

Financial Statements of

**NATIONAL CAPITAL FREENET
INCORPORATED**

Year ended December 31, 2008



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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, 2008 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' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

February 26, 2009

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position
(Unaudited)

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash	\$ 130,807	\$ 103,421
Amounts receivable	250	12,601
Inventory	3,160	4,412
Prepaid expenses	6,084	6,775
	<u>140,301</u>	<u>127,209</u>
Capital assets:		
Computer equipment	93,782	101,996
Telecommunications equipment	37,441	37,441
Systems software	306,969	306,969
Business equipment	6,728	5,928
	<u>444,920</u>	<u>452,334</u>
Less accumulated amortization	<u>438,718</u>	<u>445,588</u>
	6,202	6,746
	<u>\$ 146,503</u>	<u>\$ 133,955</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 47,665	\$ 29,640
Deferred contributions related to capital assets (note 3)	1,858	3,367
Net assets:		
Unrestricted	92,636	97,569
Invested in capital assets	4,344	3,379
	<u>96,980</u>	<u>100,948</u>
Commitment (note 4)		
	<u>\$ 146,503</u>	<u>\$ 133,955</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, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Donations	\$ 177,889	\$ 210,454
Amortization of deferred contributions (note 3)	1,509	2,304
Revenue from DSL service and equipment	729,295	468,204
Interest	2,518	1,589
City of Ottawa grant	—	36,000
	<u>911,211</u>	<u>718,551</u>
Expenses:		
Telecommunications	83,641	81,777
DSL service and equipment	611,493	380,076
Administration and professional fees	202,767	133,644
National Child Benefit project	—	47,740
Office and supplies	14,143	11,113
Amortization of capital assets	3,135	3,470
	<u>915,179</u>	<u>657,820</u>
Excess (deficiency) of revenue over expenses	\$ (3,968)	\$ 60,731

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2008, with comparative figures for 2007

	Unrestricted	Invested in capital assets	2008 Total	2007 Total
Balance, beginning of year	\$ 97,569	\$ 3,379	\$ 100,948	\$ 40,217
Excess (deficiency) of revenue over expenses	(3,968)	—	(3,968)	60,731
Additions to capital assets	(2,591)	2,591	—	—
Amortization of capital assets	3,135	(3,135)	—	—
Amortization of deferred contributions related to capital assets	(1,509)	1,509	—	—
Balance, end of year	\$ 92,636	\$ 4,344	\$ 96,980	\$ 100,948

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows
(Unaudited)

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (3,968)	\$ 60,731
Items not involving cash:		
Amortization of deferred contributions	(1,509)	(2,304)
Amortization of capital assets	3,135	3,470
Changes in non-cash working capital items:		
Amounts receivable	12,352	(12,601)
Inventory	1,252	316
Prepaid expenses	691	(971)
Accounts payable and accrued liabilities	18,024	(753)
	<u>29,977</u>	<u>47,888</u>
Investing activities:		
Additions to capital assets	(2,591)	(1,252)
	<u>27,386</u>	<u>46,636</u>
Increase in cash and cash equivalents	27,386	46,636
Cash and cash equivalents, beginning of year	103,421	56,785
Cash and cash equivalents, end of year	<u>\$ 130,807</u>	<u>\$ 103,421</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements
(Unaudited)

Year ended December 31, 2008

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) Revenue recognition:

Donations are recognized as revenue when received. Sales and services are recognized as revenue when the product is shipped to the customer or the service is provided.

(c) 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.

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Notes to Financial Statements, page 2
(Unaudited)

Year ended December 31, 2008

2. Adoption of new accounting standards and future accounting standards:

(a) Adoption of new accounting standards:

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures* which establishes standards for disclosing information about an entity's capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending December 31, 2008, except for the additional note disclosure in note 6.

Inventory

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3031, *Inventories*, which provides guidance on the measurement and disclosure requirements for inventories.

The implementation of this new section had no significant impact on the Company's financial statements.

Financial Instruments

In December 2006, the CICA issued new accounting standards: Handbook Section 3862, *Financial Instruments – Disclosures*; Handbook Section 3863, *Financial Instruments – Presentation*. These standards were expected to be effective for the Company's financial statements for the year ended December 31, 2008. However in December 2008, the CICA eliminated the requirement for not-for-profit entities to adopt these standards. The Company has continued to disclose and present financial instruments under Handbook Section 3861, *Financial Instruments – Disclosures and Presentation* for the year ended December 31, 2008.

(b) Future accounting standards:

The CICA has issued the following new accounting standards that will come into effect for the Company's fiscal year beginning January 1, 2009.

Amendments to Accounting Standards That Apply Only to Not-For-Profit Organizations

In September 2008, the CICA issued amendments to the existing accounting standards applicable to not-for-profit organizations. The amendments affect the financial statement presentation and disclosure requirements for not-for-profit organizations.

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Notes to Financial Statements, page 3
(Unaudited)

Year ended December 31, 2008

2. Adoption of new accounting standards and future accounting standards (continued):

(c) Future accounting standards (continued):

Disclosure of Allocated Expenses by Not-For-Profit Organizations

In September 2008, the CICA issued Section 4470, *Disclosure of Allocated Expenses by Not-For-Profit Organizations*. This new section establishes disclosure requirements for not-for-profit organizations that report expenses by function and allocate expenses to a number of functions to which the expenses relate. These not-for-profit organizations will be required to disclose additional information regarding their accounting policies adopted for the allocation of expenses among functions, the nature of these expenses, the basis on which the allocations are being made, and the value of the allocations.

The Company is currently assessing the impact of these amendments and the new accounting standard on its financial statements.

3. 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:

	2008	2007
Balance, beginning of year	\$ 3,367	\$ 5,671
Less amount recognized as revenue	(1,509)	(2,304)
Balance, end of year	\$ 1,858	\$ 3,367

4. Commitment:

The Company renewed an agreement for payments for telephone lines to May 30, 2009. Minimum payments over the next year would 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.

Committed future minimum payments are approximately as follows:

2009	\$ 37,983
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Notes to Financial Statements, page 4
(Unaudited)

Year ended December 31, 2008

5. Fair value of financial assets and financial liabilities:

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

6. Capital disclosure:

The Company defines capital as its net assets. The Company's overall objective with its capital is to fund capital assets, future projects and ongoing operations. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the year ended December 31, 2007.