



## **Iplayco Corporation Ltd.**

Condensed Consolidated Interim Financial Statements  
Three months ended December 31, 2012  
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, 2012	September 30, 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 602,604	\$ 841,008
Restricted cash (Note 6)	300,000	300,000
Trade and other receivables	1,724,655	879,663
Inventories	922,816	727,495
Prepaid expenses	159,014	177,120
	<b>3,709,089</b>	<b>2,925,286</b>
<b>Non-current assets</b>		
Property, plant, and equipment	1,542,693	1,599,945
Net deferred income tax asset	211,842	314,736
<b>Total Assets</b>	<b>\$ 5,463,624</b>	<b>\$ 4,839,967</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade payables and accrued charges	1,651,559	\$ 1,359,282
Warranty provision	4,390	4,060
Customer deposits	494,561	421,217
Current portion of rent inducement	48,169	45,127
Current portion of finance lease liabilities	25,645	58,826
Notes payable (Note 6)	300,000	300,000
Revolving loans (Note 6)	410,000	410,000
	<b>2,934,324</b>	<b>2,598,512</b>
<b>Non-current liabilities</b>		
Rent inducement	148,823	159,378
Finance lease liabilities	-	1,826
<b>Total Liabilities</b>	<b>3,083,147</b>	<b>2,759,716</b>
<b>Shareholders' Equity</b>		
Share capital	1,757,643	1,757,643
Share-based payments reserve	256,858	256,858
Retained earnings	365,976	65,750
<b>Total Shareholders' Equity</b>	<b>2,380,477</b>	<b>2,080,251</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 5,463,624</b>	<b>\$ 4,839,967</b>

Subsequent events (Note 8)

"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 Income (Loss)

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

	Three months ended December 31,	
	2012	2011
<b>Sales</b>	<b>\$ 3,495,495</b>	<b>\$ 1,784,328</b>
Cost of sales	2,146,708	1,132,968
<b>Gross profit</b>	<b>1,348,787</b>	<b>651,360</b>
Selling and administrative expenses	903,831	805,938
Foreign exchange loss	11,067	15,328
	<b>914,898</b>	<b>821,266</b>
<b>Operating income (loss)</b>	<b>433,889</b>	<b>(169,906)</b>
Finance costs	30,769	22,344
<b>Income (loss) before income taxes</b>	<b>403,120</b>	<b>(192,250)</b>
<b>Income tax provision (recovery)</b>	<b>102,894</b>	<b>(47,394)</b>
<b>Net income (loss) and total comprehensive income (loss)</b>	<b>300,226</b>	<b>(144,856)</b>
<b>Net income (loss) per share</b>		
Basic and diluted	\$ 0.03	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>		
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 <sup>(1)</sup>		Share-based payments reserve <sup>(2)</sup>	Retained earnings (deficit)	Total shareholders' equity
	Number of common shares	Amount			
<b>Balance at September 30, 2011</b>	10,220,187	\$ 1,757,643	\$ 256,858	\$ (247,062)	\$ 1,767,439
Net loss and total comprehensive loss	-	-	-	(144,856)	(144,856)
<b>Balance at December 31, 2011</b>	10,220,187	1,757,643	256,858	(391,918)	1,622,583
<b>Balance at September 30, 2012</b>	10,220,187	1,757,643	256,858	65,750	2,080,251
Net income and total comprehensive income	-	-	-	300,226	300,226
<b>Balance at December 31, 2012</b>	<b>10,220,187</b>	<b>1,757,643</b>	<b>256,858</b>	<b>365,976</b>	<b>2,380,477</b>

<sup>(1)</sup> 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. No preferred shares have been issued.

<sup>(2)</sup> 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,	
	2012	2011
<b>Operating activities</b>		
Net income (loss)	\$ 300,226	\$ (144,856)
Items not affecting cash		
Depreciation	71,074	78,840
Deferred income taxes	102,894	(47,394)
Change in fair value of derivatives	-	4,474
Rent inducement	(7,513)	13,164
Loss on disposal of property, plant and equipment	23,380	-
Unrealized foreign exchange loss (gain)	(2,516)	6,043
Finance costs	30,769	22,344
	<b>518,314</b>	<b>(67,385)</b>
Change in non-cash operating working capital		
Trade and other receivables	(842,476)	221,548
Inventories	(195,321)	(212,060)
Prepaid expenses	18,106	(83,291)
Trade payables and accrued charges	259,548	(297,081)
Warranty provision	330	657
Customer deposits	73,344	627,523
	<b>(686,469)</b>	<b>257,296</b>
Interest paid	(7,072)	(9,304)
<b>Cash provided by (used in) operating activities</b>	<b>(175,227)</b>	<b>180,607</b>
<b>Investing activities</b>		
Increase in restricted cash (Note 6)	-	(50,000)
Purchase of property, plant and equipment	(28,170)	(11,366)
<b>Cash used in investing activities</b>	<b>(28,170)</b>	<b>(61,366)</b>
<b>Financing activities</b>		
Proceeds from notes payable (Note 6)	-	50,000
Repayment of finance lease liability	(35,007)	(36,203)
<b>Cash provided by (used in) financing activities</b>	<b>(35,007)</b>	<b>13,797</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(238,404)</b>	<b>133,038</b>
Cash and cash equivalents (overdraft) at beginning of the year	841,008	(157,045)
<b>Cash and cash equivalents (overdraft) at end of the year</b>	<b>\$ 602,604</b>	<b>\$ (24,007)</b>
<b>Supplemental cash flow disclosure:</b>		
Non-cash transactions - property, plant and equipment	\$ 9,032	\$ 1,942

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

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited *(Expressed in Canadian dollars)*

### 1. Nature of business and corporate information

Iplayco Corporation Ltd. (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, manufactures and installs 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, 58<sup>th</sup> Crescent, Langley, British Columbia, Canada, V4W 3W7 and its registered office is located at Suite 1200, 700 – 2<sup>nd</sup> Street, S.W., Calgary, Alberta, T2P 4V5.

### 2. Basis of preparation

#### *Statement of compliance*

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). These Condensed Consolidated Interim Financial Statements do not include all of the information required for complete annual financial statements.

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on February 14, 2013.

#### *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.

### 3. Significant accounting policies

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's Consolidated Financial Statements for the year ended September 30, 2012.

### 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. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.



# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited (Expressed in Canadian dollars)

### 4. Critical accounting estimates and judgments (continued)

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.

#### *Allowance for doubtful accounts and sales adjustments*

In determining whether trade receivables are collectible from customers, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from management's estimates, future earnings would be affected.

#### *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.

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 those 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.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited (Expressed in Canadian dollars)

### 4. Critical accounting estimates and judgments (continued)

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. Credit facilities

On December 20, 2012, the Corporation entered into the following new credit facility agreements (the "Credit Facilities") with HSBC Bank Canada (the "Bank"):

#### (a) Export Loan Facility

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. \$1,350,000 (\$1,333,000 in Canadian dollars) ("Packing Credit Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. \$2,700,000 (\$2,666,000 in Canadian dollars) ("TINRFF Facility").

#### Packing Credit Facility

Under the Packing Credit Facility, the Corporation may finance up to 75% of its purchasing, processing, manufacturing and packaging costs ("Packing Costs") for customer purchase orders approved by the Bank. The Packing Credit Facility bears interest at the U.S. dollar London Interbank Offered Rate ("LIBOR") plus 3.5% per annum and is payable on demand or within 90 days for advances relating to Packing Costs from suppliers located within Canada and 120 days for advances relating to Packing Costs from suppliers located outside of Canada.

#### TINRFF Facility

Under the TINRFF Facility, the Bank may at its sole discretion purchase from the Corporation select insured trade receivables of the Corporation at a discount fee of LIBOR plus 3.5%.

#### (b) Foreign Exchange Loan Facility

The Foreign Exchange Loan Facility is a demand revolving line of \$1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of \$6,000,000, with a maximum maturity of 12 months.

The Corporation intends to use this facility to manage its currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

The Credit Facilities are governed and secured by a general security agreement creating a first priority security interest in all property of the Corporation. The conditions of credit include compliance with various covenants.

At December 31, 2012, no amounts were drawn under the Credit Facilities.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited *(Expressed in Canadian dollars)*

### 6. 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 the aggregate principal amount of \$250,000 at 18% per annum, and on October 19, 2011, the Corporation entered into a promissory note agreement with its Chief Executive Officer to borrow the aggregate principal amount of \$50,000 at 18% per annum ("Notes Payable"). On December 7, 2012, the Corporation reinvested the proceeds from the Notes Payable into a bankers' acceptance ("BA") with HSBC Bank Canada, maturing on March 6, 2013 and earning interest at 1.06% per annum. The BA is pledged as collateral to secure an irrevocable standby letter of credit of \$300,000, expiring on April 30, 2013, 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 (\$1,473,169 in Canadian dollars) was issued to a customer of the Corporation ("Holder of the Performance Bond"), and on November 17, 2011, the Corporation entered into a sales agreement of U.S. \$1,750,000 (\$1,790,000 in Canadian dollars) 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 its contract with the Holder of the Performance Bond on or before March 1, 2013, at which time the Performance Bond would expire and payment of interest and capital from the Notes Payable would become due.

On May 15, 2012, the Corporation entered into revolving loan agreements (collectively, the "Loan Agreements") with four of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders"), to borrow the aggregate principal amount of \$410,000 at an annual interest rate of 15% (collectively, the "Revolving Loans"). The Revolving Loans are unsecured, mature on January 31, 2013 and can be renewed for an unspecified number of additional six-month periods. Renewal of the Revolving Loans requires joint approval of the Corporation and the Lenders. As described in Note 8, on February 1, 2013, the Corporation renewed its Loan Agreements with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer, to borrow the aggregate principal amount of \$310,000 at an annual interest rate of 15%. The Corporation has agreed with one of its directors to not renew one Revolving Loan in the aggregate principal amount of \$100,000, pursuant to which the Corporation will pay the aggregate sum of \$111,295, including accrued interest, to such director. The remaining Revolving Loans will continue to fund part of the Corporation's working capital requirements.

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited (Expressed in Canadian dollars)

### 7. Segment reporting and concentration of sales

#### (a) Business segments

The Corporation operates in two business segments: Manufacturing of 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. Inter-segment balances, transactions and revenues and expenses are eliminated upon consolidation.

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

	Three months ended December 31, 2012		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 3,113,886	\$ 381,609	\$ 3,495,495
Cost of sales	1,893,020	253,688	2,146,708
Gross profit	1,220,866	127,921	1,348,787
Selling and administrative expenses	720,529	183,302	903,831
Foreign exchange loss	11,067	-	11,067
Finance costs	29,790	979	30,769
Income taxes	116,188	(13,294)	102,894
Net income (loss)	\$ 343,292	\$ (43,066)	\$ 300,226
Total assets	\$ 4,214,629	\$ 1,248,995	\$ 5,463,624
Total liabilities	\$ 2,910,814	\$ 172,333	\$ 3,083,147
Depreciation expense	\$ 30,656	\$ 40,418	\$ 71,074
Acquisition of property, plant and equipment	\$ 31,384	\$ 5,818	\$ 37,202

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited (Expressed in Canadian dollars)

### 7. Segment reporting and concentration of sales (continued)

#### (a) Business segments (continued)

	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	932,699	200,269	1,132,968
Gross profit	473,704	177,656	651,360
Selling and administrative expenses	662,647	143,291	805,938
Foreign exchange loss	15,328	-	15,328
Finance costs	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
Total liabilities	\$ 2,406,224	\$ 300,898	\$ 2,707,122
Depreciation expense	\$ 38,850	\$ 39,990	\$ 78,840
Acquisition of property, plant and equipment	\$ 8,393	\$ 4,915	\$ 13,308

#### (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,	
	2012	2011
<b>Sales</b>		
Canada	\$ 403,958	\$ 561,086
Americas	1,654,417	912,173
Other	1,437,120	311,069
	\$ 3,495,495	\$ 1,784,328

# Iplayco Corporation Ltd.

## Notes to Condensed Consolidated Interim Financial Statements

December 31, 2012

Unaudited (Expressed in Canadian dollars)

### 7. 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,	
	2012	2011
Customer A	\$ 1,212,502	\$ 215,063
Customer B	543,963	-
Customer C	-	227,017

### 8. Subsequent events

On January 28, 2013, the Corporation entered into a sales agreement of U.S. \$1,310,600 (\$1,319,643 in Canadian dollars) to design, manufacture and install a large indoor play structure for a corporate customer.

On February 1, 2013, the Corporation renewed its revolving loan agreements with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders"), to borrow the aggregate principal amount of \$310,000 at an annual interest rate of 15% (collectively, the "Revolving Loans"). The Revolving Loans are unsecured, mature on July 31, 2013 and can be renewed for an unspecified number of additional six-month periods. Renewal of the Revolving Loans requires joint approval of the Corporation and the Lenders. The Corporation has agreed with one of its directors to not renew one Revolving Loan in the aggregate principal amount of \$100,000, pursuant to which the Corporation will pay the aggregate sum of \$111,295, including accrued interest, to such director. The remaining Revolving Loans will continue to fund part of the Corporation's working capital requirements.



## 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 14, 2013 and should be read together in conjunction with our unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2012 and our annual audited consolidated financial statements and accompanying notes for the years ended September 30, 2012 and 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](http://www.sedar.com) and are also available on our website at [www.iplaycoltd.com](http://www.iplaycoltd.com).

### Overview

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

### Consolidated Results

Sales for the three months ended December 31, 2012 ("Q1-13") increased by 95.9% to \$3,495,495 from \$1,784,328 for the three months ended December 31, 2011 ("Q1-12"). Gross profit percentage was 38.6% of sales in Q1-13 compared to 36.5% in Q1-12. Operating expenses, including foreign exchange gains and losses and finance costs, were \$945,667 or 27.1% of sales in Q1-13 compared to \$843,610 or 47.3% of sales in Q1-12. Net income in Q1-13 was \$300,226, or diluted net income per share of \$0.03, compared to net loss of \$144,856, or net loss per share of \$0.01, in Q1-12.

### 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 several weeks to several months. Our products are sold and installed worldwide. Our customer base includes family entertainment centres, theme parks, shopping malls, daycare centres, fitness clubs, municipalities and not-for-profit organizations.

Sales generated by our Manufacturing operations increased by 121.4% to \$3,113,886 in Q1-13 from \$1,406,403 in Q1-12. This increase is due primarily to higher sales to our customers located in the Americas, excluding Canada, who accounted for sales of \$1,654,417 (or 53.1% of total Manufacturing sales) in Q1-13 compared to \$912,173 (or 64.9%) in Q1-12, and higher sales to our customers located outside of the Americas, who accounted for sales of \$1,437,120 (or 46.2% of total Manufacturing sales) in Q1-13 compared to \$311,069 (or 22.1%) in Q1-12.



We generate a significant portion of our total sales in the United States of America ("U.S.") therefore our Manufacturing operations continue to be exposed to changes in the economic environment in the U.S. To manage this risk we have taken measures to broaden our customer base in markets located outside of the U.S. In Q1-13, one customer accounted for 38.9% of total sales by our Manufacturing operations (Q1-12 – 15.3%). Should this customer end their relationship with us, reduce or postpone current or expected purchase orders, or suffer from business failure, our sales and profitability would decline materially. We expect further business concentration from this customer in 2013. To manage credit risk from our customers, including this significant customer, we have purchased accounts receivable insurance.

We expected sales generated by our Manufacturing operations in Q1-13 to remain in-line with sales for the three months ended September 30, 2012 ("Q4-12"). Sales generated by our Manufacturing operations decreased marginally by 0.1% to \$3,113,886 in Q1-13 from \$3,118,263 in Q4-12. Based on our updated sales forecast, we are expecting sales generated by our Manufacturing operations for the three months ended March 31, 2013 ("Q2-13") to decrease moderately as compared to Q1-13.

Gross profit percentage increased to 39.2% of sales from our Manufacturing operations in Q1-13 from 33.7% in Q1-12. This increase is due primarily to sales mix resulting from higher margin sales in Q1-13 as compared to Q1-12. We expected our gross profit percentage to decrease moderately in Q1-13 as compared to Q4-12 due primarily to sales mix. Gross profit percentage decreased moderately to 39.2% of sales from our Manufacturing operations in Q1-13 from 42.2% in Q4-12. Based on our updated sales-mix forecast, we are expecting the gross profit percentage from our Manufacturing operations to decrease moderately in Q2-13 as compared to Q1-13 due primarily to anticipated sales mix.

Our Manufacturing operations generated net income of \$343,292 in Q1-13 compared to net loss of \$177,133 in Q1-12. The significant improvement in net operating results in Q1-13 as compared to Q1-12 is due primarily to significantly higher sales and favourable sales mix that yielded higher gross profit in Q1-13 as compared to Q1-12. We expected the net operating results from our Manufacturing operations to decrease moderately in Q1-13 as compared to Q4-12 due primarily to lower gross profit percentage in Q1-13 as compared to Q4-12. Our Manufacturing operations generated net income of \$343,292 in Q1-13 compared to net income of \$439,566 in Q4-12. Based on our updated forecasts, we are expecting the net operating results from our Manufacturing operations to decrease moderately in Q2-13 as compared to Q1-13 due primarily to lower anticipated sales and gross profit percentage in Q2-13 as compared to Q1-13.

#### Family Entertainment Centre Operations

Sales generated by our FEC operations increased marginally by 1.0% to \$381,609 in Q1-13 from \$377,925 in Q1-12. We expected sales generated by our FEC operations to increase moderately in Q1-13 as compared to Q4-12 due primarily to seasonality. Sales generated by our FEC operations increased by 37.2% to \$381,609 in Q1-13 from \$278,100 in Q4-12. Based on our updated sales forecast, we are expecting sales generated by our FEC operations to increase moderately in Q2-13 as compared to Q1-13 due primarily to seasonality.

Our FEC operations generated a net loss of \$43,066 in Q1-13, compared to net income of \$32,277 in Q1-12. The significant decrease in net operating results in Q1-13 as compared to Q1-12 is due primarily to higher staffing costs and a loss of \$23,380 on disposal of assets. We expected the net operating results from our FEC operations to improve significantly in Q1-13 as compared to Q4-12 due primarily to seasonality. Our FEC operations generated a net loss of \$43,066 in Q1-13 as compared to net loss of \$47,180 in Q4-12. Based on our updated forecasts, we are expecting the net operating results from our FEC operations to improve significantly in Q2-13 as compared to Q1-13 due primarily to higher anticipated sales resulting from seasonality.

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 to 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 to 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 also benefit by supplying play structures to 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 the operating results of our Manufacturing and our FEC business segments for the three months ended December 31, 2012 and 2011, expressed as a percentage of total sales:

	Three months ended December 31, 2012			Three months ended December 31, 2011		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	89.1 %	10.9 %	100.0 %	78.8 %	21.2 %	100.0 %
Cost of sales	54.2	7.3	61.5	52.3	11.2	63.5
Gross profit	34.9	3.6	38.5	26.5	10.0	36.5
Selling and administrative expenses	20.6	5.2	25.8	37.1	8.0	45.1
Foreign exchange loss	0.3	-	0.3	0.9	-	0.9
Finance costs	0.9	-	0.9	1.1	0.2	1.3
Income taxes	3.3	(0.4)	2.9	(2.6)	(0.1)	(2.7)
<b>Net income (loss)</b>	<b>9.8 %</b>	<b>(1.2) %</b>	<b>8.6 %</b>	<b>(10.0) %</b>	<b>1.9 %</b>	<b>(8.1) %</b>

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

	Three months ended December 31, 2012			Three months ended December 31, 2011		
	MFG	FEC	Total	MFG	FEC	Total
<b>Sales</b>						
Canada	0.6 %	10.9 %	11.5 %	10.3 %	21.2 %	31.5 %
Americas	47.4	-	47.4	51.1	-	51.1
Other	41.1	-	41.1	17.4	-	17.4
	<b>89.1 %</b>	<b>10.9 %</b>	<b>100.0 %</b>	<b>78.8 %</b>	<b>21.2 %</b>	<b>100.0 %</b>



## Results of Operations – Three Months Ended December 31, 2012 Compared to Three Months Ended December 31, 2011

### Sales

Total sales increased significantly by \$1,711,167 (or 95.9%) to \$3,495,495 in Q1-13 from \$1,784,328 in Q1-12 due primarily to an increase in sales of \$1,707,483 by our Manufacturing operations.

In Q1-13, two significant customers accounted for 50.2% of our total sales (Q1-12 – two customers accounted for 24.8%). We expect lower business concentration from our significant customers in Q2-13.

We expected our total sales in Q1-13 to remain in-line with Q4-12. Total sales increased by \$99,132 (or 2.9%) to \$3,495,495 in Q1-13 from \$3,396,363 in Q4-12. Based on our updated sales forecasts, we are expecting total sales to decrease moderately in Q2-13 as compared to Q1-13.

### Gross Profit

Gross profit percentage increased to 38.6% of total sales in Q1-13 from 36.5% in Q1-12. This increase is due primarily to our Manufacturing operations which generated a gross profit percentage of 39.2% in Q1-13, compared to 33.7% in Q1-12. Higher margins from larger sales orders contributed to significantly increase gross profit percentage in Q1-13 as compared to Q1-12.

We expected our gross profit percentage to decrease moderately in Q1-13 as compared to Q4-12 due primarily to lower anticipated margins by our Manufacturing operations. Gross profit percentage decreased to 38.6% in Q1-13, compared to 41.2% in Q4-12. Based on our updated sales-mix forecast, we are expecting our gross profit percentage to decrease moderately in Q2-13 as compared to Q1-13 due primarily to lower anticipated margins by our Manufacturing operations.

### Operating Expenses

Operating expenses, including foreign exchange gains and losses and finance costs, increased by \$102,057 (or 12.1%) to \$945,667 in Q1-13, from \$843,610 in Q1-12. This increase is due primarily to higher selling and administrative expenses by our Manufacturing operations in Q1-13 as compared to Q1-12.

We expected our operating expenses, as a percentage of total sales, in Q1-13 to remain in-line with Q4-12. Our operating expenses increased to 27.1% of total sales in Q1-13 from 25.8% in Q4-12. Based on our updated forecasts, we are expecting operating expenses in Q2-13 to remain in-line, as a percentage of total sales, compared to Q1-13.

### Income Taxes

The deferred income tax expense of \$102,894 in Q1-13 corresponds to the decrease in the net deferred income tax asset from September 30, 2012 to December 31, 2012 due to the profit before income taxes in Q1-13. The deferred income tax expense in Q1-13 is comprised of a deferred income tax expense of \$116,188 by our Manufacturing operations and a deferred income tax recovery of \$13,294 by our FEC operations. The deferred income tax recovery of \$47,394 in Q1-12 corresponds to the increase in the net deferred income tax asset from September 30, 2011 to December 31, 2011 due to the loss before income taxes in Q1-12. The deferred income tax recovery in Q1-12 is comprised of a deferred income tax recovery of \$46,200 by our Manufacturing operations and a deferred income tax recovery of \$1,194 by our FEC operations.

Although our income taxes will continue to fluctuate based on the variability in our operating results, we do not expect to incur a current income tax expense during our fiscal year ending September 30, 2013.



## Net Operating Results

Net income and total comprehensive income was \$300,226, or diluted net income per share of \$0.03, in Q1-13, compared to net loss and total comprehensive loss of \$144,856, or net loss per share of \$0.01, in Q1-12. The increase in net operating results is due primarily to an increase in net income by our Manufacturing operations.

We expected our net operating results to decrease moderately in Q1-13 as compared to Q4-12, due primarily to lower anticipated gross profit percentage by our Manufacturing operations. We generated net income of \$300,226 in Q1-13, compared to net income of \$392,386 in Q4-12. Based on our updated forecasts, we are expecting net income to decrease moderately in Q2-13 as compared to Q1-13, due primarily to lower anticipated sales and gross profit percentage by our Manufacturing operations.



## Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements for the years ended September 30, 2012 and 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.

	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13
	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12
<b>CONSOLIDATED</b>								
Sales	\$ 1,319,650	\$ 1,935,179	\$ 3,422,258	\$ 1,784,328	\$ 2,762,665	\$ 2,446,089	\$ 3,396,363	\$ 3,495,495
Cost of sales	883,872	1,467,456	2,440,110	1,132,968	1,762,257	1,584,619	1,995,979	2,146,708
Gross profit	435,778	467,723	982,148	651,360	1,000,408	861,470	1,400,384	1,348,787
Selling and administrative expenses	681,574	800,890	868,886	805,938	866,369	868,537	826,623	903,831
Foreign exchange loss (gain)	5,333	(5,305)	(15,286)	15,328	(4,484)	(5,248)	16,253	11,067
Finance costs	12,019	11,800	9,205	22,344	22,547	25,078	34,508	30,769
Income taxes	(64,745)	(104,747)	50,446	(47,394)	29,869	(6,072)	130,614	102,894
<b>Net income (loss)</b>	<b>\$ (198,403)</b>	<b>\$ (234,915)</b>	<b>\$ 68,897</b>	<b>\$ (144,856)</b>	<b>\$ 86,107</b>	<b>\$ (20,825)</b>	<b>\$ 392,386</b>	<b>\$ 300,226</b>
Basic and diluted net income (loss) per share	(0.02)	(0.02)	0.01	(0.01)	0.01	0.00	0.04	0.03

	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13
	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12
<b>MANUFACTURING</b>								
Sales	\$ 892,856	\$ 1,582,484	\$ 3,147,834	\$ 1,406,403	\$ 2,355,745	\$ 2,113,724	\$ 3,118,263	\$ 3,113,886
Cost of sales	681,608	1,281,625	2,253,274	932,699	1,554,501	1,383,124	1,802,634	1,893,020
Gross profit	211,248	300,859	894,560	473,704	801,244	730,600	1,315,629	1,220,866
Selling and administrative expenses	532,820	655,634	701,321	662,647	728,641	734,159	668,567	720,529
Foreign exchange loss (gain)	5,333	(5,305)	(15,286)	15,328	(4,484)	(5,248)	16,253	11,067
Finance costs	4,212	5,361	4,139	19,062	20,053	25,121	29,512	29,790
Income taxes	(72,441)	(89,933)	71,811	(46,200)	24,108	1,608	161,731	116,188
<b>Net income (loss)</b>	<b>\$ (258,676)</b>	<b>\$ (264,898)</b>	<b>\$ 132,575</b>	<b>\$ (177,133)</b>	<b>\$ 32,926</b>	<b>\$ (25,040)</b>	<b>\$ 439,566</b>	<b>\$ 343,292</b>

	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13
	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12
<b>FEC</b>								
Sales	\$ 426,794	\$ 352,695	\$ 274,424	\$ 377,925	\$ 406,920	\$ 332,365	\$ 278,100	\$ 381,609
Cost of sales	202,264	185,831	186,836	200,269	207,756	201,495	193,345	253,688
Gross profit	224,530	166,864	87,588	177,656	199,164	130,870	84,755	127,921
Selling and administrative expenses	148,754	145,256	167,565	143,291	137,728	134,378	158,056	183,302
Finance costs	7,807	6,439	5,066	3,282	2,494	(43)	4,996	979
Income taxes	7,696	(14,814)	(21,365)	(1,194)	5,761	(7,680)	(31,117)	(13,294)
<b>Net income (loss)</b>	<b>\$ 60,273</b>	<b>\$ 29,983</b>	<b>\$ (63,678)</b>	<b>\$ 32,277</b>	<b>\$ 53,181</b>	<b>\$ 4,215</b>	<b>\$ (47,180)</b>	<b>\$ (43,066)</b>

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



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

- 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.
- The increase in net operating results from Q1-12 to Q2-12 is due primarily to higher sales and gross profit in Q2-12 compared to Q1-12.
- The decrease in net operating results from Q2-12 to Q3-12 is due primarily to lower sales and gross profit in Q3-12 compared to Q2-12.
- The increase in net operating results from Q3-12 to Q4-12 is due primarily to higher sales and gross profit in Q4-12 compared to Q3-12.
- The decrease in net operating results from Q4-12 to Q1-13 is due primarily to lower gross profit in Q1-13 compared to Q4-12.

## Liquidity and Capital Resources

### Operating Activities

Cash used by operating activities amounted to \$175,227 in Q1-13, compared to cash provided by operating activities of \$180,607 in Q1-12. The change in cash from operating activities is due primarily to higher working capital requirements in Q1-13 as compared to Q1-12.

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 our working capital requirements.

### Investing Activities

Cash used in investing activities decreased to \$28,170 in Q1-13 from \$61,366 in Q1-12 due primarily to the increase in restricted cash from the notes payable in Q1-12.

Our business plan is to continue to search for new growth opportunities for our Manufacturing and 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 2013.

### Financing Activities

Cash used in financing activities amounted to \$35,007 in Q1-13, compared to cash provided by financing activities of \$13,797 in Q1-12. The change in cash from financing activities is due primarily to proceeds of \$50,000 from the notes payable in Q1-12 (see "Related Party Transactions").

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 loans and leases, and funding of capital expenditures. Our sources of cash include cash on hand, trade receivables, cash from customer deposits, cash from operations, and proceeds from credit facilities (see "Credit Facilities") and loans (see "Related Party Transactions"). We expect our sources of cash to be sufficient to fund our forecast cash outflows 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, 2012, cash and cash equivalents amounted to \$602,604 (September 30, 2012 – \$841,008).
- At December 31, 2012, trade and other receivables amounted to \$1,724,655 (September 30, 2012 – 879,663).
- On December 20, 2012, the Corporation entered into various new credit facility agreements comprised of a packing credit facility in the form of a demand revolving line of U.S. \$1,350,000 (\$1,333,000 in Canadian dollars) and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. \$2,700,000 (\$2,666,000 in Canadian dollars) (see "Credit Facilities").
- On January 28, 2013, our Manufacturing operations entered into a sales agreement of U.S. \$1,310,600 (\$1,319,643 in Canadian dollars) to design, manufacture and install a large indoor play structure for a corporate customer. A substantial portion of this contract is expected to favourably impact our operating results in 2013.
- On February 1, 2013, the Corporation renewed its revolving loan agreements with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer, to borrow \$310,000 at an annual interest rate of 15% (see "Related Party Transactions").

### Credit Facilities

On December 20, 2012, the Corporation entered into the following new credit facility agreements (the "Credit Facilities") with HSBC Bank Canada (the "Bank"):

#### *Export Loan Facility*

The Export Loan Facility is comprised of a packing credit facility in the form of a demand revolving line of U.S. \$1,350,000 (\$1,333,000 in Canadian dollars) ("Packing Credit Facility") and a trade invoice non-recourse financing facility in the form of a demand revolving line of U.S. \$2,700,000 (\$2,666,000 in Canadian dollars) ("TINRFF Facility").

- Packing Credit Facility

Under the Packing Credit Facility, the Corporation may finance up to 75% of its purchasing, processing, manufacturing and packaging costs ("Packing Costs") for customer purchase orders approved by the Bank. The Packing Credit Facility bears interest at the U.S. dollar London Interbank Offered Rate ("LIBOR") plus 3.5% per annum and is payable on demand or



within 90 days for advances relating to Packing Costs from suppliers located within Canada and 120 days for advances relating to Packing Costs from suppliers located outside of Canada.

■ TINRFF Facility

Under the TINRFF Facility, the Bank may at its sole discretion purchase from the Corporation select insured trade receivables of the Corporation at a discount fee of LIBOR plus 3.5%.

*Foreign Exchange Loan Facility*

The Foreign Exchange Loan Facility is a demand revolving line of \$1,800,000 for the purchase of foreign exchange forward contracts and options up to an aggregate of \$6,000,000, with a maximum maturity of 12 months.

The Corporation intends to use this facility to manage its currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

The Credit Facilities are governed and secured by a general security agreement creating a first priority security interest in all property of the Corporation. The conditions of credit include compliance with various covenants.

At December 31, 2012, no amounts were drawn under the Credit Facilities.

**Market Risk Disclosure**

Currency risk

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

We are exposed to foreign currency fluctuations because a significant portion of our sales are denominated in U.S. dollars and a significant portion of our expenses are incurred in Canadian dollars. We monitor our exposure to fluctuations between the U.S. dollar and the Canadian dollar and manage this risk by entering into foreign exchange forward contracts. We do not enter into foreign exchange forward contracts for speculative purposes.

As described above in "Credit Facilities", on December 20, 2012, we entered into a foreign exchange loan agreement for a demand revolving line of \$1,800,000 to purchase foreign exchange forward contracts and options up to an aggregate of \$6,000,000, with a maximum maturity of 12 months. We intend to use this facility to manage our currency risk resulting from fluctuations in foreign exchange rates between primarily the U.S. dollar and the Canadian dollar.

At September 30 and December 31, 2012, there were no foreign exchange forward contracts outstanding.

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 manage our credit risk through ongoing credit evaluations of our customers and by maintaining accounts receivable insurance.



At December 31, 2012, two customers represent approximately 81% of the trade receivables balance (September 30, 2012 – two customers represent approximately 64%). In our view, these accounts do not represent a significant credit risk.

The credit risk associated with our cash and cash equivalents, 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 new export loan facilities which bear interest at LIBOR plus 3.5%. At December 31, 2012, no amounts were drawn under these credit facilities (see "Credit Facilities"). Our notes payable and revolving loans 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, loans and credit facilities, as outlined above in "Liquidity and Capital Resources".

### Legal Proceedings

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

### Related Party Transactions

On September 30, 2011, the Corporation entered into promissory note agreements with four of its directors, including the Corporation's President and Executive Vice-President, to borrow the aggregate principal amount of \$250,000 at 18% per annum, and on October 19, 2011, the Corporation entered into a promissory note agreement with its Chief Executive Officer to borrow the aggregate principal amount of \$50,000 at 18% per annum ("Notes Payable"). On December 7, 2012, the Corporation reinvested the proceeds from the Notes Payable into a bankers' acceptance ("BA") with HSBC Bank Canada, maturing on March 6, 2013 and earning interest at 1.06% per annum. The BA is pledged as collateral to secure an irrevocable standby letter of credit of \$300,000, expiring on April 30, 2013, 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 (\$1,473,169 in Canadian dollars) was issued to a customer of the Corporation ("Holder of the Performance Bond"), and on November 17, 2011, the Corporation entered into a sales agreement of U.S. \$1,750,000 (\$1,790,000 in Canadian dollars) 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 its contract with the Holder of the Performance Bond on or before March 1, 2013, at which time the Performance Bond would expire and payment of interest and capital from the Notes Payable would become due.

On May 15, 2012, the Corporation entered into revolving loan agreements (collectively, the "Loan Agreements") with four of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer (collectively, the "Lenders"), to borrow the aggregate principal amount of \$410,000 at an annual interest rate of 15% (collectively, the "Revolving Loans"). The Revolving Loans are unsecured, mature on January 31, 2013 and can be renewed for an unspecified number of additional six-month periods. Renewal of the Revolving Loans requires joint approval of the Corporation and the Lenders. On February 1, 2013, the Corporation renewed its Loan Agreements with three of its directors, including the Corporation's Chief Executive Officer and President, and the Corporation's Chief Financial Officer, to borrow the aggregate principal amount of \$310,000 at an annual interest rate of 15%. The Corporation has agreed with one of its directors to





not renew one Revolving Loan in the aggregate principal amount of \$100,000, pursuant to which the Corporation will pay the aggregate sum of \$111,295, including accrued interest, to such director. The remaining Revolving Loans will continue to fund part of the Corporation's working capital requirements.

## Outstanding Share Capital

At December 31, 2012 and February 14, 2013, the Corporation had 10,220,187 common shares issued and outstanding and 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.