

Financial Statements of

**NATIONAL CAPITAL FREENET
INCORPORATED**

Year ended December 31, 2009



KPMG LLP
Chartered Accountants
Suite 2000
160 Elgin Street
Ottawa, ON K2P 2P8
Canada

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

REVIEW ENGAGEMENT REPORT TO THE MEMBERS

We have reviewed the statement of financial position of National Capital FreeNet Incorporated as at December 31, 2009 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 single 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 26, 2010

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position
(Unaudited)

December 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 114,418	\$ 130,807
Amounts receivable	250	250
Inventory	3,337	3,160
Prepaid expenses	7,167	6,084
	<u>125,172</u>	<u>140,301</u>
Capital assets:		
Computer equipment	79,698	93,782
Telecommunications equipment	32,546	37,441
Systems software	306,969	306,969
Business equipment	6,728	6,728
	<u>425,941</u>	<u>444,920</u>
Less accumulated amortization	<u>416,547</u>	<u>438,718</u>
	9,394	6,202
	<u>\$ 134,566</u>	<u>\$ 146,503</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 52,973	\$ 47,665
Deferred contributions related to capital assets (note 3)	620	1,858
Net assets:		
Unrestricted	72,199	92,636
Invested in capital assets	8,774	4,344
	<u>80,973</u>	<u>96,980</u>
Commitment (note 4)		
	<u>\$ 134,566</u>	<u>\$ 146,503</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, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
DSL service	\$ 821,626	\$ 649,507
Donations	155,931	177,889
DSL equipment	56,948	79,788
Interest	1,314	2,518
Amortization of deferred contributions (note 3)	1,238	1,509
	<u>1,037,057</u>	<u>911,211</u>
Expenses:		
DSL service	719,187	558,139
Administration and professional fees	204,253	202,767
Telecommunications	78,895	83,641
DSL equipment	32,487	53,354
Office and supplies	14,250	14,143
Amortization of capital assets	3,992	3,135
	<u>1,053,064</u>	<u>915,179</u>
Deficiency of revenue over expenses	<u>\$ (16,007)</u>	<u>\$ (3,968)</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2009, with comparative figures for 2008

	Unrestricted	Invested in capital assets	2009 Total	2008 Total
Balance, beginning of year	\$ 92,636	\$ 4,344	\$ 96,980	\$ 100,948
Deficiency of revenue over expenses	(16,007)	–	(16,007)	(3,968)
Additions to capital assets	(7,184)	7,184	–	–
Amortization of capital assets	3,992	(3,992)	–	–
Amortization of deferred contributions related to capital assets	(1,238)	1,238	–	–
Balance, end of year	\$ 72,199	\$ 8,774	\$ 80,973	\$ 96,980

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows
(Unaudited)

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (16,007)	\$ (3,968)
Items not involving cash:		
Amortization of deferred contributions	(1,238)	(1,509)
Amortization of capital assets	3,992	3,135
Changes in non-cash working capital items:		
Amounts receivable	—	12,352
Inventory	(177)	1,252
Prepaid expenses	(1,083)	691
Accounts payable and accrued liabilities	5,308	18,024
	<u>(9,205)</u>	<u>29,977</u>
Investing activities:		
Additions to capital assets	(7,184)	(2,591)
Increase (decrease) in cash and cash equivalents	<u>(16,389)</u>	<u>27,386</u>
Cash and cash equivalents, beginning of year	130,807	103,421
Cash and cash equivalents, end of year	<u>\$ 114,418</u>	<u>\$ 130,807</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements
(Unaudited)

Year ended December 31, 2009

National Capital FreeNet Incorporated ("the Company") 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 at fair value at the date of contribution. Contributed equipment and software are also 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. DSL service and equipment 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 these estimates.

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Notes to Financial Statements, page 2
(Unaudited)

Year ended December 31, 2009

2. Adoption of new accounting standards:

Effective January 1, 2009, the Company adopted the following amendments and new accounting standard:

(a) *Amendments to Accounting Standards that apply only to Not-For-Profit Organizations:*

These amendments revised the financial statement presentation and disclosure requirements for not-for-profit organizations.

(b) *Amendments to Section 1000, Financial Statement Concepts:*

These amendments revised the definitions of assets and liabilities and removed the recognition of items as assets and liabilities solely on the basis of matching revenues and expenses.

(c) *Section 4470, Disclosure of Allocated Expenses by Not-for-Profit Organizations:*

This new standard established disclosure requirements for not-for-profit organizations that report their expenses by function and allocate expenses between functions.

Adoption of these amendments and new accounting standard had no significant impact on the Company's financial statements for the year ending December 31, 2009.

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:

	2009	2008
Balance, beginning of year	\$ 1,858	\$ 3,367
Less amount recognized as revenue	(1,238)	(1,509)
Balance, end of year	\$ 620	\$ 1,858

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Notes to Financial Statements, page 3
(Unaudited)

Year ended December 31, 2009

4. Commitment:

The Company is committed to payments under operating leases for management services, telecommunications lines and premises which expire in 2010, 2011 and 2012, respectively. The minimum payments due over the next three years are as follows:

2010	\$ 68,903
2011	32,543
2012	6,762

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 respect to its capital is to fund the acquisition of 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, 2008.