to a decrease in current income tax expense resulting from net income before tax of $72,165 in Q1-10 as compared to $1,069,553 in Q1-09.

During 2010, we expect that our income tax expense will continue to fluctuate from quarter to quarter based on the variability in our earnings, however, on an annual basis we expect our effective tax rate to increase as compared to 2009 due primarily to our expectations of increased earnings from our FEC operations.

Net earnings

Net earnings in Q1-10 were $45,482, or diluted earnings per share of $0.00, compared to net earnings of $227,367, or diluted earnings per share of $0.02 in Q1-09.

During 2010, we expect that net earnings from our Manufacturing operations will continue to fluctuate from quarter to quarter due primarily to variability in our gross profits and exposure to foreign currency risk between the Canadian and U.S. dollar. We also expect that net earnings from our FEC operations will continue to fluctuate from quarter to quarter depending on competition for consumer entertainment spending, however, we expect these net earnings to increase as compared to 2009 due to non-recurring start-up costs incurred in 2009, and due to a full year of operations in 2010.

Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statements of operations data for each of the nine most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended September 30, 2009. The unaudited consolidated statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period. You should not rely on them to predict our future performance.

Quarters Ended	Sales	Net Income (Loss)	Earnings and Diluted Earnings per Share
December 31, 2009 (Q1-10)	1,801,951	45,482	0.00
September 30, 2009 (Q4-09)	1,682,700	(188,962)	(0.02)
June 30, 2009 (Q3-09)	2,060,291	75,695	0.01
March 31, 2009 (Q2-09)	2,119,948	(313,091)	(0.03)
December 31, 2008 (Q1-09)	3,463,146	227,367	0.02
September 30, 2008 (Q4-08)	3,838,358	538,723	0.05
June 30, 2008 (Q3-08)	1,333,742	(459,472)	(0.05)
March 31, 2008 (Q2-08)	2,167,310	260,541	0.03
December 31, 2007 (Q1-08)	1,803,782	(288,184)	(0.03)

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

Items affecting our results were as follows:

- The decrease in net earnings in Q1-09 compared to Q4-08 was due primarily to an increase of $165,445 in foreign exchange losses.
- The increase in net earnings in Q3-09 compared to Q2-09 was due primarily to a decrease of $183,202 in salary expenses relating to the completion of the installations of play structures at our FEC.

- The decrease in sales and in net earnings in Q4-09 compared to Q3-09 was due primarily to lower sales to our U.S. customers by our Manufacturing operations and to an increase in operating costs by our Manufacturing operations due to trade show expenses.
- The increase in net earnings in Q1-10 compared to Q4-09 was due primarily to higher operating expenses in Q4-09 as a result of trade show expenses.

Future changes in accounting policies

In December 2009, the Accounting Standard Board issued Emerging Issues Committee Abstract 175, Multiple Deliverable Revenue Arrangements, addressing how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This Abstract also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This Abstract does not address when the criteria for revenue recognition are met or provide revenue recognition guidance for a given unit of accounting. The provisions in this Abstract may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. The Company is evaluating the effect of this new Abstract on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

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

Liquidity and Capital Resources

Operating Activities

Cash used by operating activities was $99,778 in Q1-10, compared to $160,204 in Q1-09. The reduction of cash used by operating activities in Q1-10 primarily resulted from lower levels of cash absorbed by working capital due to lower sales and production activity in Q1-10 as compared to Q1-09.

During 2010, we expect that cash from our Manufacturing operating activities will continue to fluctuate from quarter to quarter based on variability in our net earnings. We also expect that cash from our FEC operating activities will increase as compared to 2009, due to a full year of operations, and lower operating expenses as a percentage of sales, since the Q1-09 expenses included various start-up costs which will not recur in 2010.

Investing Activities

Cash used by investing activities was $19,192 in Q1-10, compared to $524,287 in Q1-09. The decrease was primarily due to lower purchases of property, plant and equipment in Q1-10 as compared to Q1-09. In Q1-09, $924,287 was used by investing activities to primarily purchase equipment installations at our FEC, which began operations in December 2008.

In Q1-10 we entered into two new capital lease obligations for equipment used by our Manufacturing and FEC operations. Our future minimum payments under these leases have increased by $32,031, to $518,360 at December 31, 2009, from $486,329 at September 30, 2009.

Our business plan for 2010 is to continue to search for new growth opportunities for our FEC operations. Our decision to expand will depend on finding appropriate facilities and obtaining additional financing. As of the date of this report, we have not entered into any proposed asset or business acquisition or disposition, and except in such instances, we do not anticipate to significantly increase our investment in capital expenditures in 2010.

Financing Activities

Cash used by financing activities was $74,015 in Q1-10, compared to cash provided by financing activities of $20,563 in Q1-09. The decrease was primarily due to cash inflows from the exercise of stock options of NIL in Q1-10, compared to $85,838 in Q1-09.

During 2010, we expect to use our operating loan, which was not used in 2009. 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.

As of December 31, 2009, we did not have any off-balance sheet finance or special purpose entities.

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, repayment of our operating loan, loan payable, leases, and funding of capital expenditures. We believe that based on our current business plan, our sources of cash which include cash on hand, accounts receivable, cash from customer deposits, cash from operations, and up to $500,000 from our operating loan facility, will be sufficient to fund our expected working capital requirements for at least the next twelve months.

Sources and Uses of Cash

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

- Net cash amounted to $227,025 at December 31, 2009, compared to $420,010 at September 30, 2009. Net cash is comprised of cash on hand of $367,025, less $140,000 drawn on our operating loan facility at December 31, 2009, compared to $420,010, less NIL, respectively, at September 30, 2009.
- Accounts receivable amounted to $1,185,649 at December 31, 2009, compared to $1,160,467 at September 30, 2009.
- We have two credit facilities with a Canadian chartered bank. See "Credit Facilities".

Credit Facilities

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

We have an operating loan facility with a limit of $500,000, subject to certain margin requirements on trade receivables and inventory. The operating loan bears interest at prime plus 1.50%. At December 31, 2009, $140,000 was drawn on this facility, and we had available remaining funds of $360,000, compared to NIL, and $500,000, respectively, at September 30, 2009. As of the date of this MD&A, being February 5, 2010, no funds were drawn on this facility.

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 Canadian and the U.S. dollar and manage this risk by entering into foreign exchange forward contracts for our U.S. dollar receivable balances. We do not enter into foreign exchange forward contracts for speculative purposes.

In 2009 we incurred foreign exchange losses of $375,784, of which $237,317 were incurred as a result of entering into foreign exchange forward contracts. In 2009 we entered into foreign exchange forward contracts to hedge our larger U.S. dollar receivable balances. In 2010 we will generally enter into foreign exchange forward contracts when the exchange rate between the Canadian and U.S. dollar reaches a certain threshold. In Q1-10, the volatility of the foreign exchange rate between the Canadian and U.S. dollar was significantly lower than in Q1-09 which contributed to significantly decrease our foreign exchange loss to $5,994 in Q1-10 compared to $217,894 in Q1-09.

We have one foreign exchange forward contract outstanding at December 31, 2009 and at September 30, 2009 ("Q4-09") for which we have a commitment to sell $15,800 of U.S. dollars at a rate of $1.054 (Q4-09 - $1.085) on February 26, 2010 (Q4-09 - December 1, 2009). The fair value of this contract is a liability of $38 (Q4-09 – liability of $202) and is recorded as a foreign exchange loss in the consolidated statement of operations.

Credit risk

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

Accounts receivable with two specific customers represent approximately 44.2% of the balance of accounts receivable as at December 31, 2009 (December 31, 2008 – two customers represented approximately 59.3% of accounts receivable). It is our view that these accounts do not represent a significant credit risk. We believe that the credit risk of accounts receivable is limited because of our policy to receive significant upfront deposits from our customers prior to product shipment, as well as our ongoing credit evaluations of our customers.

The credit risk associated with our cash is limited because this financial asset is held through a large Canadian chartered bank with a high investment grade rating.

Interest rate risk

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

Liquidity risk

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

Legal Proceedings

We are engaged in certain legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position. At December 31, 2009, there were no new legal actions, as compared to September 30, 2009.

Related Party Transactions

During Q1-10, there were no material related party transactions.

Outstanding Share Capital

As at February 5, 2010, there were 10,220,187 common shares issued and outstanding and there were no stock options outstanding.

Cautionary Note Regarding Forward-looking Statements

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