Consolidated financial statements of

Iplayco Corporation Ltd.

As at and for the three and nine months ended June 30, 2010

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

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Consolidated balance sheets

		June 30, 2010		September 30, 2009
		(Unaudited)		
Assets				
Current				
Cash (Note 3)	**$**	**219,326**	$	420,010
Accounts receivable		**706,100**		760,445
Inventory (Note 4)		**1,209,999**		1,160,467
Prepaid expenses		**40,235**		62,324
		2,175,660		2,403,246
Property, plant, and equipment		**2,138,399**		2,357,092
Future income taxes		**111,798**		67,773
	$	**4,425,857**	$	4,828,111
Liabilities				
Current				
Accounts payable	**$**	**835,330**	$	943,852
Customer deposits		**485,827**		184,140
Current portion of rent inducement		**22,817**		22,817
Current portion of capital lease obligations (Note 5)		**145,998**		122,077
Loan payable		**194,442**		319,443
		1,684,414		1,592,329
Rent inducement		**60,845**		77,958
Capital lease obligations (Note 5)		**233,448**		293,503
		1,978,707		1,963,790
Shareholders' equity				
Capital stock (Note 6)		**1,757,643**		1,757,643
Contributed surplus		**256,858**		256,858
Retained earnings		**432,649**		849,820
		2,447,150		2,864,321
	$	**4,425,857**	$	4,828,111

Approved by the Directors

"Franco Aquila"
....

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

Iplayco Corporation Ltd.

Consolidated statements of operations, comprehensive income (loss) and retained earnings

(Unaudited)

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	**2010**	2009
Sales	**$1,712,123**	$ 2,060,291	**$5,449,340**	$ 7,643,385
Cost of sales	**1,136,654**	1,136,124	**3,444,480**	4,552,919
Gross profit	**575,469**	924,167	**2,004,860**	3,090,466
Expenses				
Selling and administration	**780,715**	663,220	**2,105,385**	2,479,348
Amortization	**111,189**	119,158	**330,144**	264,930
Foreign exchange loss (gain)	**(27,526)**	64,770	**(9,157)**	326,967
Interest expense	**13,389**	13,962	**43,117**	41,888
	877,767	861,110	**2,469,489**	3,113,133
Income (loss) before income taxes	**(302,298)**	63,057	**(464,629)**	(22,667)
Income tax recovery				
Current	**-**	(12,638)	**-**	(12,638)
Future	**(9,321)**	-	**(47,458)**	-
	(9,321)	(12,638)	**(47,458)**	(12,638)
Net income (loss) and comprehensive loss for the period	**(292,977)**	75,695	**(417,171)**	(10,029)
Retained earnings at beginning of the period	**725,626**	963,087	**849,820**	1,048,811
Retained earnings at end of the period	**$ 432,649**	$ 1,038,782	**$ 432,649**	$ 1,038,782
Earnings (loss) per share				
Basic	**$ (0.03)**	$ 0.01	**$ (0.04)**	$ (0.00)
Diluted	**$ (0.03)**	$ 0.01	**$ (0.04)**	$ (0.00)
Weighted average number of common shares				
Basic	**10,220,187**	10,220,187	**10,220,187**	10,210,399
Diluted	**10,220,187**	10,220,187	**10,220,187**	10,210,399

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Consolidated statements of cash flows

(Unaudited)

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	**2010**	2009
Operating activities				
Net income (loss) for the period	**$ (292,977)**	$ 75,695	**$ (417,171)**	$ (10,029)
Items not involving cash				
Amortization	**111,189**	119,158	**330,144**	264,930
Future income taxes	**(9,321)**	-	**(44,025)**	-
Non-hedging financial derivatives	**-**	7,067	**(164)**	(22,933)
Rent inducement	**(5,704)**	(5,704)	**(17,113)**	23,958
Stock based compensation	**-**	-	**-**	179,957
Unrealized foreign exchange loss (gain)	**(14,239)**	65,398	**(13,318)**	103,313
	(211,052)	261,614	**(161,647)**	539,196
Change in non-cash operating working capital				
Accounts receivable	**324,428**	(161,346)	**67,663**	568,412
Inventory	**(74,771)**	135,933	**(49,532)**	355,591
Prepaid expenses	**6,485**	18,066	**22,089**	62,759
Accounts payable	**(46,249)**	(326,710)	**(108,358)**	(563,619)
Customer deposits	**257,788**	33,062	**301,687**	(776,086)
	467,681	(300,995)	**233,549**	(352,943)
	256,629	(39,381)	**71,902**	186,253
Investing activities				
Net change in term deposits	**-**	-	**-**	400,000
Purchase of property, plant and equipment	**(11,676)**	(168,834)	**(45,190)**	(1,254,964)
	(11,676)	(168,834)	**(45,190)**	(854,964)
Financing activities				
Proceeds from exercise of stock options (Note 6)	**-**	-	**-**	85,838
Repayment of loan payable	**(41,667)**	(41,667)	**(125,001)**	(125,001)
Repayment of capital lease obligations	**(35,437)**	(21,537)	**(102,395)**	(65,626)
	(77,104)	(63,204)	**(227,396)**	(104,789)
Change in cash during the period	**167,849**	(271,419)	**(200,684)**	(773,500)
Cash at beginning of the period	**51,477**	660,947	**420,010**	1,163,028
Cash at end of the period	**219,326**	**389,528**	**219,326**	**389,528**

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 property of the Company. At June 30, 2010, $15,000 has been drawn on this facility (September 30, 2009 - no amount drawn), and is presented net of cash of $234,326.

4. Inventory

	June 30, 2010	September 30, 2009
Raw materials	**$ 1,029,427**	$ 1,046,263
Finished goods	**-**	62,807
Work in progress	**180,572**	51,397
	$ 1,209,999	$ 1,160,467

The inventories recognized as an expense during the three and nine months ended June 30, 2010 amount to $888,840 and $2,821,406, respectively (June 30, 2009 - $1,084,804 and $4,468,747).

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:

	June 30, 2010	September 30, 2009
2010	**$ 44,951**	$ 157,275
2011	**170,916**	148,386
2012	**149,553**	127,018
2013	**61,197**	51,809
2014	**1,841**	1,841
	428,458	486,329
Less amount representing interest at 9.51% (September 30, 2009 - 9.86%)	**(49,012)**	(70,749)
	379,446	415,580
Less current portion	**(145,998)**	(122,077)
	$ 233,448	$ 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 June 30, 2010	**10,220,187**	**$ 1,757,643**

During the nine months ended June 30, 2009, 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 June 30, 2010 is 1,022,018 (June 30, 2009 – 30,518).

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 June 30, 2010	**-**	$	-

Escrowed shares

During the nine months ended June 30, 2010, 388,725 common shares (June 30, 2009 – 777,452) were released from escrow. At June 30, 2010, NIL common shares (September 30, 2009 – 388,725) are held in escrow. The release of the 388,725 escrowed shares is governed by the underlying escrow and pooling agreements.

Iplayco Corporation Ltd.

Notes to consolidated financial statements
June 30, 2010
(Unaudited)

7. Segmented information and concentration of sales

(a) Business segments

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

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

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

	Three months ended June 30, 2010		
	Manufacturing	**Family Entertainment Centre**	**Total**
Sales to external customers	$ 1,368,469	$ 343,654	$ 1,712,123
Cost of sales	963,611	173,043	1,136,654
Gross profit	404,858	170,611	575,469
Selling and administrative expenses	682,382	98,333	780,715
Amortization expense	56,304	54,885	111,189
Foreign exchange gain	(27,437)	(89)	(27,526)
Interest expense	1,354	12,035	13,389
Income tax recovery	(7,641)	(1,680)	(9,321)
Net income (loss)	$ (300,104)	$ 7,127	$ (292,977)
Total assets	$ 2,992,436	$ 1,433,421	$ 4,425,857
Acquisition of property, plant and equipment	$ 7,081	$ 4,595	$ 11,676

7. Segmented information and concentration of sales (continued)

	Nine months ended June 30, 2010		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 4,397,290	$ 1,052,050	$ 5,449,340
Cost of sales	2,870,938	573,542	3,444,480
Gross profit	1,526,352	478,508	2,004,860
Selling and administrative expenses	1,814,942	290,443	2,105,385
Amortization expense	166,719	163,425	330,144
Foreign exchange loss (gain)	(9,758)	601	(9,157)
Interest expense	4,045	39,072	43,117
Income tax recovery	(43,031)	(4,427)	(47,458)
Net loss	$ (406,565)	$ (10,606)	$ (417,171)
Total assets	$ 2,992,436	$ 1,433,421	$ 4,425,857
Acquisition of property, plant and equipment	$ 53,213	$ 58,238	$ 111,451

7. Segmented information and concentration of sales (continued)

	Three months ended June 30, 2009		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 1,713,007	$ 347,284	$ 2,060,291
Cost of sales	948,871	187,253	1,136,124
Gross profit	764,136	160,031	924,167
Selling and administrative expenses	565,239	97,981	663,220
Amortization expense	67,420	51,738	119,158
Foreign exchange loss	64,770	-	64,770
Interest expense	1,158	12,805	13,962
Income tax recovery	(12,638)	-	(12,638)
Net income (loss)	$ 78,187	$ (2,493)	$ 75,695
Total assets	$ 3,191,211	$ 1,636,410	$ 4,827,621
Acquisition of property, plant and equipment	$ 92,333	$ 76,501	$ 168,834

	Nine months ended June 30, 2009		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	$ 6,866,154	$ 777,231	$ 7,643,385
Cost of sales	4,113,156	439,763	4,552,919
Gross profit	2,752,998	337,468	3,090,466
Selling and administrative expenses	2,150,703	328,645	2,479,348
Amortization expense	149,899	115,031	264,930
Foreign exchange loss	326,967	-	326,967
Interest expense	3,473	38,416	41,888
Income tax expense (recovery)	29,956	(42,594)	(12,638)
Net income (loss)	$ 92,001	$ (102,030)	$ (10,029)
Total assets	$ 3,191,211	$ 1,636,410	$ 4,827,621
Acquisition of property, plant and equipment	$ 686,322	$ 568,642	$ 1,254,964

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 June 30,		Nine months ended June 30,	
	2010	2009	**2010**	2009
Sales				
Canada	**$ 707,936**	$ 527,602	**$1,969,582**	$ 1,614,226
United States	**742,865**	897,674	**2,436,339**	3,888,554
Europe	**-**	123,650	**89,863**	300,548
Middle East	**13,207**	306,699	**87,349**	1,341,959
Asia Pacific	**3,147**	41,818	**490,147**	165,895
Latin America	**244,968**	162,848	**376,060**	332,203
	$1,712,123	$ 2,060,291	**$5,449,340**	$ 7,643,385

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

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	**2010**	2009
Customer A	**$ -**	$ 528,880	**$ 959,223**	$ 1,354,621
Customer B	**196,687**	-	**-**	-
Customer C	**175,381**	-	**-**	-
Customer D	**-**	-	**-**	908,271
	$ 372,068	$ 528,880	**$ 959,223**	$ 2,262,892

8. Supplemental cash flow information

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	**2010**	2009
Interest paid	**$ 13,389**	$ 13,962	**$ 43,117**	$ 41,888
Non-cash transactions - capital leases	**-**	-	**66,261**	-

9. Reclassification

Certain comparative figures for the consolidated financial statements as at June 30, 2009 have been reclassified to conform to the June 30, 2010 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 and nine months ended June 30, 2010, and up to and including August 5, 2010. This MD&A should be read together with our unaudited interim consolidated financial statements and the accompanying notes for the three and nine months ended June 30, 2010 (the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in Canadian dollars.

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

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

Additional information related to Iplayco, including our consolidated financial statements for the fiscal year ended September 30, 2009, and our Management Proxy Circular, may be found on SEDAR at www.sedar.com, or on our corporate website at www.iplaycoltd.com.

Overview

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

Consolidated Results

Sales for the three months ended June 30, 2010 ("Q3-10") decreased by 16.9% to $1,712,123 compared to $2,060,291 for the three months ended June 30, 2009 ("Q3-09"). Gross profit was 33.6% of sales in Q3-10, compared to 44.9% in Q3-09. Operating expenses were $877,767, or 51.3% of sales, in Q3-10, compared to $861,110, or 41.8% of sales, in Q3-09. Net loss in Q3-10 was $292,977, or a loss per share of $0.03, compared to net income of $75,695, or earnings per share of $0.01 in Q3-09.

Sales for the nine months ended June 30, 2010 ("YTD – Q3-10") decreased by 28.7% to $5,449,340 compared to $7,643,385 for the nine months ended June 30, 2009 ("YTD – Q3-09"). Gross profit was 36.8% of sales for YTD – Q3-10, compared to 40.4% for YTD – Q3-09. Operating expenses were $2,469,489, or 45.3% of sales for YTD – Q3-10, compared to $3,113,133 or 40.7% of sales for YTD – Q3-09. Net loss for YTD – Q3-10 was $417,171, or a loss per share of $0.04, compared to net loss of $10,029, or a loss per share of $0.00 for YTD – Q3-09.

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, and theme requirements, may cause project completion timelines to vary from a few weeks to a few months. Our products are sold and installed worldwide. Our customer base includes family entertainment centers, theme parks, shopping malls, day care

centers, fitness clubs, municipalities and other not for profit organizations. Over the past few years, there has been an increase in customer demand for larger and more complex play structures however the general state of the economy has a significant impact on the volume of orders for our larger and more complex play structures.

In Q3-10, sales generated by our Manufacturing operations decreased by 20.1% to $1,368,469, as compared to $1,713,007 in Q3-09. The decrease in sales was due primarily to a combination of lower sales to our U.S. customers who accounted for $742,865 (or 54.3% of total Manufacturing sales) in Q3-10 as compared to $897,674 (or 52.4%) in Q3-09, and lower sales to our customers in the Middle East who accounted for $13,207 (or 1.0% of total Manufacturing sales) for YTD – Q3-10 as compared to $306,699 (or 17.9%) for YTD – Q3-09.

For YTD – Q3-10, sales generated by our Manufacturing operations decreased by 36.0% to $4,397,290, as compared to $6,866,154 for YTD – Q3-09. The decrease in sales was due primarily to a combination of lower sales to our U.S. customers who accounted for $2,436,339 (or 55.4% of total Manufacturing sales) for YTD – Q3-10 as compared to $3,888,554 (or 56.6%) for YTD – Q3-09, and lower sales to our customers in the Middle East who accounted for $87,349 (or 2.0% of total Manufacturing sales) for YTD – Q3-10 as compared to $1,341,959 (or 19.5%) for YTD – Q3-09.

We've historically generated a significant portion of our total sales from the U.S., therefore, 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 are continuing our marketing activities through attendance at international trade shows in an effort to increase sales and broaden our customer base.

The economic environment in our industry remains very challenging. We expected sales from our Manufacturing operations in Q3-10 to remain in-line with Q2-10, however, that did not materialize due to customers postponing, or reducing their purchases. In Q3-10, sales generated by our Manufacturing operations decreased by 10.6% to $1,368,469, as compared to $1,530,242 in Q2-10. We expect that access to external financing for many of our customers will remain tight throughout 2010, therefore, we are forecasting sales from our Manufacturing operations in Q4-10 to remain in-line with Q3-10.

Gross profit decreased to 29.6% (or 34.7% for YTD – Q3-10) of our Manufacturing sales in Q3-10, compared to 44.6% in Q3-09 (or 40.1% for YTD – Q3-09). This decrease was due primarily to fixed overhead production costs that are reducing gross profit margins due to the low sales volume. We expect that our gross profit percentage will continue to fluctuate depending on the design, size, and complexity of the play structures sold, the competitive selling prices, our ability to reduce costs, and changes in sales volume.

In Q3-10, our Manufacturing operations generated a net loss of $300,104 (or a net loss of $406,565 for YTD – Q3-10) as compared to net income of $78,187 in Q3-09 (or net income of $92,001 for YTD – Q3-09). The decrease in net operating results for Q3-10 as compared to Q3-09 was due primarily to significant decreases in sales and gross profit percentage. The net operating results for YTD – Q3-10 as compared to YTD Q3-09 decreased due primarily to significantly lower sales and gross profit percentage for YTD - Q3-10 as compared to YTD – Q3-09, partially offset by reductions in selling and administrative expenses and foreign exchange loss. We expect that our net earnings will continue to fluctuate based on variability in our gross profit and exposure to foreign currency risk between the U.S. dollar and the Canadian dollar.

Family Entertainment Centre

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

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.

Sales generated by our FEC operations decreased by 1.0% to $343,654 in Q3-10, as compared to $347,284 in Q3-09. The decrease in sales was due primarily to an increase of $17,172 in deferred revenue from customer deposits received for party reservations scheduled to take place subsequent to the end of Q3-10. For YTD – Q3-10, sales generated by our FEC operations increased by 35.4% to $1,052,050, as compared to $777,231 for YTD – Q3-09, due to the start of fully operational activities in March 2009.

In Q3-10, our FEC operations generated net income of $7,127 (or a net loss of $10,606 for YTD – Q3-10) as compared to a net loss of $2,493 in Q3-09 (or a net loss of $102,030 for YTD – Q3-09). The net operating results improved in Q3-10 as compared to Q3-09, and for YTD – Q3-10 as compared to YTD – Q3-09, due primarily to increases in sales.

We expect that sales from our FEC operations in Q4-10 will remain in-line with Q3-10. We also expect that our year-to-date operating expenses will continue to decrease as a percentage of our FEC sales, since the 2009 expenses included various start-up costs which will not recur in 2010.

Our business plan is to continue to search for new growth opportunities for our FEC operations. Our decision to expand will depend on finding appropriate facilities and obtaining additional financing. 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 and nine months ended June 30, 2010 and 2009, expressed as a percentage of total sales:

	Three months ended June 30, 2010						Three months ended June 30, 2009					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**79.9**	**%**	**20.1**	**%**	**100.0**	**%**	83.1	%	16.9	%	100.0	%
Cost of sales	**56.3**		**10.1**		**66.4**		46.1		9.1		55.2	
Gross profit	**23.6**		**10.0**		**33.6**		37.0		7.8		44.8	
Selling and administrative expenses	**39.9**		**5.7**		**45.6**		27.4		4.8		32.2	
Amortization expense	**3.3**		**3.2**		**6.5**		3.3		2.5		5.8	
Foreign exchange loss	**(1.6)**		**-**		**(1.6)**		3.1		-		3.1	
Interest expense	**0.1**		**0.7**		**0.8**		0.1		0.6		0.7	
Income tax recovery	**(0.4)**		**(0.1)**		**(0.5)**		(0.6)		-		(0.6)	
Net income (loss)	**(17.7)**	**%**	**0.5**	**%**	**(17.2)**	**%**	3.7	%	(0.1)	%	3.6	%

	Nine months ended June 30, 2010						Nine months ended June 30, 2009					
	MFG		**FEC**		**Total**		MFG		FEC		Total	
Sales to external customers	**80.7**	**%**	**19.3**	**%**	**100.0**	**%**	89.8	%	10.2	%	100.0	%
Cost of sales	**52.7**		**10.5**		**63.2**		53.8		5.8		59.6	
Gross profit	**28.0**		**8.8**		**36.8**		36.0		4.4		40.4	
Selling and administrative expenses	**33.3**		**5.3**		**38.6**		28.1		4.3		32.4	
Amortization expense	**3.1**		**3.0**		**6.1**		2.0		1.5		3.5	
Foreign exchange loss	**(0.2)**		**-**		**(0.2)**		4.3		-		4.3	
Interest expense	**0.1**		**0.7**		**0.8**		-		0.5		0.5	
Income tax expense (recovery)	**(0.8)**		**(0.1)**		**(0.9)**		0.4		(0.6)		(0.2)	
Net income (loss)	**(7.5)**	**%**	**(0.1)**	**%**	**(7.6)**	**%**	1.2	%	(1.3)	%	(0.1)	%

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

	Three months ended June 30, 2010			Three months ended June 30, 2009		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**21.3**	**20.1 %**	**41.4 %**	8.8 %	16.9 %	25.7 %
United States	**43.4**	**-**	**43.4**	43.5	-	43.5
Europe	**-**	**-**	**-**	6.0	-	6.0
Middle East	**0.8**	**-**	**0.8**	14.9	-	14.9
Asia Pacific	**0.2**	**-**	**0.2**	2.0	-	2.0
Latin America	**14.2**	**-**	**14.2**	7.9	-	7.9
	79.9 %	**20.1 %**	**100.0 %**	83.1 %	16.9 %	100.0 %

	Nine months ended June 30, 2010			Nine months ended June 30, 2009		
	MFG	**FEC**	**Total**	MFG	FEC	Total
Sales						
Canada	**16.9 %**	**19.3 %**	**36.2 %**	11.0 %	10.2 %	21.2 %
United States	**44.7**	**-**	**44.7**	50.9	-	50.9
Europe	**1.6**	**-**	**1.6**	3.9	-	3.9
Middle East	**1.6**	**-**	**1.6**	17.5	-	17.5
Asia Pacific	**9.0**	**-**	**9.0**	2.2	-	2.2
Latin America	**6.9**	**-**	**6.9**	4.3	-	4.3
	80.7 %	**19.3 %**	**100.0 %**	89.8 %	10.2 %	100.0 %

Results of Operations – Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Sales

Sales decreased by $348,168 (or 16.9%) in Q3-10 to $1,712,123 from $2,060,291 in Q3-09. The decrease was due primarily to lower sales from our Manufacturing operations by $344,538.

In Q3-10, two significant customers accounted for 11.5% and 10.2%, respectively, of our total sales. In Q3-09, one customer accounted for 25.7% of our total sales.

The economic environment in our industry remains very challenging. We expected sales from our Manufacturing operations in Q3-10 to remain in-line with Q2-10, however, that did not materialize due to customers postponing, or reducing their purchases.

Gross profit

Gross profit was 33.6% of sales in Q3-10, compared to 44.9% in Q3-09. This decrease was due primarily to fixed overhead production costs that are reducing gross profit margins as a result of the low sales volume from our Manufacturing operations.

Operating expenses

Operating expenses were $877,767 in Q3-10, compared to $861,110 in Q3-09. The increase was due primarily to higher selling and administrative expenses by $117,495, mostly offset by $92,296 in lower foreign exchange losses from our Manufacturing operations.

Income tax expense

The income tax recovery of $9,321 in Q3-10 was due to a future income tax recovery resulting from the net loss before income tax in Q3-10. The income tax recovery of $12,638 in Q3-09 was due to the reversal of current income tax expense as a result of revising our estimated annual effective current income tax rate for fiscal 2009.

Net earnings

Net loss and comprehensive loss in Q3-10 was $292,977, or loss per share of $0.03, compared to net income and comprehensive income of $75,695, or diluted earnings per share of $0.01, in Q3-09. The decrease in net operating results for Q3-10 as compared to Q3-09 was due primarily to significant decreases in sales and gross profit percentage from our Manufacturing operations.

Results of Operations – Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009

Sales

Sales decreased by $2,194,045 (or 28.7%) for YTD – Q3-10 to $5,449,340 from $7,643,385 for YTD – Q3-09. The decrease was due to $2,468,864 in lower sales from our Manufacturing operations, partially offset by an increase of $274,819 in sales from our FEC operations.

For YTD – Q3-10, one significant customer accounted for 17.6% of our total sales. For YTD – Q3-09, two customers accounted for 17.7% and 11.9%, respectively, of our total sales. Although we experienced some business concentration during the nine months ended June 30, 2010, on an annual basis, we do not believe that we are exposed to significant customer concentration risks.

We expect that access to external financing for many of our customers will remain tight throughout 2010, therefore, we are forecasting sales in Q4-10 from our Manufacturing operations to remain in-line with Q3-10. For our FEC operations, we are also expecting that sales in Q4-10 will remain in-line with Q3-10.

Gross profit

Gross profit was 36.8% of sales for YTD – Q3-10, compared to 40.4% for YTD – Q3-09. This decrease was due primarily to fixed overhead production costs that are reducing gross profit margins as a result of the low sales volume from our Manufacturing operations.

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

Operating expenses

Operating expenses were $2,469,489 for YTD Q3-10, compared to $3,113,133 for YTD – Q3-09. The significant decrease was due primarily to $336,124 in lower foreign exchange losses and $373,963 in lower selling and administration expenses resulting from various cost reduction measures by our Manufacturing operations.

We expect that our operating expenses will continue to fluctuate, however, on an annual basis we continue to 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 due primarily 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 have entered into foreign exchange forward contracts when the exchange rate between the U.S. dollar and the Canadian dollar reached certain thresholds. During YTD – Q3-10, the volatility of the foreign exchange rate between the U.S. dollar and the Canadian dollar was significantly lower than during YTD – Q3-09. 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 recovery increased to $47,458 for YTD – Q3-10 from $12,638 for YTD – Q3-09 due primarily to an increase in future income tax recovery resulting from the net loss before income taxes of $464,629 for YTD – Q3-10 as compared to the net loss before income taxes of $22,667 for YTD – Q3-09.

Our future income tax recovery will continue to fluctuate based on the variability in our net loss before income tax. We are estimating an annual effective current income tax rate of NIL for our fiscal year ended September 30, 2010.

Net earnings

Net loss and comprehensive loss for YTD – Q3-10 was $417,171, or loss per share of $0.04, compared to net loss and comprehensive loss of $10,029, or loss per share of $0.00, for YTD – Q3-09. The significant increase in net loss and comprehensive loss for YTD – Q3-10 as compared to YTD – Q3-09 was due primarily to the year-to-date net loss and comprehensive loss from our Manufacturing operations.

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

For our FEC operations, we expect our net operating results to continue to fluctuate based on competition for consumer entertainment spending. We also expect the year-to-date net operating results from our FEC operations to improve 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 (Loss) per Share
June 30, 2010 (Q3-10)	1,712,123	(292,977)	(0.03)
March 31, 2010 (Q2-10)	1,935,266	(169,676)	(0.02)
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)

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 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 increase in net operating results from Q3-08 to Q4-08 was due primarily to higher sales and gross profit in Q4-08 compared to Q3-08.
- The decrease in net operating results from Q4-08 to Q1-09 was due primarily to higher foreign exchange losses in Q1-09 compared to Q4-08.
- The decrease in net operating results from Q1-09 to Q2-09 was due primarily to lower sales and gross profit in Q2-09 as compared to Q1-09.
- The increase in net operating results from Q2-09 to Q3-09 was due primarily to lower wage expenses in Q3-09 compared to Q2-09. Wage expenses were higher in Q2-09 compared to Q3-09 due to the completion of play structures installations at our FEC in Q2-09.
- The decrease in net operating results from Q3-09 to Q4-09 was due primarily to higher operating expenses in Q4-09 compared to Q3-09. Q4-09 operating expenses were higher than Q3-09 due to international trade show expenses incurred in Q4-09.
- The increase in net operating results from Q4-09 to Q1-10 was due primarily to higher operating expenses in Q4-09 as a result of international trade show expenses.

- The decrease in net operating results from Q1-10 to Q2-10 was due primarily to a combination of lower gross profit, as a result of sales mix, and higher selling and administration expenses, in Q2-10 compared to Q1-10, from year-end fillings and the shareholders' annual general meeting.
- The decrease in net operating results from Q2-10 to Q3-10 was due primarily to lower sales and gross profit in Q3-10 as compared to Q2-10.

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

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

Our IFRS conversion project began in Q2-10 and consists of four phases: (1) Assessment and Planning; (2) Design; (3) Implementation; and (4) Post Implementation. We have established a project plan, governance structure, a project leader, and an external advisor. Our goal is to minimize, where possible, the impact of any changes on our business from the eventual adoption of IFRS. In Q3-10, we began regular reporting to the Audit Committee and to the Board of Directors on the status of our conversion project.

We are currently engaged in the Implementation phase of our IFRS project and we continue to be on track to meet the changeover date. We have completed our review of the major differences between Canadian GAAP and IFRS, and alternatives available under IFRS 1 – *First Time Adoption of IFRS*. The associated table provides a summary of key activities, milestones and status of our conversion project. New and revised IFRS developments are being monitored, but may result in changes to the project activities below.

Key Activities	Key Milestones	Status
Financial Statement Preparation: - Identify differences in accounting policies between Canadian GAAP and IFRS.	- Management and Audit Committee sign-off for all key IFRS accounting policy choices to occur during 2010. - Develop draft financial statement	- We have completed our review of the major differences between Canadian GAAP and IFRS, and alternatives available under IFRS 1. See further

Key Activities	Key Milestones	Status
- Assess the transitional requirements and exemptions on first-time adoption of IFRS to both our annual and interim financial statements. - Select our IFRS accounting policies. - Develop our financial statement format. - Quantify the differences between Canadian GAAP and IFRS.	format to occur during 2010.	below for details. - We are performing an in-depth analysis of accounting policy choices.
Training: Define and introduce an appropriate level of IFRS expertise for each of the following: - Accounting Personnel - Management - Audit Committee.	- Training for Accounting Personnel, Management and the Audit Committee is expected to occur as needed throughout the project.	- The IFRS project lead is the Company's Chief Financial Officer who continues to receive in-depth IFRS training. - The Company's external advisor, with input from the Chief Financial Officer, are providing insights and training throughout the project to Accounting Personnel, Management and the Audit Committee.
Infrastructure: Confirm that our business processes and our accounting systems are IFRS compliant.	- Confirmation that our business processes and our accounting systems are IFRS compliant will occur throughout the project.	- We have completed our preliminary review of our business processes and accounting systems and we do not anticipate significant changes resulting from the transition to IFRS.
Control Environment: - Assess the implications on the design and operating effectiveness of our internal controls resulting from changes to our accounting policies. - Implement the appropriate changes as required.	- The implications on the design and operating effectiveness of all key internal controls resulting from changes to our accounting policies are being assessed as part of our review of the IFRS accounting policy choices.	- We have completed our preliminary review of our control environment and we do not anticipate material changes to our internal controls and disclosure controls over financial reporting.
External Communications: - Assess the implications of IFRS accounting policies and disclosures on continuous disclosure documents, such as news releases and Management's Discussion and Analysis ("MD&A").	- Analyze and disclose the implications of the changeover to IFRS on continuous disclosure documents throughout the project.	- We will continue to provide updates on our IFRS conversion project, including IFRS disclosures, in each of our interim and annual MD&A leading up to the our first interim reporting under IFRS for the three months ended December 31, 2011.

We have not yet determined the full effects of adopting IFRS. Our preliminary assessments of the key areas where changes in accounting policies are expected to impact the Company's consolidated financial statements are listed below. The list and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas that we believe to be most significant, however, analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available. At this stage, we have not quantified the impacts expected on the Company's consolidated financial statements for these differences.

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated because they are applied prospectively will only be made as of October 1, 2010, being the first day of the year of transition for the Company.

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of

IFRS. We have completed our review of the alternatives available under IFRS 1 and we are expecting to implement the optional exemption that defers the adoption of IFRS 2 – *Share-based Payment* to stock options granted after November 7, 2002, which have not vested at October 1, 2010.

Property, Plant & Equipment

International Accounting Standard (IAS) 16 – *Property, Plant & Equipment* and Canadian GAAP contain the same basic principles, however there are some differences. IFRS requires that significant parts of an asset be depreciated separately and depreciation commences when the asset is available for use. IFRS also permits property, plant and equipment to be measured using the fair value model or the historical cost model. We are not planning on adopting the fair value measurement model for the Company's property, plant and equipment.

IFRS 1 contains an elective exemption where an entity may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition. We are not planning on adopting this exemption and will continue to measure the Company's property, plant and equipment at cost.

Impairment of Assets

Impairments under IAS 36 – *Impairment of Assets* are based on discounted cash flows. Under Canadian GAAP, if an asset's estimated undiscounted future cash flows are below its carrying amount a write-down is required and is determined by the amount which the carrying amount exceeds the discounted cash flows. There is no undiscounted test under IFRS. This may result in more frequent write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

In addition, under IAS 36 a favorable change in the circumstance that resulted in an impairment of an asset, other than goodwill, would trigger the requirement for a redetermination of the amount of the impairment with any reversal being recognized in income to the extent the asset had previously been impaired. Under Canadian GAAP, impairments are not reversed.

Provisions, Contingent Liabilities and Contingent Assets

IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities, which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP used the low-end of the range) and the requirement under IFRS for provisions to be discounted where material.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities was $256,629 in Q3-10, compared to cash used by operating activities of $39,381 in Q3-09. This increase was due primarily to the difference in change in non-cash operating working capital from trade accounts receivable balances.

Cash provided by operating activities was $71,902 for YTD – Q3-10, compared to $186,253 for YTD – Q3-09. This decrease was due primarily to the net loss of $417,171 for YTD – Q3-10 compared to the

net loss of $10,029 for YTD – Q3-09, partially offset by the difference in change in non-cash operating working capital between YTD – Q3-10 and YTD – Q3-09.

For our Manufacturing operations, we expect that cash flows from operating activities will continue to fluctuate based on variability in our net operating results and changes in non-cash operating working capital.

For our FEC operations, we expect that year-to-date cash flows from operating activities will increase as compared to 2009, due to improved net operating results.

Investing Activities

Cash used by investing activities was $11,676 in Q3-10, compared to $168,834 in Q3-09. The decrease was due to lower purchases of property, plant and equipment.

Cash used by investing activities was $45,190 for YTD – Q3-10, compared to $854,964 for YTD – Q3-09. The decrease was due primarily to significant purchases of play structure equipment in 2009 for our FEC operations.

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

As of the date of this report, we have not entered into any proposed asset or business acquisition or disposition, and except in such instances, we do not anticipate to increase significantly our investment in capital expenditures in 2010.

Financing Activities

Cash used by financing activities was $77,104 in Q3-10, compared to $63,204 in Q3-09. The increase was due to higher cash outflows for repayment of capital lease obligations as a result of entering into new capital leases.

Cash used by financing activities was $227,396 for YTD – Q3-10, compared to $104,789 for YTD – Q3-09. The increase was due primarily to higher cash outflows for repayment of capital lease obligations as a result of entering into new capital leases.

We expect to continue to use our operating loan, 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 June 30, 2010, we did not have any off-balance sheet finance or special purpose entities.

Cash Requirements

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

Sources and Uses of Cash

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

- Our net cash balance amounted to $219,326 at June 30, 2010, compared to $420,010 at September 30, 2009. Net cash is comprised of cash on hand of $234,326, less $15,000 drawn on our operating loan facility at June 30, 2010, compared to $420,010, less NIL, respectively, at September 30, 2009.

- Accounts receivable amounted to $706,100 at June 30, 2010, compared to $760,445 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 June 30, 2010, $15,000 was drawn on this facility, and we had available remaining funds of $485,000 (September 30, 2009 – no amount drawn).

Market Risk Disclosure

Currency risk

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

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

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. During YTD – Q3-10 we entered into foreign exchange forward contracts when the exchange rate between the U.S. dollar and the Canadian dollar reached certain thresholds. During YTD – Q3-10, the volatility of the foreign exchange rate between the U.S. dollar and the Canadian dollar was significantly lower than during YTD – Q3-09 which contributed to significantly decrease our foreign exchange losses.

We did not have any foreign exchange forward contracts outstanding at June 30, 2010.

Credit risk

Our credit risk is primarily attributable to our accounts receivable. Accounts receivable is disclosed in 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.

One customer represented approximately 34.9% of the accounts receivable balance as at June 30, 2010 (September 30, 2009 – two customers represented approximately 58.0%). In our view, this account does not represent a significant credit risk.

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

Interest rate risk

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

Liquidity risk

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

Legal Proceedings

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 June 30, 2010, there were no new legal actions, as compared to September 30, 2009.

Related Party Transactions

During YTD – Q3-10, there were no material related party transactions.

Outstanding Share Capital

As at August 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.