



Consolidated financial statements of

Iplayco Corporation Ltd.

As at and for the three and nine months ended June 30, 2011

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

Iplayco Corporation Ltd.

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Iplayco Corporation Ltd.

Consolidated balance sheets

	June 30, 2011	September 30, 2010
	(Unaudited)	
Assets		
Current		
Cash	\$ -	\$ 369,573
Accounts receivable	639,004	706,544
Inventories (Note 4)	1,073,585	974,078
Prepaid expenses	174,733	89,873
	<u>1,887,322</u>	2,140,068
Property, plant, and equipment	1,863,285	2,018,753
Future income taxes	472,199	179,077
	<u>\$ 4,222,806</u>	<u>\$ 4,337,898</u>
Liabilities		
Current		
Operating loan (note 3)	\$ 88,940	\$ -
Accounts payable and accrued liabilities	1,131,015	946,546
Customer deposits	831,516	288,473
Current portion of rent inducement (Note 5)	59,091	22,817
Current portion of capital lease obligations (Note 6)	142,525	145,048
Loan payable	27,777	152,775
	<u>2,280,864</u>	1,555,659
Rent inducement (Note 5)	152,478	55,140
Capital lease obligations (Note 6)	90,922	198,110
	<u>2,524,264</u>	1,808,909
Shareholders' equity		
Capital stock	1,757,643	1,757,643
Contributed surplus	256,858	256,858
Retained earnings (deficit)	(315,959)	514,488
	<u>1,698,542</u>	2,528,989
	<u>\$ 4,222,806</u>	<u>\$ 4,337,898</u>

Subsequent event (Note 8)

Approved by the Directors

.....
"David A. Perkins"

.....
"David L. Wood"

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

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

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
Sales (Note 2)	\$ 1,935,179	\$ 1,712,123	\$ 5,045,360	\$ 5,449,340
Cost of sales	1,430,395	1,136,654	3,588,547	3,444,480
Gross profit	504,784	575,469	1,456,813	2,004,860
Expenses				
Selling and administration	754,149	780,715	2,231,693	2,105,385
Depreciation	83,802	111,189	284,506	330,144
Foreign exchange loss (gain)	(5,305)	(27,526)	28,810	(9,157)
Interest expense	11,800	13,389	35,373	43,117
	844,446	877,767	2,580,382	2,469,489
Loss before income taxes	(339,662)	(302,298)	(1,123,569)	(464,629)
Future income tax recovery	(104,747)	(9,321)	(293,122)	(47,458)
Net loss and comprehensive loss for the period	(234,915)	(292,977)	(830,447)	(417,171)
Retained earnings (deficit) at beginning of the period	(81,044)	725,626	514,488	849,820
Retained earnings (deficit) at end of the period	\$ (315,959)	\$ 432,649	\$ (315,959)	\$ 432,649
Loss per share				
Basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.08)	\$ (0.04)
Weighted average number of common shares				
Basic and diluted	10,220,187	10,220,187	10,220,187	10,220,187

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,	
	2011	2010	2011	2010
Operating activities				
Net loss for the period	\$ (234,915)	\$ (292,977)	\$ (830,447)	\$ (417,171)
Items not involving cash				
Depreciation	83,802	111,189	284,506	330,144
Future income taxes	(104,747)	(9,321)	(293,122)	(44,025)
Non-hedging financial derivatives	-	-	-	(164)
Rent inducement	29,610	(5,704)	133,612	(17,113)
Unrealized foreign exchange loss (gain)	6,213	(14,239)	5,918	(13,318)
	(220,037)	(211,052)	(699,533)	(161,647)
Change in non-cash operating working capital				
Accounts receivable	(299,869)	324,428	61,622	67,663
Inventories	33,399	(74,771)	(99,507)	(49,532)
Prepaid expenses	(16,817)	6,485	(84,860)	22,089
Accounts payable	132,156	(46,249)	184,469	(108,358)
Customer deposits	601,144	257,788	543,043	301,687
	450,013	467,681	604,767	233,549
	229,976	256,629	(94,766)	71,902
Investing activities				
Purchase of property, plant and equipment	(25,971)	(11,676)	(129,038)	(45,190)
Financing activities				
Repayment of loan payable	(41,667)	(41,667)	(124,998)	(125,001)
Repayment of capital lease obligations	(34,495)	(35,437)	(109,711)	(102,395)
	(76,162)	(77,104)	(234,709)	(227,396)
Change in cash during the period	127,843	167,849	(458,513)	(200,684)
Cash (overdraft) at beginning of the period	(216,783)	51,477	369,573	420,010
Cash (overdraft) at end of the period (note 3)	(88,940)	219,326	\$ (88,940)	\$ 219,326
Supplemental cash flow information:				
Interest paid	\$ 11,800	\$ 13,389	\$ 35,373	\$ 43,117
Non-cash transactions - capital leases	-	-	-	66,261

See accompanying notes to the consolidated financial statements

Iplayco Corporation Ltd.

Notes to consolidated financial statements

June 30, 2011

(Unaudited)

1. Basis of presentation

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

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

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

2. Revenue recognition

During the three months ended June 30, 2011, the Corporation entered into a fixed price contract of \$869,893 (U.S. \$898,000) for the sale of a large play structure. During this period the Corporation has recognized revenues of \$246,636 under this contract using the percentage-of-completion method of accounting. Under this method, revenues are recognized on the percentage-of-completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the reporting date by the sum of incurred and anticipated costs for completing the contract. The cumulative effect of changes to anticipated revenues and anticipated costs for completing the contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on the contract, such loss is recognized in its entirety in the period it becomes known.

3. Operating loan

On August 13, 2010, the operating loan facility was renewed with a limit of \$500,000, subject to certain margin requirements, bears interest at prime plus 1.50%, and is secured by a general security agreement covering all property of the Corporation. At June 30, 2011, \$370,000 has been drawn on this facility (September 30, 2010 - no amount drawn), and is presented net of cash of \$281,060.

4. Inventories

	June 30, 2011	September 30, 2010
Raw materials	\$ 949,209	\$ 921,341
Work in progress	70,809	27,419
Finished goods	53,567	25,318
	\$ 1,073,585	\$ 974,078

Iplayco Corporation Ltd.

Notes to consolidated financial statements

June 30, 2011

(Unaudited)

4. Inventories (continued)

Inventories recognized as an expense during the three and nine months ended June 30, 2011 amount to \$1,396,996 and \$3,688,054, respectively (2010 - \$1,211,425 and \$3,494,012).

5. Rent inducement

On February 6, 2008, the Corporation entered into an operating lease agreement commencing on March 1, 2008 to February 29, 2014 with basic rent escalating annually, and ten months of basic rent forgiven. At June 30, 2011, rent inducement of \$105,464 from this operating lease is included in these financial statements and is recognized into income over the term of the lease.

On July 6, 2010, the Corporation entered into an operating lease agreement for office and warehouse space, commencing on December 1, 2010 to November 30, 2020, with basic rent escalating every two years, and seven months of basic rent forgiven. At June 30, 2011, rent inducement of \$106,105 from this operating lease is included in these financial statements and is recognized as a lease expense.

6. Capital lease obligations

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

	June 30, 2011
2011	\$ 40,507
2012	149,553
2013	61,197
2014	1,841
	<u>253,098</u>
	Less amount representing interest at 9.39% (19,651)
	<u>233,447</u>
Less current portion	<u>(142,525)</u>
	<u>\$ 90,922</u>

7. Segmented information and concentration of sales

(a) Business segments

The Corporation operates in two business segments: Manufacturing of play structures, and operating a Family Entertainment Centre.

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

Iplayco Corporation Ltd.

Notes to consolidated financial statements

June 30, 2011

(Unaudited)

7. Segmented information and concentration of sales (continued)

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

	Three months ended June 30, 2011		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 1,582,484	\$ 352,695	\$ 1,935,179
Cost of sales	1,244,564	185,831	1,430,395
Gross profit	337,920	166,864	504,784
Selling and administrative expenses	652,405	101,744	754,149
Depreciation expense	40,290	43,512	83,802
Foreign exchange gain	(5,305)	-	(5,305)
Interest expense	5,361	6,439	11,800
Income tax recovery	(89,933)	(14,814)	(104,747)
Net income (loss)	\$ (264,898)	\$ 29,983	\$ (234,915)
Total assets	\$ 2,923,094	\$ 1,299,712	\$ 4,222,806
Acquisition of property, plant and equipment	\$ 20,707	\$ 5,264	\$ 25,971

	Nine months ended June 30, 2011		
	Manufacturing	Family Entertainment Centre	Total
Sales to external customers	\$ 3,885,237	\$ 1,160,123	\$ 5,045,360
Cost of sales	2,997,859	590,688	3,588,547
Gross profit	887,378	569,435	1,456,813
Selling and administrative expenses	1,881,974	349,719	2,231,693
Depreciation expense	149,457	135,049	284,506
Foreign exchange loss	28,810	-	28,810
Interest expense	11,989	23,384	35,373
Income tax recovery	(272,018)	(21,104)	(293,122)
Net income (loss)	\$ (912,834)	\$ 82,387	\$ (830,447)
Total assets	\$ 2,923,094	\$ 1,299,712	\$ 4,222,806
Acquisition of property, plant and equipment	\$ 116,247	\$ 12,791	\$ 129,038

Iplayco Corporation Ltd.

Notes to consolidated financial statements

June 30, 2011

(Unaudited)

7. Segmented information and concentration of sales (continued)

	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
Depreciation 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

	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
Depreciation 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

Iplayco Corporation Ltd.

Notes to consolidated financial statements

June 30, 2011

(Unaudited)

7. Segmented information and concentration of sales (continued)

(b) Geographic and customer information

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

The Corporation attributes sales amounts to geographical areas based on where the customer is located. Information related to geographical areas is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
Sales				
Canada	\$ 733,354	\$ 707,936	\$ 1,722,361	\$ 1,969,582
Americas	711,056	987,833	2,353,945	2,812,399
Other	490,769	16,354	969,054	667,359
	\$ 1,935,179	\$ 1,712,123	\$ 5,045,360	\$ 5,449,340

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,	
	2011	2010	2011	2010
Customer A	\$ -	\$ -	\$ 667,143	\$ 959,223
Customer B	246,636	-	-	-
Customer C	246,805	-	-	-
Customer D	-	196,687	-	-
Customer E	-	175,381	-	-
	\$ 493,441	\$ 372,068	\$ 667,143	\$ 959,223

8. Subsequent event

On July 26, 2011, the Corporation entered into a sales agreement of \$1,651,786 (U.S. \$1,752,000) to design, manufacture and install a large play structure.



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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Iplayco Corporation Ltd. ("Iplayco" or the "Corporation") provides information for the three and nine-month periods ended June 30, 2011, and up to and including August 4, 2011. This MD&A should be read together with our unaudited interim consolidated financial statements and the accompanying notes for the three and nine-month periods ended June 30, 2011 (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, 2010, and our Management Proxy Circular, can be found on SEDAR at www.sedar.com and on our corporate website at www.iplaycoltd.com.

Overview

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

Consolidated Results

Sales for the three-month period ended June 30, 2011 ("Q3-11") increased by 13.0% to \$1,935,179 from \$1,712,123 for the three-month period ended June 30, 2010 ("Q3-10"). Gross profit percentage was 26.1% of sales in Q3-11 compared to 33.6% in Q3-10. Operating expenses were \$844,446 or 43.6% of sales in Q3-11 compared to \$877,767 or 51.3% of sales in Q3-10. Net loss in Q3-11 was \$234,915, or loss per share of \$0.02, compared to net loss of \$292,977, or loss per share of \$0.03, in Q3-10.

Sales for the nine-month period ended June 30, 2011 ("YTD – Q3-11") decreased by 7.4% to \$5,045,360 from \$5,449,340 for the nine-month period ended June 30, 2010 ("YTD – Q3-10"). Gross profit was 28.9% of sales for YTD – Q3-11 compared to 36.8% for YTD – Q3-10. Operating expenses were \$2,580,382 or 51.1% of sales for YTD – Q3-11 compared to \$2,469,489 or 45.3% of sales for YTD – Q3-10. Net loss for YTD – Q3-11 was \$830,447, or loss per share of \$0.08, compared to net loss of \$417,171, or a loss per share of \$0.04, for YTD – Q3-10.

Manufacturing

The time required to manufacture, deliver, 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 centres, theme parks, shopping malls, day care centres, fitness clubs, municipalities and not for profit organizations. Over the past few years there



has been an increase in customer demand for larger and more complex play structures however the general state of the economy has had a significant impact on the volume of orders for our larger and more complex play structures.

Sales generated by our Manufacturing operations increased by 15.6% to \$1,582,484 in Q3-11 from \$1,368,469 in Q3-10. This increase was due primarily to higher sales to our customers located outside of the Americas, who accounted for \$490,769 (or 31.0% of total Manufacturing sales) in Q3-11, compared to \$16,354 (or 1.2%) in Q3-10, partially offset by lower sales to our customers in the Americas, excluding Canada, who accounted for \$711,056 (or 44.9% of total Manufacturing sales) in Q3-11, compared to \$987,833 (or 72.2%) in Q3-10.

Sales generated by our Manufacturing operations decreased by 11.6% to \$3,885,237 for YTD – Q3-11 from \$4,397,290 for YTD – Q3-10. This decrease was due primarily to lower sales to our customers in the Americas, excluding Canada, who accounted for \$2,353,945 (or 60.6% of total Manufacturing sales) for YTD – Q3-11, compared to \$2,812,399 (or 64.0%) for YTD – Q3-10, partially offset by higher sales to our customers located outside of the Americas, who accounted for \$969,054 (or 24.9% of total Manufacturing sales) during YTD – Q3-11, compared to \$667,359 (or 15.2%) during YTD – Q3-10.

We generate a significant portion of our total sales from the United States of America ("U.S.") therefore our Manufacturing operations continue to be affected by the challenging economic environment in the U.S. If the resulting economic pressure on our customers causes them to end their relationship with us, reduce or postpone current or expected purchase orders for our play structures, or suffer from business failure, our sales and profitability could decline, perhaps materially. To manage this risk, we are increasing our efforts to rationalize production costs in order to improve our competitive pricing, and we are increasing our marketing activities in an effort to increase sales and broaden our customer base, particularly in markets outside of North America.

We expected Q3-11 sales to be in-line with Q2-11 and we exceeded expectations due primarily to three significant orders in Q3-11. Sales generated by our Manufacturing operations increased by 77.2% to \$1,582,484 in Q3-11 from \$892,856 in Q2-11. During Q3-11 we entered into two significant sales agreements for U.S. \$898,000 and U.S. \$1,225,000, and we expect to complete a substantial portion of these contracts by the end of our 2011 fiscal year.

Gross profit percentage decreased to 21.4% (or 22.8% for YTD – Q3-11) of sales from our Manufacturing operations in Q3-11 from 29.6% in Q3-10 (or 34.7% for YTD – Q3-10). Decreases in gross profit percentages during these periods were due primarily to the combined effect of a very competitive market environment which contributed to significantly reduce pricing and margins on sales of our larger play structures, fixed overhead production costs that reduced margins due to the low sales volume, and the strengthening of the Canadian dollar against the U.S. dollar. For Q4-11 we expect that our gross profit percentage will increase considerably as compared to Q3-11 due primarily to the margin from our larger sales orders.

Our Manufacturing operations generated a net loss of \$264,898 in Q3-11 (or net loss of \$912,834 for YTD – Q3-11) compared to a net loss of \$300,104 in Q3-10 (or net loss of \$406,565 for YTD – Q3-10). Net losses during these periods were due primarily to weak gross profit margins. We are however expecting that our net operating results will increase considerably in Q4-11 due to the volume and expected margins from our larger sales orders.



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 various market risks.

Sales generated by our FEC operations increased by 2.6% to \$352,695 in Q3-11 from \$343,654 in Q3-10 and increased by 10.3% to \$1,160,123 for YTD – Q3-11 from \$1,052,050 for YTD – Q3-10. Increases in sales during these periods were due to higher admission fee revenues resulting from increased marketing efforts, new party packages, and the introduction of new games.

Net income from our FEC operations increased by 320.7% to \$29,983 in Q3-11 from \$7,127 in Q3-10 and increased by 876.8% to 82,387 for YTD – Q3-11 from a net loss of \$10,606 for YTD – Q3-10. Increases in net operating results during these periods were due primarily to higher sales.

We expected sales from our FEC operations in Q3-11 to decrease as compared to Q2-11 due primarily to seasonality. Actual sales generated by our FEC operations decreased by 17.4% to \$352,695 in Q3-11 from \$426,794 in Q2-11. Historically, our FEC has generated its strongest sales in Q2 due to the number of customer visits resulting primarily from winter weather conditions and school holidays. We are expecting sales from our FEC operations in Q4-11 to remain in-line with Q3-11. We are also expecting that our operating expenses will continue to decrease as a percentage of our FEC sales due to our continuing efforts to reduce operating expenses, and due to lower interest expense resulting from fixed repayments on our existing loan payable balance and capital lease obligations.

Our business plan is to continue to search for new growth opportunities for our FEC operations. Our decision to expand will depend on finding appropriate facilities and obtaining additional financing. In order to continue our growth strategy, we will require additional financing to open new FECs, however, should our expansion plans succeed, it is our belief that our Manufacturing operations would benefit by supplying play structures for the new FECs and in turn, these FECs would serve as a valuable showcase for our new play structures.



Results of Operations

The following tables set forth our operating results for our Manufacturing and our FEC business segments for the three and nine-month periods ended June 30, 2011 and 2010, expressed as a percentage of total sales:

	Three months ended June 30, 2011			Three months ended June 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	81.8 %	18.2 %	100.0 %	79.9 %	20.1 %	100.0 %
Cost of sales	64.3	9.6	73.9	56.3	10.1	66.4
Gross profit	17.5	8.6	26.1	23.6	10.0	33.6
Selling and administrative expenses	33.7	5.3	39.0	39.9	5.7	45.6
Depreciation expense	2.1	2.2	4.3	3.3	3.2	6.5
Foreign exchange loss	(0.3)	-	(0.3)	(1.6)	-	(1.6)
Interest expense	0.3	0.3	0.6	0.1	0.7	0.8
Income tax recovery	(4.6)	(0.8)	(5.4)	(0.4)	(0.1)	(0.5)
Net income (loss)	(13.7) %	1.6 %	(12.1) %	(17.7) %	0.5 %	(17.2) %

	Nine months ended June 30, 2011			Nine months ended June 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
Sales to external customers	77.0 %	23.0 %	100.0 %	80.7 %	19.3 %	100.0 %
Cost of sales	59.4	11.7	71.1	52.7	10.5	63.2
Gross profit	17.6	11.3	28.9	28.0	8.8	36.8
Selling and administrative expenses	37.3	6.9	44.2	33.3	5.3	38.6
Depreciation expense	3.0	2.7	5.7	3.1	3.0	6.1
Foreign exchange loss (gain)	0.6	-	0.6	(0.2)	-	(0.2)
Interest expense	0.2	0.5	0.7	0.1	0.7	0.8
Income tax recovery	(5.4)	(0.4)	(5.8)	(0.8)	(0.1)	(0.9)
Net income (loss)	(18.1) %	1.6 %	(16.5) %	(7.5) %	(0.1) %	(7.6) %



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

	Three months ended June 30, 2011			Three months ended June 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
Sales						
Canada	19.7 %	18.2 %	37.9 %	21.3 %	20.1 %	41.4 %
Americas	36.7	-	36.7	57.6	-	57.6
Other	25.4	-	25.4	1.0	-	1.0
	<u>81.8 %</u>	<u>18.2 %</u>	<u>100.0 %</u>	<u>79.9 %</u>	<u>20.1 %</u>	<u>100.0 %</u>

	Nine months ended June 30, 2011			Nine months ended June 30, 2010		
	MFG	FEC	Total	MFG	FEC	Total
Sales						
Canada	11.2 %	23.0 %	34.2 %	16.9 %	19.3 %	36.2 %
Americas	46.6	-	46.6	51.6	-	51.6
Other	19.2	-	19.2	12.2	-	12.2
	<u>77.0 %</u>	<u>23.0 %</u>	<u>100.0 %</u>	<u>80.7 %</u>	<u>19.3 %</u>	<u>100.0 %</u>

Results of Operations – Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Sales

Sales increased by \$223,056 (or 13.0%) to \$1,935,179 in Q3-11 from \$1,712,123 in Q3-10 due primarily to an increase in sales of \$214,015 from our Manufacturing operations.

In Q3-11, two customers accounted for 25.5% of our total sales. In Q3-10, two customers accounted for 21.7% of our total sales.

Our sales increased by \$615,529 (or 46.6%) to \$1,935,179 in Q3-11 from \$1,319,650 in Q2-11, and we are expecting strong growth in our sales in Q4-11 as compared to Q3-11 due primarily to two significant sales orders for our Manufacturing operations.

Gross profit

Gross profit percentage was 26.1% of sales in Q3-11 compared to 33.6% in Q3-10. This decrease was due primarily to our Manufacturing operations which generated a gross profit percentage of 21.4% in Q3-11 compared to 29.6% in Q3-10 due primarily to the combined effect of a very competitive market environment which contributed to significantly reduce pricing and margins on sales of our larger play structures, fixed overhead production costs that reduced margins due to the low sales volume, and the strengthening of the Canadian dollar against the U.S. dollar.

We expect that our gross profit percentage will increase significantly in Q4-11 as compared to Q3-11 due primarily to expected margins from larger sales orders for our Manufacturing operations.



Operating expenses

Operating expenses decreased by \$33,321 (or 3.8%) to \$844,446 in Q3-11 from \$877,767 in Q3-10. This decrease was due primarily to lower selling and administrative expenses from lower rent and insurance expenses.

Our operating expenses amounted to 43.6% of sales in Q3-11 and 55.8% in Q2-11, and we are expecting operating expenses in Q4-11 to decrease slightly, as a percentage of total sales, compared to Q3-11.

Income taxes

The income tax recovery of \$104,747 in Q3-11 is comprised of a future income tax recovery of \$89,933, on the loss before tax from our Manufacturing operations, and a future income tax recovery of \$14,814, on the income before tax from our FEC operations. The income tax recovery of \$9,321 in Q3-10 is comprised of a future income tax recovery of \$7,641, on the loss before tax from our Manufacturing operations, and a future income tax recovery of \$1,680, on the income before tax from our FEC operations.

Although our income taxes will continue to fluctuate based on the variability in our quarterly results from operations, we do not expect to incur a current income tax expense during our 2011 fiscal year.

Net results from operations

Net loss and comprehensive loss in Q3-11 was \$234,915, or loss per share of \$0.02, compared to net loss and comprehensive loss of \$292,977, or diluted loss per share of \$0.03, in Q3-10. This slight decrease in net loss was due primarily to the lower net loss generated by our Manufacturing operations in Q3-11 as compared to Q3-10.

For our Manufacturing operations, we expect our net operating results to increase considerably in Q4-11 as compared to Q3-11 due to two large sales orders which are expected to be substantially completed before the end of our 2011 fiscal year.

For our FEC operations, we expect our net operating results to continue to fluctuate from quarter to quarter based on seasonality factors, primarily, weather conditions and school holidays. Since our FEC began operating in December 2008, seasonality trends have developed in sales and net operating results, with Q2 historically generating the strongest operating results, due primarily to winter weather conditions that are generally conducive to indoor activities for children, resulting in a higher number of customer visits at our FEC. Conversely, our Q4 operating results have historically been the weakest due to summer weather conditions that are generally conducive to outdoor activities for children, resulting in a lower number of visits at our FEC.



Results of Operations – Nine Months Ended June 30, 2011 Compared to Nine Months Ended June 30, 2010

Sales

Sales decreased by \$403,980 (or 7.4%) for YTD – Q3-11 to \$5,045,360 from \$5,449,340 for YTD – Q3-10 due primarily to a decrease in sales of \$512,053 from our Manufacturing operations.

For YTD – Q3-11, one customer accounted for 13.2% of our total sales. For YTD – Q3-10, one customer accounted for 17.6% of our total sales.

We expect strong growth in our sales in Q4-11 as compared to Q3-11 due primarily to two significant sales orders for our Manufacturing operations, which is expected to result in a moderate increase in annual sales in 2011 as compared to 2010.

Gross profit

Gross profit percentage was 28.9% of sales for YTD – Q3-11 compared to 36.8% for YTD – Q3-10. This decrease was due primarily to the decrease in gross profit percentage from our Manufacturing operations, resulting from the combined effect of a very competitive market environment which contributed to significantly reduce pricing and margins on sales of our larger play structures, fixed overhead production costs that reduced margins due to the low sales volume, and the strengthening of the Canadian dollar against the U.S. dollar.

Although we expect our gross profit percentage to increase significantly in Q4-11 as compared to Q3-11, due primarily to expected margins from larger sales orders for our Manufacturing operations, we don't expect this increase to improve our 2011 annual gross profit percentage to the level of 2010.

Operating expenses

Operating expenses increased by \$110,893 (or 4.5%) to \$2,580,382 for YTD – Q3-11 from \$2,469,489 for YTD – Q3-10. This increase was due primarily to higher selling and administrative expenses from higher wages and benefits, resulting from increased headcount.

We expect the following trends for fiscal 2011 as compared to 2010:

- Higher administration expenses due to higher wages and benefits resulting from increased headcount in the sales department, and higher selling and marketing expenses in an effort to broaden the customer base of our Manufacturing operations.
- Lower depreciation expense resulting from a decrease in budgeted capital expenditures.
- Higher foreign exchange losses due to the strengthening of the Canadian dollar versus the U.S. dollar.
- Interest expense to remain in-line with 2010.

Income taxes

Income tax recovery increased to \$293,122 for YTD – Q3-11 from \$47,458 for YTD – Q3-10 due primarily to the net loss before income taxes from our Manufacturing operations.

Although our income taxes will continue to fluctuate based on the variability in our results from operations, we do not expect to incur a current income tax expense in our 2011 fiscal year.



Net results from operations

Net loss and comprehensive loss was \$830,447, or loss per share of \$0.08, for YTD – Q3-11 compared to net loss and comprehensive loss of \$417,171, or diluted loss per share of \$0.04, for YTD – Q3-10. This increase in net loss was due to the net loss generated by our Manufacturing operations.

We are expecting net earnings in Q4-11 to reduce our year-to-date net loss and comprehensive loss, due primarily to strong earnings from our Manufacturing operations. We are also expecting net income in 2011 from FEC operations, as compared to the net loss in 2010.



Quarterly Results of Operations

The following tables set forth unaudited consolidated statements of operations data, and unaudited statements of operations data for the Manufacturing and FEC business segments, for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the years ended September 30, 2010 and 2009. The unaudited quarterly statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period.

	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11
	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11
CONSOLIDATED								
Sales	\$1,682,700	\$1,801,951	\$1,935,266	\$1,712,123	\$ 2,492,158	\$ 1,790,531	\$ 1,319,650	\$1,935,179
Cost of sales	760,851	1,017,193	1,290,633	1,136,654	1,423,955	1,312,317	845,835	1,430,395
Gross profit	921,849	784,758	644,633	575,469	1,068,203	478,214	473,815	504,784
Selling and administrative expenses	886,150	582,902	741,768	780,715	885,475	844,348	633,196	754,149
Depreciation expense	124,727	108,257	110,698	111,189	148,649	114,289	86,415	83,802
Foreign exchange loss (gain)	48,817	5,994	12,375	(27,526)	4,015	28,782	5,333	(5,305)
Interest expense	13,963	15,440	14,288	13,389	12,071	11,554	12,019	11,800
Income tax expense (recovery)	37,154	26,683	(64,820)	(9,321)	(63,846)	(123,630)	(64,745)	(104,747)
Net income (loss)	\$ (188,962)	\$ 45,482	\$ (169,676)	\$ (292,977)	\$ 81,839	\$ (397,129)	\$ (198,403)	\$ (234,915)
Basic and diluted earnings (loss) per share	(0.02)	0.00	(0.02)	(0.03)	0.01	(0.04)	(0.02)	(0.02)

	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11
	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11
MANUFACTURING								
Sales	\$1,360,869	\$1,498,579	\$1,530,242	\$1,368,469	\$ 2,191,177	\$ 1,409,897	\$ 892,856	\$1,582,484
Cost of sales	596,132	827,605	1,079,722	963,611	1,244,699	1,109,724	643,571	1,244,564
Gross profit	764,737	670,974	450,520	404,858	946,478	300,173	249,285	337,920
Selling and administrative expenses	861,968	492,836	639,724	682,382	790,412	700,076	529,493	652,405
Depreciation expense	70,571	54,697	55,718	56,304	93,556	67,803	41,364	40,290
Foreign exchange loss (gain)	48,817	5,994	11,685	(27,437)	3,935	28,782	5,333	(5,305)
Interest expense	1,157	1,478	1,213	1,354	1,458	2,416	4,212	5,361
Income tax expense (recovery)	3,441	35,943	(71,333)	(7,641)	(20,464)	(109,644)	(72,441)	(89,933)
Net income (loss)	\$ (221,217)	\$ 80,026	\$ (186,487)	\$ (300,104)	\$ 77,581	\$ (389,260)	\$ (258,676)	\$ (264,898)

	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11
	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11
FEC								
Sales	\$ 321,831	\$ 303,372	\$ 405,024	\$ 343,654	\$ 300,981	\$ 380,634	\$ 426,794	\$ 352,695
Cost of sales	164,719	189,588	210,911	173,043	179,256	202,593	202,264	185,831
Gross profit	157,112	113,784	194,113	170,611	121,725	178,041	224,530	166,864
Selling and administrative expenses	24,182	90,066	102,044	98,333	95,063	144,272	103,703	101,744
Depreciation expense	54,156	53,560	54,980	54,885	55,093	46,486	45,051	43,512
Foreign exchange loss (gain)	-	-	690	(89)	80	-	-	-
Interest expense	12,806	13,962	13,075	12,035	10,613	9,138	7,807	6,439
Income tax expense (recovery)	33,713	(9,260)	6,513	(1,680)	(43,382)	(13,986)	7,696	(14,814)
Net income (loss)	\$ 32,255	\$ (34,544)	\$ 16,811	\$ 7,127	\$ 4,258	\$ (7,869)	\$ 60,273	\$ 29,983

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



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

- The increase in net operating results from Q4-09 to Q1-10 is due primarily to higher operating expenses in Q4-09 as a result of international trade show expenses.
- The decrease in net operating results from Q1-10 to Q2-10 is due primarily to a combination of lower gross profit, as a result of sales mix, and higher selling and administration expenses, in Q2-10 compared to Q1-10, due in part to expenses relating to year-end filings and the shareholders' annual general meeting.
- The decrease in net operating results from Q2-10 to Q3-10 is due primarily to lower sales and gross profit in Q3-10 as compared to Q2-10.
- The increase in net operating results from Q3-10 to Q4-10 is due primarily to higher sales and gross profit in Q4-10 compared to Q3-10.
- The decrease in net operating results from Q4-10 to Q1-11 is due primarily to the combined effect of lower sales and lower gross profit percentage in Q1-11 compared to Q4-10.
- The decrease in net operating results from Q1-11 to Q2-11 is due primarily to the combined effect of lower sales partially offset by 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 the combined effect of lower gross profit percentage and higher selling and administrative expenses in Q3-11 compared to Q2-11.

International Financial Reporting Standards ("IFRS")

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

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

IFRS Conversion Project

The Corporation's IFRS conversion project continues to be on track to meet the October 1, 2011 changeover date. The following is a status update on the IFRS conversion project. A description of key activities and milestones, as well as our accounting policy choices under IFRS 1 – *First Time Adoption of IFRS*, are presented in our MD&A for the year ended September 30, 2010. New and revised IFRS developments will be monitored throughout the project and may result in changes to the project activities.

IFRS Financial Statement Preparation

We have completed our in-depth analysis of accounting policy choices and have presented draft IFRS financial statements to the Audit Committee. The Corporation's external auditors are scheduled to perform audit procedures on the opening balance sheet and the draft IFRS financial statements in the fourth quarter of 2011.



IFRS Training

The IFRS project lead is the Corporation's Chief Financial Officer who continues to receive in-depth IFRS training. The Corporation's external advisor, with input from the Chief Financial Officer, are continuing to provide insights and training throughout the project to accounting personnel, management and the Audit Committee.

IFRS Infrastructure

We have reviewed our business processes and accounting systems and we do not anticipate making significant changes as a result of our transition to IFRS.

IFRS Control Environment

We have reviewed our control environment and we do not anticipate making material changes to our internal controls and disclosure controls over financial reporting.

IFRS Expected Accounting Policy Impacts

The major accounting policy choices outlined in the Corporation 2010 Annual MD&A continue to be the Corporation's most significant areas of impact; however, at this stage of our IFRS implementation project, we are not anticipating material differences relevant to the recognition or derecognition of financial assets and liabilities included in the Corporation's opening balance sheet. Analysis of changes will be ongoing throughout 2011.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities was \$229,976 in Q3-11 compared to \$256,629 in Q3-10. This decrease was due primarily to the change in non-cash operating working capital.

Cash used by operating activities was \$94,766 for YTD – Q3-11 compared to cash provided by operating activities of \$71,902 for YTD – Q3-10. This decrease was due primarily to the combined effect of an increase in net loss partially offset by changes in non-cash working capital.

We expect that cash flows from our operating activities will continue to fluctuate from quarter to quarter based on variability in our net operating results and changes in non-cash operating working capital.

Investing Activities

Cash used by investing activities was \$25,971 in Q3-11 compared to \$11,676 in Q3-10. This increase was due to higher purchases of property, plant and equipment in Q3-11 as compared to Q3-10.

Cash used by investing activities was \$129,038 for YTD – Q3-11 compared to \$45,190 for YTD – Q3-10. This increase was due to higher purchases of property, plant and equipment during YTD – Q3-11 as compared to YTD – Q3-10.

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

As of the date of this report, we have not entered into any proposed material asset or business acquisition or disposition agreements, and except in such instances, we do not anticipate to significantly increase our investment in capital expenditures in 2011.



Financing Activities

Cash used by financing activities was \$76,162 in Q3-11 compared to \$77,104 in Q3-10. This marginal decrease was due to lower cash outflows from repayment of capital lease obligations as a result of certain leases expiring.

Cash used by financing activities was \$234,709 for YTD – Q3-11 compared to \$227,396 for YTD – Q3-10. This marginal increase was due to higher cash outflows for repayment of capital lease obligations as a result of entering into new capital leases.

We expect to continue to use our operating loan in 2011. We do not expect to require additional financing to fund our current operations however we would depend on additional financing to fund new growth opportunities for our FEC operations.

During YTD – Q3-11 and as at June 30, 2011, we did not have any off-balance sheet finance or special purpose entities.

Cash Requirements

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

Sources and Uses of Cash

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

- At June 30, 2011, our net cash balance was Nil, compared to \$369,573 at September 30, 2010.
- At June 30, 2011, our accounts receivable balance was \$639,004, compared to \$706,544 at September 30, 2010.
- We have two credit facilities with a Canadian chartered bank. See "Credit Facilities".
- We announced on July 26, 2011 that our Manufacturing operations entered into a sales agreement of \$1,651,786 (U.S. \$1,752,000) to design, manufacture and install a large play structure. Although we expect that a substantial portion of this contract will impact our 2012 fiscal year, in accordance with the terms of the sales agreement, we are expecting to receive monthly progress payments starting in August 2011.

Credit Facilities

We have a non-revolving term loan maturing in August 2011 which bears interest at prime plus 2.95%. The loan is repayable in monthly instalments of \$13,889 plus interest. At August 4, 2011, the loan balance, excluding accrued interest, is \$13,889 and will be repaid in full on August 19, 2011.

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, 2011, \$370,000 has been drawn on this facility (September 30, 2010 – no amounts drawn).



Market Risk Disclosure

Currency risk

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

We are exposed to foreign currency fluctuations because a significant portion 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 for our U.S. dollar receivable balances. We do not enter into foreign exchange forward contracts for speculative purposes.

At June 30, 2011 and September 30, 2010, there were no foreign exchange forward contracts outstanding.

Credit risk

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

Three customers represent approximately 65% of the accounts receivable balance at June 30, 2011, compared to two customers representing approximately 48% of the accounts receivable balance at September 30, 2010. In our view, these accounts do 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.

Related Party Transactions

During the six-month period ended June 30, 2011 there were no material related party transactions.



Outstanding Share Capital

At June 30, 2011 and August 4, 2011, there were 10,220,187 common shares issued and outstanding and there were no stock options outstanding.

Cautionary Note Regarding Forward-looking Statements

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