

Financial Statements of

**NATIONAL CAPITAL FREENET
INCORPORATED**

Year ended December 31, 2010



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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, 2010 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'.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

March 21, 2011

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position
(Unaudited)

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 71,960	\$ 114,418
Amounts receivable	612	250
Inventory	3,360	3,337
Prepaid expenses	6,279	7,167
	<u>82,211</u>	<u>125,172</u>
Capital assets:		
Computer equipment	82,484	79,698
Telecommunications equipment	32,546	32,546
Systems software	317,925	306,969
Business equipment	6,728	6,728
	<u>439,683</u>	<u>425,941</u>
Less accumulated amortization	<u>425,595</u>	<u>416,547</u>
	14,088	9,394
	<u>\$ 96,299</u>	<u>\$ 134,566</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 48,525	\$ 52,973
Deferred contributions related to capital assets (note 2)	—	620
Net assets:		
Unrestricted	33,686	72,199
Invested in capital assets	14,088	8,774
	<u>47,774</u>	<u>80,973</u>
Commitment (note 3)		
	<u>\$ 96,299</u>	<u>\$ 134,566</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, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
DSL service	\$ 928,843	\$ 821,626
Donations	147,862	155,931
DSL equipment	48,504	56,948
Interest	691	1,314
Amortization of deferred contributions (note 2)	620	1,238
	<u>1,126,520</u>	<u>1,037,057</u>
Expenses:		
DSL service	821,136	719,187
Administration and professional fees	220,066	204,253
Telecommunications	66,087	78,895
DSL equipment	28,237	32,487
Office and supplies	15,145	14,250
Amortization of capital assets	9,048	3,992
	<u>1,159,719</u>	<u>1,053,064</u>
Deficiency of revenue over expenses	<u>\$ (33,199)</u>	<u>\$ (16,007)</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2010, with comparative figures for 2009

	Unrestricted	Invested in capital assets	2010 Total	2009 Total
Balance, beginning of year	\$ 72,199	\$ 8,774	\$ 80,973	\$ 96,980
Deficiency of revenue over expenses	(33,199)	–	(33,199)	(16,007)
Additions to capital assets	(13,742)	13,742	–	–
Amortization of capital assets	9,048	(9,048)	–	–
Amortization of deferred contributions related to capital assets	(620)	620	–	–
Balance, end of year	\$ 33,686	\$ 14,088	\$ 47,774	\$ 80,973

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows
(Unaudited)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (33,199)	\$ (16,007)
Items not involving cash:		
Amortization of deferred contributions	(620)	(1,238)
Amortization of capital assets	9,048	3,992
Changes in non-cash working capital items:		
Accounts receivable	(362)	—
Inventory	(23)	(177)
Prepaid expenses	888	(1,083)
Accounts payable and accrued liabilities	(4,448)	5,308
	<u>(28,716)</u>	<u>(9,205)</u>
Investing activities:		
Additions to capital assets	(13,742)	(7,184)
	<u>(42,458)</u>	<u>(16,389)</u>
Decrease in cash	(42,458)	(16,389)
Cash, beginning of year	114,418	130,807
Cash, end of year	<u>\$ 71,960</u>	<u>\$ 114,418</u>

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements
(Unaudited)

Year ended December 31, 2010

National Capital FreeNet Incorporated ("the Company") 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:

Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Systems software	Straight-line	3 years
Telecommunications equipment	Straight-line	3 years
Business equipment	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years

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.

Effective January 1, 2010, the Company changed its estimate of the useful lives of depreciable assets and the method of depreciation related to all of the asset classes. The revised estimates better reflect the expected useful life of these assets and have been applied prospectively. The change in the basis of depreciation has had the effect of increasing depreciation by \$690 in 2010.

(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.

NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements, page 2
(Unaudited)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(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. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the year in which they become known.

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:

	2010	2009
Balance, beginning of year	\$ 620	\$ 1,858
Less amount recognized as revenue	(620)	(1,238)
Balance, end of year	\$ —	\$ 620

3. Commitment:

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

2011	\$ 10,143
2012	6,762

4. Fair value of financial assets and financial liabilities:

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

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Notes to Financial Statements, page 3
(Unaudited)

Year ended December 31, 2010

5. Capital disclosure:

The Company considers its capital to consist of 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, 2010.