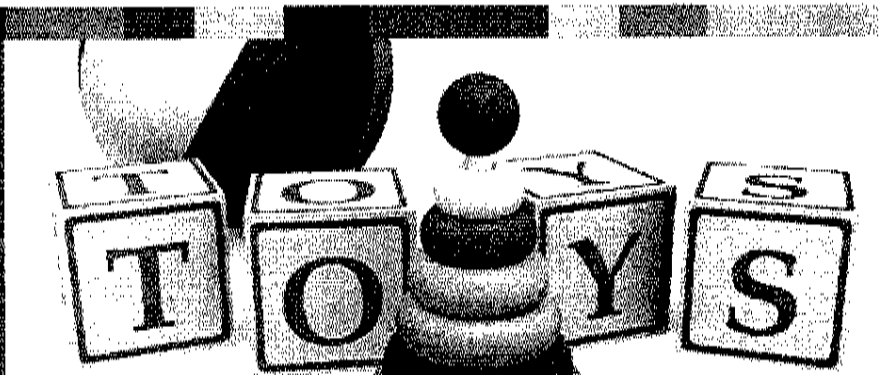




Pitcher the difference



Dispatch of Notice of Meeting and Explanatory Statement

Brainytoys Limited (Subject to Deed of Company Arrangement)

ACN 001 894 033

ASX code: BRT ("Brainytoys")

22 February 2010

Further to recent announcements, I advise that a Notice of Meeting and Explanatory Statement, detailing the terms of the Recapitalisation Deed and seeking approval for the proposed restructure required to settle the Recapitalisation Deed and enable Brainytoys to seek reinstatement of its securities to trading on the ASX, has been dispatched to shareholders today.

A copy of the Notice of Meeting and Explanatory Statement is annexed to this announcement.

The meeting of shareholders will be held at 10:00am (WST) on Wednesday 24 March 2010 at The Melbourne Hotel, The Heritage Room, Corner Hay & Milligan Streets, PERTH WA 6000.

I urge shareholders that have any concerns after reviewing the Notice of Meeting and Explanatory Statement or who require further clarification of the benefits of the Recapitalisation Deed for existing shareholders to contact Mrs Tracey Morandin of Pitcher Partners in Perth on (08) 9322 2022.

BRYAN HUGHES
Deed Administrator

Pitcher the difference

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**BRAINYTOYS LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)**

ACN 001 894 033

NOTICE OF GENERAL MEETING

TIME: 10:00 am (WST)
DATE: 24 March 2010
PLACE: The Melbourne Hotel
The Heritage Room
Cnr Hay and Milligan Streets
PERTH WA 6000

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

CONTENTS PAGE

| | |
|--|----|
| Letter to Shareholders | 3 |
| Notice of General Meeting (setting out the proposed resolutions) | 6 |
| Explanatory Statement (explaining the proposed resolutions) | 10 |
| Glossary | 22 |
| Schedule 1 | 24 |
| Schedule 2 | 25 |
| Schedule 3 | 26 |
| Proxy Form | 29 |

TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The General Meeting of the Shareholders of Brainytoys Limited (Subject to Deed of Company Arrangement) will be held at 10am (WST) on 24 March 2010 at:

The Melbourne Hotel
The Heritage Room
Cnr Hay and Milligan Streets
PERTH WA 6000

YOUR VOTE IS IMPORTANT

You may vote by attending the meeting in person, by proxy or authorised representative.

VOTING IN PERSON

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 10am (WST).

VOTING BY PROXY

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of General Meeting as soon as possible and either:

- (a) post to c:/ Pitcher Partners, Level 1, 914 Hay Street, Perth WA 6000; or
- (b) facsimile to the Company on facsimile number +61 8 9322 1262.

so that it is received not later than 10am (WST) on 22 March 2010.

Proxy forms received later than this time will be invalid.

LETTER TO SHAREHOLDERS

Dear Shareholder

On 1 December 2009, Bryan Hughes (**Administrator**) was appointed as administrator of Brainytoys Limited (**Company**) under section 436C of the Corporations Act by the Company's sole secured creditor, Noble Investments Pty Ltd (**Noble**).

The Company's securities had previously been voluntarily suspended from trading on the official list of ASX Limited (**ASX**) on 7 January 2009.

The Administrator called for proposals to recapitalise the Company with a view to seeking reinstatement to trading of its securities on ASX. The Administrator has since accepted a proposal by Romfal Corporate Pty Ltd (**Proponent**) for the restructuring and recapitalisation of the Company.

On 15 January 2010, the Company obtained the approval of its creditors to enter into a Deed of Company Arrangement (**DOCA**) so that all claims of creditors against the Company will be extinguished following a cash payment and the issue of Shares.

The proposal from the Proponent can be summarised as follows:

- (a) all liabilities, contingent liabilities, obligations, warranties and long term commitments of the Company capable of being released by a DOCA will be released and compromised by the DOCA;
- (b) the Company will undertake a consolidation of its issued capital as at the date of this Meeting on a five (5) for one (1) basis (**Consolidation**);
- (c) after the Consolidation, the Company will undertake the following capital raisings and issues of securities:
 - (i) an issue of 70,000,000 Shares at an issue price of 0.1 cents each to the Proponent (or its nominees) to raise \$70,000;
 - (ii) an issue of 70,000,000 free Options exercisable at 1 cent each on or before 30 November 2013 to the Proponent (or its nominees);
 - (iii) an issue of up to and 400,000,000 Shares at an issue price of not less than 0.5 cents each to raise up to \$2,000,000; and
 - (iv) an issue of 50,000,000 Shares and 30,000,000 Options exercisable at 1 cent each and expiring on 30 November 2013, in satisfaction of part of the secured debt claim of Noble;
- (d) of the funds referred to above, \$350,000 will be made available to the creditors of the Company to be allocated \$150,000 (**Secured Cash Consideration**) to Noble and \$200,000 (**Unsecured Cash Consideration**) to unsecured creditors (inclusive of priority employee claims and the Administrator's costs);
- (e) the current directors of the Company will be removed and replaced by nominees of the Proponent;
- (f) following completion of all of the matters set out above, the DOCA will be terminated and the Company will seek reinstatement of its Shares to trading on ASX; and

- (g) the Recapitalisation is now only conditional on the Company Shareholders approving Resolutions 1 to 5.

The resolutions proposed in the attached Notice will enable the terms of the DOCA to be completed. If the resolutions are passed and the proposed restructuring and recapitalisation is completed, the Company will seek the reinstatement to trading of its Shares on ASX.

If any of these resolutions are not passed by the Shareholders of the Company, the Company will remain subject to the DOCA, the trading suspension imposed by the ASX will remain in force and the Administrator will need to consider other alternatives, which is likely to include placing the Company into liquidation (in which event no return to Shareholders is anticipated).

The Administrator is not responsible for the contents of the Notice or the Explanatory Statement. Each of those documents has been prepared by the Proponent. Accordingly, the Administrator does not accept any responsibility for the accuracy of any information included, or any failure to include any information in, such documents.

Yours faithfully

..

Bryan Hughes
Deed Administrator

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Shareholders of Brainytoys Limited (Subject to Deed of Company Arrangement) will be held at The Melbourne Hotel, The Heritage Room, Cnr Hay and Milligan Streets, Perth WA 6000 at 10am (WST) on 24 March 2010.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

Pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at the close of business on 22 March 2010.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

It is a requirement of the business of the Meeting that each of the Resolutions set out below are passed, otherwise none of the Resolutions will have any effect.

AGENDA

SPECIAL BUSINESS

The Explanatory Statement which accompanies and forms part of this Notice describes the matters to be considered as special business.

1. RESOLUTION 1 – CONSOLIDATION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 2 to 5 (inclusive), for the purpose of Section 254H of the Corporations Act and for all other purposes, the issued capital of the Company be consolidated on the basis that:

- (a) every 5 Shares be consolidated into 1 Share; and*
- (b) every 5 Options be consolidated into 1 Option with the exercise price amended in inverse proportion to that ratio,*

and where this consolidation results in a fraction of a Share or Option being held by a Shareholder or Option holder (as the case may be), the Directors be authorised to round that fraction up to the nearest whole Share or Option, with the consolidation taking effect on the date the resolution is passed and otherwise as described in the Explanatory Statement."

2. RESOLUTION 2 – ISSUE OF SHARES AND PROPONENT OPTIONS – MR FALDI ISMAIL

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

"That, subject to the passing of Resolutions 1 and 3 to 5 (inclusive), for the purposes of Listing Rule 10.11, Section 208 of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue on a post-consolidation basis) up to:

- (a) up to 23,333,333 Shares at an issue price of 0.1 cent each;
- (b) up to 40,000,000 Shares at an issue price of 0.5 cents each;
and
- (c) up to 23,333,333 free Proponent Options,

to Mr Faldi Ismail (or his nominee/s) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Faldi Ismail (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

3. RESOLUTION 3 – ISSUE OF SHARES AND PROPONENT OPTIONS – ATHAN LEKKAS

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

"That, subject to the passing of Resolutions 1, 2, 4 and 5, for the purposes of Listing Rule 10.11, Section 208 of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue (on a post-consolidation basis) up to:

- (a) up to 23,333,333 Shares at an issue price of 0.1 cent each;
- (b) up to 40,000,000 Shares at an issue price of 0.5 cents each;
and
- (c) up to 23,333,333 free Proponent Options,

to Mr Athan Lekkas (or his nominee/s) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Athan Lekkas (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

4. RESOLUTION 4 – ISSUE OF SHARES – NATHAN TAYLOR

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

"That, subject to the passing of Resolutions 1 to 3 (inclusive) and 5, for the purposes of Listing Rule 10.11, Section 208 of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue (on a post-consolidation basis) up to 20,000,000 Shares at an issue price of 0.5 cents each to Mr Nathan Taylor (or his nominee/s) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Nathan Taylor (or his nominee) or any of his associates. However, the Company need

not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

5. RESOLUTION 5 – ISSUE OF SHARES AND PROPONENT OPTIONS

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

"That, subject to the passing of Resolutions 1 to 4 (inclusive), for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to (on a post-consolidation basis):

- (a) up to 70,000,000 Shares at an issue price of not less than 0.1 cent each to the Proponent or its nominees to raise \$70,000;*
- (b) up to 70,000,000 Proponent Options for nil consideration to the Proponent or its nominees; and*
- (c) up to 400,000,000 Shares at an issue price of not less than 0.5 cents each to raise \$2,000,000 (**Capital Raising**).*

on the terms and conditions set out in the Explanatory Statement."

Short Explanation: To the extent that the Directors take up Shares and Proponent Options (as contemplated by Resolutions 2 to 4), the number of Shares and Proponent Options issued in accordance with Resolution 5 will be reduced.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. RESOLUTION 6 – ISSUE OF SHARES AND PROPONENT OPTIONS TO NOBLE INVESTMENTS PTY LTD

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

"That, subject to the passing of Resolutions 1 to 5 (inclusive), for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue (on a post-consolidation basis):

- (a) 50,000,000 Shares at a deemed issue price of 0.5 cents each to Noble (or its nominees); and*
- (b) 30,000,000 Proponent Options for nil consideration to Noble or its nominees,*

in partial satisfaction of a secured debt owed to Noble and otherwise on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Noble and any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 7 – ELECTION OF DIRECTOR – FALDI ISMAIL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 1 to 5 (inclusive), in accordance with the Company's Constitution and for all other purposes, Mr Faldi Ismail, being eligible, is elected as a Director."

8. RESOLUTION 8 – ELECTION OF DIRECTOR – ATHAN LEKKAS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 1 to 5 (inclusive), in accordance with the Company's Constitution and for all other purposes, Mr Athan Lekkas, being eligible, is elected as a Director."

9. RESOLUTION 9 – ELECTION OF DIRECTOR – NATHAN TAYLOR

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 1 to 5 (inclusive), in accordance with the Company's Constitution and for all other purposes, Mr Nathan Taylor, being eligible, is elected as a Director."

10. RESOLUTION 10 – CHANGE OF NAME

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

"That, in accordance with section 157(1) of the Corporations Act and for all other purposes, the Company change its name to "Energio Limited"."

11. RESOLUTION 11 – ADOPTION OF NEW CONSTITUTION

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

"That, in accordance with section 136(2) of the Corporations Act and for all other purposes, the Company adopts a new Constitution in the form tabled at the Meeting."

DATED: 28 January 2010

BY ORDER OF THE DEED ADMINISTRATOR

Mr Bryan Hughes
Deed Administrator

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the shareholders of Brainytoys Limited (subject to Deed of Company Arrangement) (**Brainytoys** or **Company**) in connection with a General Meeting of the Company, by the Proponent referred to in Section 1.2 below.

The Administrator does not accept any responsibility for the contents of this statement, including the accuracy of any information included in the statement or failure to include any information in the statement.

In considering the resolutions, Shareholders must bear in mind the current financial circumstances of the Company. In this regard, Shareholders should note that separate reports have been made by the Administrator to creditors of the Company in accordance with the Corporations Act. The reports set out in detail the financial position of the Company, the actions and investigations taken by the Administrator, the reasons for the failure of the Company and the Administrator's recommendations for the future of the Company.

If Resolutions 1 to 5 are passed and the proposed re-structuring set out in the recapitalisation proposal is completed, the Company will be in a position to seek the reinstatement of its Shares to official quotation on ASX. This reinstatement is, of course, subject to the discretion of ASX, however the Company has received confirmation from ASX that it will, subject to certain conditions, allow reinstatement of the Shares to official quotation.

If Shareholders reject the proposed restructuring the future of the Company is uncertain. A possibility is that the Company may be placed into liquidation. In this circumstance, it is likely that there would be no return to Shareholders.

1. OVERVIEW

1.1 Background

A general background and history in respect of the appointment of the Administrator is set out in the letter to Shareholders at the beginning of this Notice.

1.2 Overview of Administration process

On 1 December 2009, Mr Bryan Hughes (**Administrator**) was appointed as administrator to Brainytoys Limited (**Brainytoys**).

The Company's securities had previously been voluntarily suspended from trading on the official list of ASX Limited (**ASX**) on 7 January 2009.

The Administrator called for proposals to recapitalise the Company with a view to seeking reinstatement to trading of its securities on ASX. The Administrator has since accepted a proposal by Romfal Corporate Pty Ltd (**Proponent**) for the restructuring and recapitalisation of the Company. The terms of the proposal are contained in a recapitalisation deed executed with the Administrator (**Recapitalisation Deed**).

On 15 January 2010, creditors of the Company accepted a deed of company arrangement (**DOCA**) allowing the Company to be reconstructed under the proposal put forward by the Proponent via a creditors' trust, which is a mechanism used to accelerate a company's exit from external administration

1.3 Historical Activities and Proposed Business Plan

Summary

On completion of the Recapitalisation Deed, all of the assets of Brainytoys will remain with the group. The new board of directors of Brainytoys will be seeking to revitalise its global business and develop it into a profitable enterprise.

Background

Prior to being placed into administration in December 2009, Brainytoys was a global toys and games development company that had previously been on the cusp of production roll-out and sales through its global distribution network. The core business activities of Brainytoys included:

- (a) research and development of toy and game products;
- (b) development of a distribution and marketing network for the Company's toy and game products; and
- (c) distribution and wholesales of toys, games and hobby products through wholly owned subsidiaries in Australia, the U.S., UK and Hong Kong.

Brainytoys listed on ASX on 24 March 2005, and established a unique operational and business model as Australia's first ASX toy and game development company. Brainytoys portfolio of production and market ready products were predominantly based on innovative electronic and software technologies targeting age groups from 3 years and up. Product design and development occurred in Perth, and Chinese contract manufacturers produced the products.

In early 2008, Brainytoys began acquiring and integrating a global platform of speciality and mass-market toy companies. On 1 January 2008, the Company acquired a 100% interest in Enertec Enterprises Limited, a Hong Kong based company. On 4 January 2008, it acquired 100% interest in Toyway Limited through a newly formed United Kingdom subsidiary, Brainy UK Limited. On 6 January 2008, it acquired the business and selected assets of Reveal Entertainment, Inc through a newly formed United States corporation, Brainytoys, Inc.

Through these acquisitions, strategic industry alliances were established in key operational centres (such as Hong Kong/China, USA, and Europe) to give Brainytoys access to a worldwide sales and distribution network.

The combined Brainytoys group had the ability to offer in excess of 250 products to the market in the areas of: remote control toys, low and high tech electronic toys, electronic games, board games, construction kits, collectables, and activity kits.

The acquisitions also gave Brainytoys the ability to apply its technology expertise and know how to these new products, further develop its own designs and creations, and give it access to additional intellectual properties.

Core Assets

Brainytoys' core assets are its intellectual property.

An integral part of its intellectual property previously consisted of a number of well known brand licences. Brainytoys was engaged in the process of building a

broad portfolio of brand licenses to develop toys for the US (where its business was primarily focused) and other important markets.

These brand licences included:

- (a) The Wiggles;
- (b) Thomas the Tank Engine;
- (c) Tootle;
- (d) Jay Jay the Jet Plane (a popular US TV series);
- (e) Little Golden Book characters;
- (f) Dreamworks' "Bee Movie";
- (g) HUMMER;
- (h) The Marshmallow Fun Company; and
- (i) Digital Wisdom Series (a line of Executive Toys in the form of hand held electronic products targeting the book/gift/speciality market retail chains).

These licenses were typically for 3 years duration. Brainytoys paid an upfront licence fee, agreed to maintain product style, and contribute a percentage of sales to the licensor (usually between 8% to 15% on sales).

Brainytoys previously had five subsidiaries as part of its development and global distribution network:

- (a) Brainytoy.com Pty Ltd (Australia);
- (b) Enertec Enterprises Limited (Hong Kong);
- (c) Brainy UK Limited (UK);
- (d) Toyway Limited (UK); and
- (e) Brainytoys, Inc (US).

Brainytoys acquired certain assets of the Marshmallow Fun Company, LLC (**MFC**) (including a licence to sell certain products) under an agreement dated 1 January 2008. On 1 August 2008, Brainytoys entered into a settlement agreement with MFC under which MFC agreed to grant Brainytoys a forbearance period in complying with certain financial obligations owing to MFC. This agreement called for the payment by Brainytoys of US\$925,750 in the period leading up to November 2008. If Brainytoys failed to make these payments, MFC could unwind the original acquisition and terminate the licence granted to Brainytoys. In or around December 2008, Brainytoys defaulted in the deferred payment obligations to MFC and the agreements were subsequently terminated.

Brainytoys acquired Enertec in 2007 for a price of HK\$15,300,000. The sale agreement allowed for a deferral of part of the purchase price, subject to certain performance milestones, such that HK\$6,885,000 remained outstanding. In February 2009, Brainytoys agreed to sell Enertec back to the original vendor

for a price of HK\$940,000. These funds were ultimately applied towards reducing the debt owing to Noble.

The UK companies referred to above were placed into liquidation in the first half of 2009.

The Australian subsidiary remains the core operating entity of the Company and there may be potential for further development of the operations of the US entity (once a strategic review has been completed).

Strategy

Further Development of Existing Concepts

The proposed new board of Brainytoys (**New Board**) believes they can achieve a profitable international toys and games development company.

Brainytoys previously had approximately US\$12 million in orders (US\$10 Million from US and US\$2 Million from UK), subject to licensor approval, for the "Thomas the Tank Engine Memotoys" line. This licensor did not provide approval for this licence for its own commercial reasons. However, the New Board considers that the support for this product line vindicates the potential of the business model.

In particular, there is scope to update and further development the "memotoys" concept in order to capture new opportunities.

Research and Development

Brainytoys had previously announced to ASX an intention to spin off its R&D department into a new company. The New Board intends to retain this arm of the business and inject further funds for the development of new, innovative concepts.

As a consequence of work previously undertaken, Brainytoys has an accumulation of intellectually property through acquisitions and in house development. This intellectual property has the potential to generate significant revenue and profit streams to Brainytoys.

The channel pipelines that may be used to deliver these products include:

- (a) flat internet – using standard 2D technology;
- (b) enhanced internet or Web 2.0 – using 3D, "Virtual World" and other advanced techniques;
- (c) mobile phone products;
- (d) computer games;
- (e) animation; and
- (f) hand held devices – exploiting colour and touch screen miniaturisation.

The New Board intends to source advanced software product development personnel to assist with the above.

Products can be targeted at multiple markets: based on in house games and toy IP for the entertainment market, and to complementary markets, like education.

The model for exploiting toy and game brands through multiple digital media channels is well accepted and many toy and game companies already exploit these opportunities.

There is also scope to expand the product range into the educational market. The combination of the internet and new 3D and "Virtual World" techniques opens up substantial opportunities for the creation of new educational paradigms, products and systems.

With these new techniques, coursework for students, teachers and school administrators can be delivered in new, dynamic and cost-efficient ways.

Brainytoys had previously conducted a significant amount of research in this area and had identified little activity beyond some relatively crude and low tech first movers in this sector. Therein lies the opportunity.

Other opportunities

In addition to the above, the new management team will actively seek out complementary and non-complementary assets, investments and businesses that will generate additional shareholder value.

1.4 Purpose of Capital Raisings

The purpose of the capital raisings is to:

- (a) make a payment to the Creditors' Trust;
- (b) provide funds for strategic review and development of the existing Brainytoys business;
- (c) provide funds for the review and acquisition of alternative/new projects; and
- (d) meet the administration costs of the Company and the expenses of the recapitalisation and reinstatement to trading on ASX.

Use of Funds – Expenditure Budget

An estimated budget is set out below.

| Item | Amount |
|---|--------------------|
| Cost of recapitalisation process | \$80,000 |
| Payment of re-listing expenses (estimated) | \$20,000 |
| Payment to Noble Investments Pty Ltd | \$150,000 |
| Payment to Unsecured Creditors Trust | \$200,000 |
| Review and development of existing business | \$600,000 |
| Review of new projects | \$600,000 |
| Working capital | \$420,000 |
| Total | \$2,070,000 |

The above table is a statement of current intentions as at the date of this Notice. Future events may alter the manner in which funds are applied.

Pro-forma Capital Structure

| Event | Shares | Options |
|---|--------------------|--------------------|
| Currently on issue | 116,313,042 | 94,551,920 |
| Post consolidation (1:5) | 23,262,608 | 18,910,384 |
| Issued to Proponent and/or its nominees | 70,000,000 | 70,000,000 |
| Issued to Noble Investments Pty Ltd | 50,000,000 | 30,000,000 |
| General Placement | 400,000,000 | - |
| Total | 543,262,608 | 118,910,384 |

1. These Options will all be significantly "out of the money" after the consolidation.

1.5 Summary of the terms of the Recapitalisation Proposal and Deed of Company Arrangement

Set out below is a detailed summary of the recapitalisation proposal under the Recapitalisation Deed.

Terms of the Recapitalisation Proposal

- (a) The Recapitalisation is conditional on The Company Shareholders approving Resolutions 1 to 5.
- (b) All liabilities, contingent liabilities, obligations, warranties and long term commitments of the Company capable of being released by a DOCA will be released and compromised by the DOCA.
- (c) The Company will undertake a consolidation of its issued capital as at the date of this Meeting on a five (5) for one (1) basis (**Consolidation**).
- (d) After the Consolidation, the Company will undertake the following capital raisings and issues of securities:
 - (i) an issue of 70,000,000 Shares at an issue price of 0.1 cents each to the Proponent (or its nominees) to raise \$70,000;
 - (ii) an issue of 70,000,000 free Options exercisable at 1 cent each on or before 30 November 2013;
 - (iii) an issue of up to and 400,000,000 Shares at an issue price of not less than 0.5 cents each to raise up to \$2,000,000; and
 - (iv) an issue of 50,000,000 Shares and 30,000,000 Options exercisable at 1 cent each and expiring on 30 November 2013, in satisfaction of part of the secured debt claim of Noble Investments Pty Ltd, the sole secured creditor of the Company (**Noble**).

- (e) Of the funds referred to above, \$350,000 will be made available to the creditors of the Company to be allocated \$150,000 (**Secured Cash Consideration**) to Noble and \$200,000 (**Unsecured Cash Consideration**) to unsecured creditors (inclusive of priority employee claims and the Administrator's costs).
- (f) The current directors of the Company will be removed and replaced by nominees of the Proponent.
- (g) Following completion of all of the matters set out above, the DOCA will be terminated and the Company will seek reinstatement of its Shares to trading on ASX.

Proposed Directors

By way of background, detailed information in respect of the proposed directors is outlined below.

Faldi Ismail – Non-Executive Chairman B.Bus

Faldi has many years experience as a corporate consultant specialising in the restructure and recapitalisation of a wide range of ASX-listed companies. Faldi spent over four years working as a tax supervisor with a major Perth based Accounting firm as well as being a senior within their Corporate Restructuring Division.

Faldi operates his own corporate consultancy company and has specialist skills in mergers and acquisitions, capital raisings and has many years of investment banking experience covering a wide range of sectors, with a specific focus on the resource sector. To date, Faldi has been involved in the identification, facilitation and/or implementation of resource related acquisitions into the following ASX listed companies:

- (a) Kangaroo Resources Limited ASX Code "KRL" - coal acquisition;
- (b) Coventry Resources Limited, ASX Code "CVY" - gold acquisition;
- (c) Pan Asia Corporation Limited, ASX Code "PZC" - coal acquisition;
- (d) NSL Consolidated Limited, ASX Code "NSL" - iron ore acquisition; and
- (e) Environmental Clean Technologies Limited, ASX Code "ESI" – Coal dewatering technology acquisition.

Faldi is currently a Director of the following ASX listed companies - Kangaroo Resources Limited (KRL), Coventry Resources Limited (CVY) and Cape Range Limited (CAG). Faldi intends to actively utilise his business network in the industry to identify and evaluate projects that meet the criteria set by the Board.

Athan Lekkas – Non-Executive Director

Athan has participated in a broad range of business and corporate advisory transactions and projects for a diverse range of ASX listed and unlisted companies, including the banking, mining and corporate finance industries in Australia and abroad. He is experienced particularly in the treasury and financial market sectors including financial feasibility studies for the provision of debt or equity for project funding.

He has analysed and evaluated projects for various public listed and private companies. Athan has successfully consulted and presently provided services to a consortium of local and overseas manufacturers, steel mills, and presently has service and supply agreements with various ITW subsidiaries (US Listed Company), Wesfarmers Industrial (ASX listed) and various Bunning principles. The majority of these projects have involved managing the implementation of a strategic plan.

Athan has more recently focused and specialised on the restructure and recapitalisation of a wide range of ASX listed companies.

Athan has harnessed his valuable network of sophisticated investors in both Australia and abroad, with strategic investments and project advisory.

Athan is currently a director of ASX listed Pan Asia Corporation Limited (PZC), an emerging coal producer in Indonesia

Nathan Taylor – Non-Executive Director B.Com LLB

Nathan is Co Head of Equity Capital Markets at StoneBridge Securities Limited, a boutique stockbroker headquartered in Sydney.

Prior joining StoneBridge in late 2008, Nathan worked within the UBS Equity Capital Markets team and prior to this within the Macquarie Bank Equity Capital Markets team.

Throughout his investment banking career, Nathan has been involved in raising over A\$6bn for ASX listed companies in the resources and related sectors and over A\$10bn for other ASX listed companies.

Prior to working for Macquarie Bank, Nathan worked as a corporate lawyer for Blake Dawson where he was involved in conducting due diligence and structuring a large number of regulated and unregulated M&A transactions.

Nathan intends to leverage his contacts and skill set to originate, assess and structure transactions targeted by the Company.

1.6 Deed of Company Arrangement

The Company sought creditor approval to accept the recapitalisation proposal put forward by the Proponent and to enter into the relevant DOCA. Approval was obtained on 15 January 2010.

Settlement and effectuation of the DOCA will not occur unless Shareholders approve Resolutions 1 to 5 set out in the Notice. If Shareholders do not do so, the Company may be wound up.

1.7 ASX Listing

ASX has advised the Company that upon completion of the capital raising contemplated by Resolutions 2 to 5 (inclusive) and the satisfaction of various other conditions, the suspension of trading on the Company's shares will be lifted.

Other than completion of the capital raising, the main outstanding condition is completing all outstanding financial reports.

1.8 Balance Sheet

Set out in Schedule 3 is an historical balance sheet for the Company together with a pro-forma showing the effects of the transactions contemplated by this Notice of Meeting.

1.9 Conclusion

The resolutions set out in the Notice are important and affect the future of the Company. Shareholders are therefore urged to give careful consideration to the Notice and the contents of this Explanatory Statement.

2. RESOLUTION 1 – CONSOLIDATION OF CAPITAL

Shareholder approval is sought to consolidate the number of Shares on issue on a five (5) for one (1) basis.

Shareholder approval is required pursuant to Section 254H of the Corporations Act.

2.1 Corporations Act

Section 254H of the Corporations Act provides that a company may, by resolution passed in general meeting of shareholders, convert all or any of its shares into a larger or smaller number of shares.

In the event that Resolution 1 is approved, the number of Shares on issue will be reduced from 116,313,042 to approximately 23,262,608 and the number of Options on issue will be reduced from 94,551,920 to approximately 18,910,384. The exercise price of the Options will also increase by a multiple of 5.

As from the effective date of the Resolution (being the date of the General Meeting), all holding statements for Shares will cease to have any effect, except as evidence of entitlement to a certain number of post-Consolidation Shares. After the Consolidation becomes effective, the Company will arrange for new holding statements to be issued to Shareholders.

The effect of the Consolidation and the Resolutions contained within the Notice is set out in section 1.3 of this Explanatory Statement.

2.2 Fractional Entitlements and Taxation

Not all Shareholders will hold that number of Shares which can be evenly divided by 5. Where a fractional entitlement occurs, the Directors will round that fraction up to the nearest whole Share or Option.

It is not considered that any taxation consequences will exist for Shareholders arising from the Consolidation. However, Shareholders are advised to seek their own tax advice on the effect of the Consolidation and none of the Company, the Administrator or the Company's advisers accepts any responsibility for the individual taxation consequences arising from the Consolidation.

2.3 Timetable

The indicative timetable for the Consolidation is as follows:

| <u>Event</u> | <u>Date</u> |
|--------------|-------------|
| | |

| | |
|--|---------------|
| General Meeting to approve transaction | 24 March 2010 |
| Notification to ASX of results of General Meeting | 24 March 2010 |
| Trading on a deferred settlement basis* | 27 March 2010 |
| Last day to register transfers on a pre-reorganisation basis | 31 March 2010 |
| First day for Company to send notice to Shareholders of change of holdings as a result of reorganisation | 31 March 2010 |
| First day for Company to register securities on a post-reorganisation basis and for issue of holding statements | |
| Despatch date | 7 April 2010 |
| Deferred settlement market ends | |
| Last day for securities to be entered into the holders' security holdings and for Company to send notice to each security holder | |

* The Company's securities are currently suspended from trading. As such, deferred settlement trading will not occur.

3. RESOLUTIONS 2, 3 AND 4 – ISSUE OF SHARES AND OPTIONS TO RELATED PARTIES

3.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of up to:

- (a) 23,333,333 Shares at an issue price of 0.1 cent each, 40,000,000 Shares at an issue price of 0.5 cents each and 23,333,333 Proponent Options for nil consideration to each of Mr Faldi Ismail and Mr Athan Lekkas; and
- (b) 20,000,000 Shares at an issue price of 0.5 cents each to Mr Nathan Taylor.

Messrs Ismail, Lekkas and Taylor are hereafter referred to as the **Related Parties**.

Resolutions 2 to 4 allow the Related Parties to participate in the issues of securities contemplated by Resolution 5.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

Messrs Ismail, Lekkas and Taylor are "related parties" under the Listing Rules and the Corporations Act because they will be directors of the Company.

3.2 Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of Shares and Options under Resolutions 2, 3 and 4:

- (a) the related parties are Messrs Ismail, Lekkas and Taylor and they are related parties by virtue of being directors of the Company;
- (b) the maximum number of Shares and Proponent Options (being the nature of the financial benefit being provided) to be issued to the Related Parties is:

| Allottee | \$0.001 Shares | Options | \$0.005 Shares |
|-----------------|---------------------------|----------------|---------------------------|
| Athar Lekkas | 23,333,333 | 23,333,333 | 40,000,000 |
| Faldi Ismail | 23,333,333 | 23,333,333 | 40,000,000 |
| Nathan Taylor | Nil | Nil | 20,000,000 |

- (c) the Shares and Proponent Options will be issued on or about settlement under the DOCA. However, all of the Shares and Proponent Options will be issued to the Related Parties within one month after the date of the Meeting (or such longer period permitted by ASX). The Company has applied for an ASX waiver allowing up to a 2 month extension to issue the Shares and Proponent Options to the Related Parties so that the allotment date coincides with the allotment date for the issue of Shares and Proponent Options under Resolution 5. If this waiver is not granted, the Company will be required to issue the Shares and Proponent Options to the Related Parties within one month after the date of the Meeting (as opposed to three months being sought under the waiver application);
- (d) the Shares issued will rank equally with the existing Shares on issue;
- (e) the Proponent Options will be issued on the terms and conditions set out in Schedule 1 to this Explanatory Statement;
- (f) the value of the Proponent Options and the pricing methodology is set out in Schedule 2;
- (g) none of the Related Parties have any interest in securities of the Company as at the date of this Notice;
- (h) no remuneration or other emoluments have been paid to any of the Related Parties over the past 12 months. It is proposed that the Related

Parties will each be paid fees of up to \$3,500 each per month after settlement of the recapitalisation proposal:

- (i) if Shareholders approve the issue of Shares and Proponent Options to the Related Parties as contemplated by Resolutions 2, 3 and 4 and:
 - (i) all of the Shares are issued; and
 - (ii) all of the Proponent Options are subsequently converted into Shares,

the effect will be to dilute the shareholding of Shareholders by up to approximately 48.7% (post Consolidation of the number of Shares currently on issue pursuant to Resolution 1, assuming all of the Shares and Options to be issued pursuant to this Notice are issued (other than the Shares and Proponent Options to the Related Parties) and no other Options are converted);

- (j) the Company's Shares have not traded on ASX since 7 January 2009. Accordingly, there is no current share trading data on the Company;
- (k) the funds raised from the Shares will be used for the purposes set out in section 1.3 of this Explanatory Statement; and
- (l) as the Company has been placed into administration, the existing Directors do not have authority to make a recommendation to Shareholders in relation to these Resolutions.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Shares and Options to the Related Parties as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Shares and Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

4. RESOLUTION 5 – ISSUE OF SHARES AND OPTIONS

4.1 General

Resolution 5 seeks Shareholder approval for the allotment and issue of up to:

- (a) 70,000,000 Shares at an issue price of not less than 0.1 cent each to the Proponent (or its nominees) to raise \$70,000;
- (b) 70,000,000 free Proponent Options exercisable at 1 cent each on or before 30 November 2013; and
- (c) 400,000,000 Shares at an issue price of not less than 0.5 cent each to raise up to \$2,000,000.

The number of securities issued in accordance with Resolution 5 will be reduced to the extent that the Related Parties participate in the issues referred to above (as contemplated by Resolutions 2, 3 and 4).

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

The effect of Resolution 5 will be to allow the Directors to issue the Shares and Proponent Options during the period of 3 months after the General Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

4.2 Shareholder Approval (ASX Listing Rule 7.1)

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the proposed issue of Shares and Proponent Options under Resolution 5:

- (a) the maximum number of Shares and Options to be issued is:
 - (i) 70,000,000 Shares at an issue price of not less than 0.1 cent each to raise \$70,000;
 - (ii) 70,000,000 free Proponent Options exercisable at 1 cent each on or before 30 November 2013; and
 - (iii) 400,000,000 Shares at an issue price of not less than 0.5 cent each to raise up to \$2,000,000;
- (b) other than the Shares and Proponent Options to be issued to the Related Parties under Resolutions 2, 3 and 4 (which will be issued within one month of the date of the Meeting or such longer period permitted by ASX), all of the Shares and Proponent Options will be issued within three months after the date of the Meeting;
- (c) other than the Shares and Proponent Options to be issued to the Related Parties under Resolutions 2, 3 and 4, the Shares and Proponent Options will be issued to parties nominated by the Proponent, the details of which are not known as at the date of this Notice. Any third party that will be issued Shares or Proponent Options will not be a related party of the Company, must be approved by the Proponent and, following the issue of Shares to the third party, their voting power in the Company must not exceed 20%;
- (d) the Shares issued will rank equally with the existing Shares on issue;
- (e) the Proponent Options will be issued on the terms and conditions set out in Schedule 1 to this Explanatory Statement; and
- (f) the funds raised from the issue of Shares will be used for the purposes set out in section 1.3 of this Explanatory Statement.

5. RESOLUTION 6 – ISSUE OF SHARES AND PROPONENT OPTIONS TO NOBLE INVESTMENTS PTY LTD

5.1 General

Noble is the only secured creditor and one of the largest unsecured creditors of the Company. Noble's secured debt is approximately \$1.1 million. Under the Recapitalisation Deed, the Proponent, the Company and Noble have agreed that Noble's secured debt will be extinguished in return for a cash payment of \$200,000 and the issue of Shares and Proponent Options in accordance with Resolution 6.

Resolution 6 seeks Shareholder approval for the allotment and issue of up to:

- (a) 50,000,000 Shares at a deemed issue price of 0.5 cents each;
- (b) 30,000,000 free Proponent Options exercisable at 1 cent each on or before 30 November 2013,

to Noble in partial satisfaction of the secured debt owing to Noble.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

The effect of Resolution 6 will be to allow the Directors to issue the Shares and Proponent Options during the period of 3 months after the General Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

5.2 Shareholder Approval (ASX Listing Rule 7.1)

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the proposed issue of Shares and Proponent Options under Resolution 6:

- (a) the maximum number of Shares and Options to be issued is:
 - (i) 50,000,000 Shares at a deemed issue price of 0.5 cents each;
 - (ii) 30,000,000 free Proponent Options exercisable at 1 cent each on or before 30 November 2013;
- (b) the Shares and Proponent Options will be issued within three months after the date of the Meeting and it is anticipated they will be issued on one date;
- (c) the Shares and Proponent Options will be issued to Noble (or its nominees);
- (d) the Shares issued will rank equally with the existing Shares on issue;
- (e) the Proponent Options will be issued on the terms and conditions set out in Schedule 1 to this Explanatory Statement; and
- (f) no the funds will be raised from the issue of Shares as they will be issued in partial satisfaction of the secured debt owing to Noble.

6. RESOLUTIONS 7 TO 8 – ELECTION OF DIRECTORS

Resolutions 7 to 8 seek approval for the appointment of Faldi Ismail, Athan Lekkas and Nathan Taylor as directors of the Company.

Background information on each of these persons is set out in Section 1.5 above.

7. RESOLUTION 9 – CHANGE OF NAME

Resolution 9 seeks shareholder approval to change the name of the Company to "Energio Limited". The New Board considers that a name change is

appropriate to reflect the fact that the Company has been recapitalised and has undergone a change of directors and management.

8. RESOLUTION 10 – ADOPTION OF NEW CONSTITUTION

Resolution 10 seeks shareholder approval to adopt a new Constitution.

The new Board is seeking to adopt a new Constitution to ensure that the latest amendments to the Corporations Act are appropriately incorporated.

A copy of the new Constitution is available on request.

GLOSSARY

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited, or the Australian Securities Exchange (as the context requires).

ASX Listing Rules or **Listing Rules** means the Listing Rules of ASX.

Board means the board of directors of the Company.

Capital Raising means the Company's offer of Shares with an issue price of 0.5 cents each under a prospectus to raise up to \$2,000,000.

Company and **Brainytoys** means Brainytoys Limited (subject to Deed of Company Arrangement) (ACN 001 894 033).

Completion means the completion of the transactions set out in the Recapitalisation Deed, summarised in section 1.5 of this Notice of Meeting.

Administrator or **Deed Administrator** means Bryan Hughes of Pitcher Partners, Perth, Western Australia.

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Creditors' Trust means the creditors' trust for the Company.

Creditors' Trustee means the trustee appointed for the purpose of administering the Creditors' Trust.

Directors means the current directors of the Company.

DOCA means the deed of company arrangement entered into by the Company, the Administrator and the Creditors' Trustee in relation to the Company under which the proposal put forward by the Proponent (as outlined in the Explanatory Statement) will be implemented.

Explanatory Statement means the Explanatory Statement accompanying the Notice of Meeting.

Meeting or **General Meeting** means the meeting convened by the Notice.

New Director means a director appointed to the Company post Recapitalisation.

Noble means Noble Investments Pty Ltd.

Notice means the Notice of Meeting.

Option means an option to acquire a Share.

Optionholder means the holder of an Option.

Proponent Options means Options on the terms set out in Schedule 1.

Recapitalisation means the recapitalisation proposed by the Recapitalisation Deed.

Recapitalisation Deed means the recapitalisation deed between the Company, the Administrator, the Proponent and Noble in January 2010.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means the holder of a Share.

Subsidiary has the meaning given to that term by Section 46 of the Corporations Act.

Proponent means Romfal Corporate Pty Ltd.

WST means Western Standard Time.

SCHEDULE 1 – TERMS AND CONDITIONS OF PROPONENT OPTIONS

Terms and conditions of Options

The terms and conditions attaching to the Options are set out below:

1. Each option (**Option**) entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company (**Share**) at an exercise price of 1 cent (**Exercise Price**).
2. The Options are exercisable at any time on or before 5.00pm Western Standard Time on 30 November 2013 (**Expiry Date**). Options may only be exercised in multiples of 1,000. Any Options not exercised by the Expiry Date shall lapse.
3. Options may not be exercised if the effect of such exercise and subsequent allotment of the Shares would be to create a holding of less than a marketable parcel of Shares unless the allottee is already a shareholder of The Company at the time of exercise.
4. Exercise of the Option is effected by completing a notice of exercise of option and delivering it to the registered office of the Company together with payment of 1 cent per Option exercised.
5. The Options are freely transferable, subject to any offer for sale of the Options complying with section 707 of the Corporations Act (if applicable).
6. All Shares issued upon exercise of the Options and payment of the Exercise Price will rank equally in all respects with The Company's then existing Shares. The Company will apply for Official Quotation by ASX of all Shares issued upon exercise of the Options within three days of the issue of the Shares.
7. A certificate will not be issued for the Options and an uncertificated holding statement will be provided.
8. There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new entitlement issues of capital offered to shareholders during the currency of the Options. However, The Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 business days after the Issue is announced. This will give the holders of Options the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
9. In the event of any reconstruction, including a consolidation, subdivision, reduction or return of the issued capital of the Company prior to the Expiry Date, the number of Options which each holder is entitled or the Exercise Price of the Options or both will be reconstructed as appropriate in a manner which is in accordance with the Listing Rules and will not result in any benefits being conferred on Optionholders which are not conferred on shareholders, subject to such provision with respect to the rounding of entitlements as may be sanctioned by the meeting of shareholders approving the reconstruction of capital, but in all other respects the terms of exercise of the Options will remain unchanged. The rights of an Optionholder may be changed to comply with the Listing rules applying to a reorganisation of capital at the time of the reconstruction.
10. Shares allotted and issued pursuant to the exercise of an Option will be allotted and issued not more than 14 days after the receipt of a proper notice and payment of the exercise price in respect of the Options exercised.

SCHEDULE 2 – VALUATION OF OPTIONS

The Proponent Options to be issued to the Related Parties pursuant to Resolutions 2 and 3 have been valued by the Proponent.

Using the theoretical Black & Scholes option model and based on the assumptions set out below, the Proponent Options were ascribed a value range, as follows:

| | | | |
|------------------------------------|--|------------|------------|
| Assumptions: | | | |
| Valuation date | 19 January 2010 | | |
| Market price of Shares | 0.5 cents (being the price at which Shares will be issued under the Capital Raising) | | |
| Exercise price | 1 cent | | |
| Expiry date | 30 November 2013 | | |
| Risk free interest rate | 5.25% (based on the ten year Australian Government bond rate) | | |
| Volatility | 25% | 50% | 75% |
| Indicative value per Option | 0.00 cents | 0.09 cents | 0.17 cents |

Note: The valuation ranges noted above are not necessarily the market prices that the Proponent Options could be traded at and they are not automatically the market prices for taxation purposes.

SCHEDULE 3 – BALANCE SHEET

**Consolidated Balance Sheet and Pro Forma Balance Sheet as at
31 December 2009 (unaudited)**

| | 31-Dec-09 Actual \$ | 31-Dec-09 Pro-forma \$ |
|----------------------------------|---------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | - | 1,620,000 |
| TOTAL CURRENT ASSETS | - | 1,620,000 |
| NON-CURRENT ASSETS | | |
| Intangible assets | 10,000 | 10,000 |
| TOTAL NON-CURRENT ASSETS | 10,000 | 10,000 |
| TOTAL ASSETS | 10,000 | 1,630,000 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 777,384 | - |
| Priority employee claims | 53,062 | - |
| Secured creditors | 1,100,000 | - |
| TOTAL CURRENT LIABILITIES | 1,930,446 | - |
| TOTAL LIABILITIES | 1,930,446 | - |
| NET ASSETS | -1,920,446 | 1,630,000 |
| EQUITY | | |
| Issued capital | 16,965,663 | 18,935,663 |
| Reserves | 871,120 | 871,120 |
| Accumulated Losses | -19,757,229 | 18,176,783 |
| TOTAL EQUITY | -1,920,446 | 1,630,000 |

Notes:

Intangible assets were valued at \$6,055,482 in the 30 June 2008 annual report. An integral part of its intellectual property previously consisted of a number of well known brand licences. In addition, Brainytoys has an accumulation of intellectual property through acquisitions and in house development.

The proposed new board of Brainytoys (New Board) believes they can achieve a profitable international toys and games development company. However, at 31 December 2009, the Directors are not in a position to determine the recoverable amount for these items. The Directors therefore consider it prudent to impair these items and include them in the unaudited balance sheet at a value of \$10,000.

The Directors will reassess recoverable amount once they have had an opportunity to assess the intellectual property and its uses.

PROXY FORM

**APPOINTMENT OF PROXY
BRAINYTOYS LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 001 894 033**

I/We

of

being a member of Brainytoys Limited entitled to attend and vote at the General Meeting, hereby

Appoint

Name of proxy

OR

the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held at 10am (WST) on 24 March 2010 at the Melbourne Hotel, The Heritage Room, Cnr Hay and Milligan Streets, Perth WA 6000, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

If the Chair of the General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolutions 2 to 6** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the General Meeting may exercise your proxy even if he has an interest in the outcome of Resolutions 2 to 6 and that votes cast by the Chair of the General Meeting for Resolutions 2 to 6 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 2 to 6 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 2 to 6.

OR

Voting on Business of the General Meeting

| | | FOR | AGAINST | ABSTAIN |
|---------------|--|--------------------------|--------------------------|--------------------------|
| Resolution 1 | Consolidation of Capital | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 2 | Issue of Shares and Proponent Options – Faldi Ismail | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 3 | Issue of Shares and Proponent Options – Athan Lekkas | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 4 | Issue of Shares - Nathan Taylor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 5 | Issue of Shares and Proponent Options | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 6 | Issue of Shares and Proponent Options to Noble | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 7 | Re-election of Director – Faldi Ismail | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 8 | Re-election of Director – Athan Lekkas | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 9 | Re-election of Director – Nathan Taylor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 10 | Change of Name | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 11 | Adoption of New Constitution | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If more than one proxy is being appointed, the proportion of voting rights this proxy represents is _____%

Signature of Member(s):

Date: _____

Individual or Member 1

Sole Director/Company Secretary

Member 2

Director

Member 3

Director/Company Secretary

Contact Name: _____ Contact Ph (daytime): _____

BRAINYTOYS LIMITED
ACN 001 894 033

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at a General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (c) post to c:/ Pitcher Partners, Level 1, 914 Hay Street, Perth WA 6000; or
 - (g) facsimile to the Company on facsimile number +61 8 9322 1262,so that it is received not later than 10am am (WST) on 22 March 2010.

Proxy forms received later than this time will be invalid.