

Financial Statements of

**NATIONAL CAPITAL FREENET
INCORPORATED**

Year ended December 31, 2007



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REVIEW ENGAGEMENT REPORT TO THE MEMBERS

We have reviewed the statement of financial position of National Capital FreeNet Incorporated as at December 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the right end.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

February 8, 2008

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position
(Unaudited)

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash	\$ 103,421	\$ 56,785
Amounts receivable	12,601	—
Inventory	4,412	4,728
Prepaid expenses	6,775	5,804
	<u>127,209</u>	<u>67,317</u>
Capital assets:		
Computer equipment	101,996	105,786
Telecommunications equipment	37,441	37,441
Systems software	306,969	306,969
Business equipment	5,928	7,200
	<u>452,334</u>	<u>457,396</u>
Less accumulated amortization	<u>445,588</u>	<u>448,432</u>
	6,746	8,964
	<u>\$ 133,955</u>	<u>\$ 76,281</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 29,640	\$ 30,393
Deferred contributions related to capital assets (note 2)	3,367	5,671
Net assets:		
Unrestricted	97,569	36,924
Invested in capital assets	3,379	3,293
	<u>100,948</u>	<u>40,217</u>
Commitment (note 3)		
	<u>\$ 133,955</u>	<u>\$ 76,281</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Operations
(Unaudited)

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Donations	\$ 210,454	\$ 229,259
Amortization of deferred contributions (note 2)	2,304	61,922
Revenue from DSL service	468,204	213,942
Interest	1,589	419
City of Ottawa grant	36,000	—
	<u>718,551</u>	<u>505,542</u>
Expenses:		
Telecommunications	81,777	98,991
DSL service equipment	380,076	174,405
Administration and professional fees	133,644	144,470
National Child Benefit project	47,740	—
Office and supplies	11,113	10,361
Amortization of capital assets	3,470	65,116
	<u>657,820</u>	<u>493,343</u>
Excess of revenue over expenses	<u>\$ 60,731</u>	<u>\$ 12,199</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2007, with comparative figures for 2006

	Unrestricted	Invested in capital assets	2007 Total	2006 Total
Balance, beginning of year	\$ 36,924	\$ 3,293	\$ 40,217	\$ 28,018
Excess of revenue over expenses	60,731	—	60,731	12,199
Additions to capital assets	(1,252)	1,252	—	—
Amortization of capital assets	3,470	(3,470)	—	—
Amortization of deferred contributions related to capital assets	(2,304)	2,304	—	—
Balance, end of year	\$ 97,569	\$ 3,379	\$ 100,948	\$ 28,018

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows
(Unaudited)

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 60,731	\$ 12,199
Items not involving cash:		
Amortization of deferred contributions	(2,304)	(61,922)
Amortization of capital assets	3,470	65,116
Changes in non-cash working capital items:		
Amounts receivable	(12,601)	815
Inventory	316	(4,728)
Prepaid expenses	(971)	(177)
Accounts payable and accrued liabilities	(753)	12,784
	<u>47,888</u>	<u>24,087</u>
Investing activities:		
Additions to capital assets	(1,252)	(8,158)
Increase in deferred contributions related to capital assets	—	4,950
	<u>(1,252)</u>	<u>(3,208)</u>
Increase in cash and cash equivalents	46,636	20,879
Cash and cash equivalents, beginning of year	56,785	35,906
Cash and cash equivalents, end of year	<u>\$ 103,421</u>	<u>\$ 56,785</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements
(Unaudited)

Year ended December 31, 2007

National Capital FreeNet Incorporated is a not-for-profit organization, the aims and objectives of which are to establish and operate a community based computer network to store, access and exchange information between individuals and organizations in the national capital region.

The Company was incorporated on September 29, 1992 under the Canada Corporations Act as a not-for-profit organization without share capital within the meaning of the Income Tax Act (Canada) and accordingly is exempt from income tax.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

(a) Capital assets:

Purchased equipment and systems software are recorded at cost. Contributed equipment and software are recorded as a capital asset at fair value at the date of contribution. Contributed equipment and software are recorded as a deferred contribution and recognized as revenue at an amount equal to the related amortization on those assets.

Amortization is provided on the straight-line basis using an annual rate of 25%. One half of the rate is used in the year of acquisition.

(b) Use of estimates:

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

2. Deferred contributions:

Deferred contributions relate to the unrecognized portion of contributed capital assets. The changes in the deferred contributions balance for the year are as follows:

	2007	2006
Balance, beginning of year	\$ 5,671	\$ 62,643
Add contributed capital assets	–	4,950
Less amount recognized as revenue	(2,304)	(61,922)
Balance, end of year	\$ 3,367	\$ 5,671

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(Unaudited)

Year ended December 31, 2007

3. Commitment:

The Company renewed an agreement for payments for telephone lines to May 30, 2009. Minimum payments over the next year amount to \$75,960. As well, a rental lease was signed in 2006 that commits the company to an annual rent of \$9,499 until August 31, 2009.

Future minimum payments are approximately as follows:

2008	\$	85,459
2009		37,983
	\$	123,442

4. Fair value of financial assets and financial liabilities:

The carrying values of all financial assets and liabilities approximate their fair market values.