WATERFRONT CAPITAL CORPORATION

Consolidated Financial Statements

For the year ended December 31, 2011

Contact Information:

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Waterfront Capital Corporation

We have audited the accompanying consolidated financial statements of Waterfront Capital Corporation, and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of operations, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Waterfront Capital Corporation, and its subsidiaries, as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

March 28, 2012

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WATERFRONT CAPITAL CORPORATION
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010 (Note 3)	January 1, 2010 (Note 3)
ASSETS			
Current			
Cash	$ 22,310	$ 15,100	$ 16,927
Accounts receivable	48,008	134,585	54,078
Loan receivable (Note 5)	-	-	59,075
Investments (Note 6)	84,543	207,845	190,483
Prepaid expenses	1,423	1,365	1,346
	156,284	358,895	321,909
Loan receivable (Note 5)	250,000	335,348	216,067
Property and equipment (Note 7)	74,102	105,570	108,640
	$ 480,386	$ 799,813	$ 646,616
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	$ 41,482	$ 54,989	$ 28,475
Deferred revenue (Note 8)	43,873	43,872	45,937
	85,355	98,861	74,412
Deferred revenue (Note 8)	-	43,873	45,938
	85,355	142,734	120,350
Shareholders' equity			
Share Capital (Note 9)	7,459,938	7,459,938	7,459,938
Reserves	235,287	231,674	231,674
Deficit	(7,300,194)	(7,034,533)	(7,165,346)
	395,031	657,079	526,266
	$ 480,386	$ 799,813	$ 646,616

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 11)

On behalf of the Board:

"Douglas L. Mason" Director

"Sead Hamzagic" Director

The accompanying notes are an integral part of these consolidated financial statements

WATERFRONT CAPITAL CORPORATION
Consolidated Statements of Operations
Years ended December 31
(Expressed in Canadian Dollars)

		2011		2010
				(Note 3)
REVENUE				
Corporate and administrative services	$	307,764	$	631,588
Interest and other income		139,587		112,901
		447,351		744,489
EXPENSES				
Consulting fees		52,700		67,812
Depreciation		31,468		37,504
Office and general		112,402		122,050
Professional fees		77,965		67,527
Regulatory and transfer agent fees		31,544		30,046
Rent		51,627		49,977
Share-based payments (Note 9)		3,613		-
Wages and benefits		177		257,583
		361,496		632,499
Income and comprehensive income before other items		85,855		111,990
OTHER ITEMS				
Gain on sale of subsidiary (Note 4(a))		10		-
Write-down of loan receivable (Note 5)		(191,353)		-
Write-down of accounts receivable		(47,162)		-
Loss on sale of investments		-		(28,609)
Unrealized gain (loss) on investments		(123,302)		63,997
Unrealized foreign exchange gain (loss)		10,291		(16,565)
Net income (loss) and comprehensive income (loss) for the year	$	(265,661)	$	130,813
Basic and diluted earnings (loss) per common share	$	(0.03)	$	0.01
Weighted average shares used in computation of basic and diluted earnings (loss) per common share		9,654,066		9,654,066

The accompanying notes are an integral part of these consolidated financial statements

WATERFRONT CAPITAL CORPORATION
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital		Reserves	Deficit	Shareholders' Equity
	Number of Shares	Amount			
Authorized Capital					
Unlimited number of common shares without par value					
Balance as at January 1, 2010	**9,654,066**	**$ 7,459,938**	**$ 231,674**	**$ (7,165,346)**	**$ 526,266**
Net income for the year	-	-	-	130,813	130,813
Balance as at December 31, 2010	**9,654,066**	**7,459,938**	**231,674**	**(7,034,533)**	**657,079**
Share-based payments	-	-	3,613	-	3,613
Net loss for the year	-	-	-	(265,661)	(265,661)
Balance as at December 31, 2011	**9,654,066**	**$ 7,459,938**	**$ 235,287**	**$ (7,300,194)**	**$ 395,031**

The accompanying notes are an integral part of these consolidated financial statements.

WATERFRONT CAPITAL CORPORATION
Consolidated Statements of Cash Flows
Years ended December 31
(Expressed in Canadian Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	$ (265,661)	$ 130,813
Items not affecting cash:		
Depreciation	31,468	37,504
Amortization of deferred revenue	(43,872)	(36,130)
Accrued interest income included in loan receivable	(95,714)	(76,771)
Loss on sale of investments	-	28,609
Share-based payments	3,613	-
Gain on sale of subsidiary	(10)	-
Unrealized foreign exchange (gain) loss	(10,291)	16,565
Unrealized (gain) loss on investments	123,302	(63,997)
Write-down of loan receivable	191,353	-
Write-down of accounts receivable	47,162	-
	(18,650)	36,593
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	39,415	(80,507)
Increase in prepaid expenses	(58)	(19)
Increase (decrease) in accounts payable and accrued liabilities	(13,507)	26,514
Increase in deferred revenue	-	32,000
Net cash provided by operating activities	7,200	14,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	-	(34,434)
Proceeds on sale of investments	-	18,026
Proceeds on sale of subsidiary shares (Note 4(a))	10	-
Net cash provided by (used in) investing activities	10	(16,408)
Increase (decrease) in cash for the year	7,210	(1,827)
Cash, beginning of year	15,100	16,927
Cash, end of year	$ 22,310	$ 15,100

Supplemental disclosures with respect to cash flows (Note 10)

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

The Company was incorporated under the laws of Alberta and was continued into British Columbia during the year ended December 31, 2000. The Company's principal business activity is merchant banking and providing reporting and financial services and investment assistance to public and non-public companies.

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Management believes the Company will be successful in continuing to collect on revenues and therefore believes capital resources will be sufficient to carry its operations through the next twelve months. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Management is actively engaged in the review and due diligence of its revenue and expenses and may seek to raise the necessary capital to meet new funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 28, 2012, the date the Board of Directors approved the financial statements.

These are the Company's first consolidated annual financial statements in accordance with IFRS. Previously, the Company prepared its consolidated annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

2. BASIS OF PREPARATION (Continued)

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the depreciation of equipment, impairment of assets, valuation of share-based payments, and recognition of deferred tax amounts.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Impairment of assets
At each reporting period, assets, including accounts receivable, investments and loan receivable, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates and future operating performance.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Valuation of share-based payments
The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes
In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expect timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified

Depreciation for equipment
Depreciation expense is allocated based on assumes asset lives. Should the asset life or depreciation rates differ from the initial estimate, and adjustment would be made in the consolidated statements of comprehensive loss.

3. FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date is January 1, 2010. Under IFRS 1 (First time Adoption of International Financial Reporting Standards), IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit unless certain exemptions are applied.

The Company elected to take the following IFRS 1 transition elections and accounting policy choices:

Business combinations

The Company has elected not to apply IFRS 3 to business combinations that occurred before the date of transition to IFRS, which is an election permitted on first-time adoption of IFRS. IFRS 3 is applicable for business combinations occurring on or after January 1, 2010.

Share-based payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 to Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

IFRS mandatory exception respecting estimates

Hindsight is not used to create or revise estimates. In accordance with IFRS 1, an entity's estimates at the date of transition to IFRS must be consistent with the estimates made for the same date under previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date. Estimates previously made by the Company under previous GAAP were not revised upon adoption of IFRS except where necessary to reflect any differences in accounting policies.

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption has resulted in minimal changes to the reported balance sheets, results of operations, and cash flows of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP.

There were no significant differences between IFRS and GAAP in connection with the Company's consolidated statements of financial position as at January 1, 2010 and December 31, 2010; therefore, no reconciliations have been provided.

There were no significant differences between IFRS and GAAP in connection with the Company's consolidated statement of operations for the year ended December 31, 2010, therefore, no reconciliations have been provided.

There were no significant differences between IFRS and GAAP in connection with the Company's consolidated statement of cash flows for the year ended December 31, 2010, therefore, no reconciliations have been provided.

4. SIGNIFICANT ACCOUNTING POLICIES

The following are a list of significant accounting policies used by the Company.

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Churchill Debenture Corp. and Waterfront Communications Inc. All significant inter-company transactions and balances have been eliminated. During the year ended December 31, 2011, the Company sold its 100% interest in Waterfront Communications Corporation for proceeds of $10.

(b) Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets
The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Continued)

Financial liabilities
The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category includes promissory notes, amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(c) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property and equipment are depreciated at the following annual rates:

Computer equipment	30% declining balance
Computer software	30% declining balance
Furniture and fixtures	20% declining balance

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statements of operations.

Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(e) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(f) Share-based payment transactions

The Company's stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the options is accrued and charged to operations with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue recognition

Security transactions are recorded on a settlement date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of operations and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed to the consolidated statements of operations as incurred.

Consulting, rent and administration fees are recognized when the services are rendered and collection is reasonably assured. Deposits received in advance of services rendered are recorded as deferred revenue.

Interest income is recorded on an accrual basis. Loan commitment fees are recorded over the term of the loans. Annual loan fees are recorded quarterly based on the terms of the loan agreement and adjusted to the amount agreed to by the parties. Reasonable assurance of collectability is also required for recognition as revenue.

(h) Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings (loss) per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes (Continued)

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

(k) New accounting standards and interpretations not yet adopted

The Company has not yet adopted the following revised or new IFRS that have been issued but are not yet effective at December 31, 2011:

- IFRS 9, Financial Instruments (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets and liabilities.
- IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Associates and Joint Ventures (all effective January 1, 2013) provide guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of “control” for identifying entities which are to be consolidated.
- IFRS 13, Fair Value Measurement (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.
- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after July 1, 2012) requires that elements of other comprehensive income that may subsequently be recycled through profit and loss be differentiated from those items that will not be recycled.
- Amendments IAS 12, Income Taxes (effective for annual periods beginning on or after January 1, 2012) introduce an exception to the general measurement requirements in respect of investment properties measured at fair value.
- IAS 19, Employee Benefits (effective January 1, 2013) introduces changes to the accounting for defined benefit plans and other employee benefits that include modification of the accounting for termination benefits and classification of other employee benefits.
- IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures were revised and reissued to align with the new consolidation guidance.

The Company is currently assessing the impact that these new accounting standards will have in the consolidated financial statements.

5. LOAN RECEIVABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Loan receivable due from a company with common directors, denominated in United States dollars, payable in monthly installments of US$9,892, including interest (25.3% effective rate of interest per annum), unsecured and due December 31, 2012.	$ 250,000	$ 335,348	$ 275,142
Less: Current portion	-	-	59,075
	$ 250,000	$ 335,348	$ 216,067

During the years ended December 31, 2011, and 2010 the Company has accrued but not received payment of any interest. The Company is currently negotiating settlement of the loan and accordingly wrote-down the loan by $191,353 to its expected fair value.

6. INVESTMENTS

Investments are marketable securities comprised of common shares in publicly traded companies as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Black Panther Mining Corp. – 82,000 common shares (December 31, 2010 – 82,000 common shares)	$ 4,920	$ 9,840	$ 15,170
Columbia Yukon Explorations Inc. – 300,000 common shares (December 31, 2010 – 300,000 common shares)	27,000	51,000	80,000
Ikon Laser Eye Centre – 25,123 common shares (December 31, 2010 – 25,123 common shares)	-	2	-
International Bethlehem Mining Corp. – 600,000 common shares (December 31, 2010 – 600,000 common shares)	33,000	75,000	27,000
White Tiger Mining Corp. – 93,250 common shares (December 31, 2010 – 93,250 common shares)	12,123	34,503	23,313
World Famous Pizza Company Ltd. – 1,500,000 common shares (December 31, 2010 – 1,500,000 common shares)	7,500	37,500	45,000
	$ 84,543	$ 207,845	$ 190,483

All of the investee companies have certain common directors with the Company.

7. PROPERTY AND EQUIPMENT

	Computer equipment	Computer Software	Computer system under development	Furniture and fixtures	Total
Cost					
Balance, January 1, 2010	$ 34,046	$ -	$ 100,011	$ 45,127	$ 179,184
Additions	6,965	27,469	-	-	34,434
Completion of system	13,167	86,844	(100,011)	-	-
Balance, December 31, 2010	54,178	114,313	-	45,127	213,618
Additions	-	-	-	-	-
Balance, December 31, 2011	$ 54,178	$ 114,313	$ -	$ 45,127	$ 213,618
Accumulated depreciation					
Balance, January 1, 2010	$ 27,951	$ -	$ -	$ 42,593	$ 70,544
Additions	6,823	30,174	-	507	37,504
Balance, December 31, 2010	34,774	30,174	-	43,100	108,048
Additions	5,820	25,240	-	408	31,468
Balance, December 31, 2011	$ 40,594	$ 55,414	$ -	$ 43,508	$ 139,516
Carrying amounts					
As at January 1, 2010	$ 6,095	$ -	$ 100,011	$ 2,534	$ 108,640
As at December 31, 2010	$ 19,404	$ 84,139	$ -	$ 2,027	$ 105,570
As at December 31, 2011	$ 13,584	$ 58,899	$ -	$ 1,619	$ 74,102

8. RELATED PARTY TRANSACTIONS

(a) Included in accounts receivable at December 31, 2011 is $47,243 (2010 - $134,077) due from companies controlled by directors and/or companies with common directors;

(b) Included in accounts payable at December 31 2011 is $2,839 (2010 - $nil) due to companies controlled by directors and/or companies with common directors;

(c) Included in deferred revenue at December 31, 2011 is $43,873 (2010 - $87,745) from companies with common directors to cover the cost of implementing new computer hardware and software;

(d) During the year ended December 31, 2011, the Company paid or accrued the following amounts to directors, companies or limited partnerships controlled by directors and/or companies with common directors:

	2011	2010
Consulting fees	$ 48,000	$ 59,500
Professional fees	32,000	31,050
Rent	51,627	49,977
Share-based payments	3,613	-

8. RELATED PARTY TRANSACTIONS (Continued)

(e) During the year ended December 31, 2011, the Company received or accrued the following amounts from companies controlled by directors and/or companies with common directors:

	2011	2010
Interest and other income	$ 139,587	$ 112,901
Corporate and administrative services revenue	284,595	613,930

9. STOCK OPTIONS AND WARRANTS

Stock Options

The Company has a stock option plan to grant options to directors, officers, employees and consultants to acquire up to 1,800,000 common shares in the capital of the Company. The exercise price of each option granted under the plan is determined by the directors but cannot be less than the closing price of the Company's shares on the day preceeding the day of which the directors grant such options, less any discount allowed by the TSX Venture Exchange. The options can be granted for a maximum term of 5 years and are subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval.

On November 1, 2011, the Company granted 200,000 stock options to a director and officer at an exercise price of $0.10 per share and for a term of five years. These options are subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval. During the year ended December 31, 2011, the Company recorded share-based payments of $3,613 (2010-$Nil) in relation to the vested portion.

As at December 31, 2011, the following incentive stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,300,000	$ 0.15	September 10, 2012
100,000	$ 0.10	February 12, 2013
200,000	$ 0.10	November 1, 2016
1,600,000		

9. STOCK OPTIONS AND WARRANTS (Continued)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2010 and December 31, 2010	1,400,000	$ 0.15
Granted	200,000	$ 0.10
Outstanding, December 31, 2011	1,600,000	$ 0.15
Exercisable, December 31, 2011	1,550,000	$ 0.15

Warrants

There were no warrants outstanding as at December 31, 2010 and December 31, 2011.

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

There were no non-cash financing or investing transactions during the year ended December 31, 2011 and December 31, 2010.

11. COMMITMENTS AND CONTINGENCIES

(a) The Company has entered into lease agreements for premises and equipment expiring through 2016. The minimum annual lease commitments under these leases are as follows:

2012	$	37,345
2013	$	37,345
2014	$	35,883
2015	$	28,574
2016	$	28,574

(b) The Company has entered into three 5-year term renewable agreements with companies controlled by three directors of the Company for the provision of consulting and/or legal services at a cost of $2,500 per month ($30,000 per annum), $2,500 per month ($30,000 per annum) and $1,000 per month ($12,000 per annum), respectively. If any of such agreements are terminated without cause, or if there is a change in control of the Company, the Company is required to pay an amount equal to five times the annual fees payable there under.

(c) The Company has entered into three agreements with certain directors/officers for services rendered in such capacities. If such agreements are terminated without consent of the director/officer or the director/officer resigns within 120 days following a change in control, the Company must pay $100,000 to such director/officer and allow any unvested stock options to vest.

12. CAPITAL MANAGEMENT

The Company manages its common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures from continuing operations.

To fund future operations and exploration activities the Company will need to raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

The Company expects its current capital resources will be sufficient to carry its corporate and administrative services and operations through its current operating period.

13. FINANCIAL INSTRUMENTS

Fair value

The Company classified its cash and investments as fair value through profit or loss; accounts receivable and loan receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The carrying values of accounts receivable, loan receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. Cash and investments are carried at fair value using Level 1 of the fair value hierarchy.

The fair values of the investments are determined directly by reference to published price quotations in an active market at the reporting date.

The fair value of accounts receivable and loan receivable are determined by the amount of cash anticipated to be collected in the normal course of business from the financial asset, net of any direct costs on the conversion into cash.

As the carrying value of the Company's remaining financial instruments approximate their fair values, disclosure is not made of their level in the fair value hierarchy.

13. FINANCIAL INSTRUMENTS (Continued)

The carrying values and fair values of financial assets and liabilities as at December 31, 2011 and December 31, 2010 are summarized as follows:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fair value through profit or loss	$ 106,853	$ 106,853	$ 222,945	$ 222,945
Loans and receivables	298,008	298,008	469,933	469,933
Other liabilities	(41,482)	(41,482)	(54,989)	(54,989)
	$ 363,379	$ 363,379	$ 637,889	$ 637,889

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Currency risk

The Company has a loan receivable outstanding in United States dollars and is subject to foreign currency fluctuations and inflationary pressures which may affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not consider the exposure to be significant.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash, short-term investments, accounts receivable and loan receivable.

The Company's credit risk is primarily attributable to cash and short-term investments. Management believes that the credit risk concentration with respect to cash and short term investments is remote as it maintains accounts with highly-rated financial institutions. Accounts receivable are due primarily from companies with common directors and/or officers.

13. FINANCIAL INSTRUMENTS (Continued)

The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2011	2010
Cash	$ 22,310	$ 15,100
Investments	84,543	207,845
	$ 106,853	$ 222,945

The Company is exposed to credit risk on its accounts receivable and loan receivable. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2011	2010
Accounts receivable	$ 48,008	$ 134,585
Loan receivable	250,000	335,348
	$ 298,008	$ 469,933

Credit risk with respect to the loan receivable is considered to be high due to the balance being outstanding from one vendor (Note 5). Credit risk with respect to accounts receivable has been assessed as low from management, as the Company has strong working relationships with the related parties involved.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2011, the Company had accounts payable and accrued liabilities of $41,482 (December 31, 2010 - $54,989). Based on the current funds held as at December 31, 2011, the Company has sufficient working capital.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

13. FINANCIAL INSTRUMENTS (Continued)

Market risk (Continued)

The Company's cash consists of cash held in bank accounts. Due to the short-term nature of the Company's financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rate on the loan receivable from a related party is fixed. Therefore, the Company is not exposed to any significant interest rate risk during the term to maturity.

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk with respect to its investments as they are carried at fair values based indirectly on quoted market prices.

14. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Income (loss) for the year	$ (265,661)	$ 130,813
Expected income tax (recovery)	(70,000)	37,000
Non deductible expenditures	2,000	(1,000)
Impact on different tax rates and other	109,000	7,000
Change in unrecognized deductible temporary differences	(41,000)	(43,000)
	$ -	$ -

The deductible temporary differences and unused tax losses that are not recognized as deferred tax assets are as follows:

	2011	Expiry Dates	2010
Allowable capital losses	$ 2,446,000	not applicable	$ 2,423,000
Non-Capital losses	299,000	2013 to 2031	483,000
Property and equipment	172,000	not applicable	246,000
Investments	309,000	not applicable	393,000
Financing costs	-		5,000

15. SEGMENTED INFORMATION

The Company currently operates its business in one operating segment in Canada.