

# Wamco Technology Group Ltd.

FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Wamco Technology Group Ltd., are the responsibility of the management and Board of Directors of the Company.

The financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards and IFRS 1 - First-Time Adoption of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Stephen Dunn", President and CEO  
Stephen Dunn

"Marco Guidi", CFO  
Marco Guidi

**PALMER REED**  
**CHARTERED ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of  
Wamco Technology Group Ltd.

We have audited the accompanying financial statements of Wamco Technology Group Ltd., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss, comprehensive loss, 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 Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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, the financial statements present fairly, in all material respects, the financial position of Wamco Technology Group Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 1 to the financial statements which indicates that the Company incurred a net loss of \$51,291 during the year ended December 31, 2011 and, as of that date, had an accumulated deficit of \$3,139,697 since inception. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability of Wamco Technology Group Ltd. to continue as a going concern. Our opinion is not qualified in respect of this matter.

TORONTO, ONTARIO

Palmer Reed

March 26, 2012

Chartered Accountants  
Licensed Public Accountants

**WAMCO TECHNOLOGY GROUP LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
(expressed in Canadian dollars)

<b>As at,</b>	<b>December 31, 2011</b>	December 31, 2010	January 1, 2010
		(Note 3)	(Note 3)
<b>ASSETS</b>			
<b>Current</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	-	280	29,334
Trade and other receivables (Note 5)	<b>2,889</b>	1,230	623
	<b>2,889</b>	1,510	29,957
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables (Note 6)	<b>62,664</b>	12,099	24,134
Due to related parties (Note 7)	-	152,959	145,015
Loan payable (Note 8)	-	10,000	10,000
	<b>62,664</b>	175,058	179,149
<b>EQUITY</b>			
Share capital (Note 9)	<b>3,064,922</b>	2,899,858	2,899,858
Reserve for share based payments (Note 10)	<b>15,000</b>	15,000	15,000
Deficit	<b>(3,139,697)</b>	(3,088,406)	(3,064,050)
	<b>(59,775)</b>	(173,548)	(149,192)
	<b>2,889</b>	1,510	29,957
Nature of Operations and Going Concern (Note 1)			

Approved on behalf of the Board:

"Joe Whipple" Director

"Stephen Dunn" Director

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

**WAMCO TECHNOLOGY GROUP LTD.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**  
(expressed in Canadian dollars)

	2011	2010
<b>Expenses</b>	\$	\$
Accounting, audit and legal	47,586	11,897
Filing and Transfer Agent Fees	13,614	12,305
General and administrative	91	154
<b>Loss before the undernoted items</b>	<b>61,291</b>	<b>24,356</b>
Forgiveness of debt (Note 8)	(10,000)	-
<b>Net loss and comprehensive loss for the year</b>	<b>51,291</b>	<b>24,356</b>
<b>Loss per share</b>		
Basic and fully diluted	(0.013)	(0.008)
<b>Weighted average number of common shares outstanding</b>		
Basic and fully diluted	3,891,059	2,913,985

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

**WAMCO TECHNOLOGY GROUP LTD.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**  
(expressed in Canadian dollars)

	Share Capital		Reserves		
	Number of Shares*	Amount	Share based payments	Deficit	Total
Balance at January 1, 2010	2,913,985	\$ 2,899,858	\$ 15,000	\$ (3,064,050)	\$ (149,192)
Total comprehensive loss for the year	-	-	-	(24,356)	(24,356)
<b>Balance at December 31, 2010</b>	<b>2,913,985</b>	<b>\$ 2,899,858</b>	<b>\$ 15,000</b>	<b>\$ (3,088,406)</b>	<b>\$ (173,548)</b>
Shares issued for debt	1,917,377	172,564	-	-	172,564
Share issue costs – cash	-	(7,500)	-	-	(7,500)
Total comprehensive loss for the year	-	-	-	(51,291)	(51,291)
<b>Balance at December 31, 2011</b>	<b>4,831,362</b>	<b>\$ 3,064,922</b>	<b>\$ 15,000</b>	<b>\$ (3,139,697)</b>	<b>\$ (59,775)</b>

\* Number of shares outstanding is post three for one share consolidation of the Company's issued and outstanding shares

**WAMCO TECHNOLOGY GROUP LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**  
(expressed in Canadian dollars)

	2011	2010
<b>Cash flows used in operating activities</b>	<b>\$</b>	<b>\$</b>
Net Loss for the year	(51,291)	(24,356)
Add items not affecting cash:		
Gain on forgiveness of debt	(10,000)	-
Changes in non-cash working capital accounts:		
HST recoverable	(1,659)	(607)
Accounts payable and accrued liabilities	60,170	(12,035)
Cash flows used in operating activities	(2,780)	(36,998)
<b>Cash flows from financing activities</b>		
Issue of common shares, net of issue cost	(7,500)	-
Advances from related parties	10,000	7,944
Cash flows provided from financing activities	2,500	7,944
Net decrease in cash	(280)	(29,054)
Cash, beginning of year	280	29,334
<b>Cash, end of year</b>	<b>-</b>	<b>280</b>
<b>Cash is comprised of:</b>		
Cash	-	22
Funds held in trust	-	258
	-	280

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



**WAMCO TECHNOLOGY GROUP LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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**1. NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS**

Wamco Technology Group Ltd. (the "Company") was incorporated under the laws of the Province of British Columbia on December 14, 1995. On September 1, 2011, the Company completed articles of amendment and continued the Company under the laws of the Province of Ontario. The Company's head office is located at 1010 – 130 Adelaide St. W., Toronto, ON, M5H 3P5. The Company's last operation was that of an online gaming website and wireless connectivity services. The business ventures were discontinued in the year ended December 31, 2003. The Company is currently seeking project opportunities.

On July 11, 2011, the Company at its annual special meeting approved the consolidating each of the issued and outstanding Common Shares by changing each three (3) Common Shares into one (1) Common Share (3:1). The Company filed the articles of amendment on November 25, 2011 completing this consolidation.

On June 4, 2003, the TSX Venture Exchange ("Exchange") issued a Cease Trade Order ("CTO") against the Company for failing to file annual audited financial statements for the year ended December 31, 2002. On July 18, 2003 and May 11, 2009, respectively, the Alberta Securities Commission ("ASC") and British Columbia Securities Commission ("BCSC") issued a CTO against the Company for failing to file the annual audited financial statements for the year ended December 31, 2002 and December 31, 2008, respectively. In November 2010 the Company brought its financial reporting obligations up to date and on November 30, 2010 the Company received full revocation orders from the BCSC and ASC.

As at December 31, 2011, the Company had a working capital deficiency of \$59,775 (2010 – \$173,548), had not yet achieved profitable operations, had accumulated losses of \$3,139,697 (2010 - \$3,088,406) and expects to incur further losses in the development of its business, all of which casts doubt upon the Company's ability to continue as a going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so.

Management believes the Company will be able to acquire sufficient funds to cover planned operations throughout the next twelve month period by securing additional financing through the issue of new equity, among other things. Nevertheless, there is no assurance that these initiatives will be successful.

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

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments might be necessary to the carrying value of the assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the financial statements.

## **2. BASIS OF PRESENTATION**

### **2.1 Statement of compliance**

The Company's Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2010.

These are the Company's first IFRS annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

### **2.2 Basis of presentation**

The 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.

### **2.3 Adoption of new and revised standards and interpretations**

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2011. For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 9 '*Financial Instruments: Classification and Measurement*' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the impact of the adoption of IFRS 9.
- IFRS 10 '*Consolidated Financial Statements*' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 '*Joint Arrangements*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

## **2. BASIS OF PRESENTATION**

- IFRS 12 '*Disclosure of Interests in Other Entities*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 '*Fair Value Measurement*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company has not early adopted these standards, amendments and interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Company.

## **3. FIRST TIME ADOPTION OF IFRS**

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 '*First time Adoption of International Financial Reporting Standards*', the 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 optional exemptions:

- to apply the requirements of IFRS 3, *Business Combinations*, prospectively from the Transition Date;
- to apply the requirements of IFRS 2, *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.

**WAMCO TECHNOLOGY GROUP LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

**3. FIRST TIME ADOPTION OF IFRS (continued)**

Below is the Company's Statement of Financial Position as at the transition date of January 1, 2010 under IFRS.

<b>As at January 1, 2010</b>			
	<b>GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
<b>Assets</b>			
Current Assets			
Cash	\$ 29,334	-	\$ 29,334
Trade and other receivables	623	-	623
	<u>29,957</u>	<u>-</u>	<u>29,957</u>
<b>Liabilities</b>			
Current Liabilities			
Trade and other payables	\$ 24,134	-	\$ 24,134
Due to related parties	145,015	-	145,015
Loan payable	10,000	-	10,000
	<u>179,149</u>	<u>-</u>	<u>179,149</u>
<b>Equity</b>			
Share capital	2,899,858	-	2,899,858
Contributed surplus	15,000	-	15,000
Deficit	(3,064,050)	-	(3,064,050)
	<u>(149,192)</u>	<u>-</u>	<u>(149,192)</u>
	<u>\$ 29,957</u>	<u>-</u>	<u>\$ 29,957</u>

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption of IFRS has had no impact on the statement of financial position at December 31, 2010, net loss and comprehensive loss for the year ended December 31, 2010 and cash flows of the Company for the year ended December 31, 2010. Presented below are the changes in current policies that were affected by the changeover to IFRS:

**a) Equity Reserves**

*Under Canadian GAAP* –The Company recorded the value of share based payments and warrants issued to contributed surplus.

*Under IFRS* – IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS requires a separate disclosure of the value that relates to "Reserves for warrants", "Reserves for share based payments" and any other component of equity.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Share based payments**

###### ***Share based payment transactions***

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

###### ***Equity settled transactions***

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative cost is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative cost is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

##### **4.2 Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

###### ***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Deferred income tax***

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

**WAMCO TECHNOLOGY GROUP LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.3 Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

**4.4 Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At December 31, 2011 the Company has not classified any financial assets as available-for-sale.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL 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.

**4.5 Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At December 31, 2011 the Company has not classified any financial liabilities as FVTPL.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.6 Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

***Available-for-sale***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

**4.7 Impairment of nonfinancial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.



**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss and the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount.

**4.8 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**4.9 Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

**4.10 Significant accounting judgments and estimates**

The preparation of these financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; capital assets, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. The most significant judgements relate to recognition of deferred tax assets and liabilities, and the determination of the economic viability of a project.

**WAMCO TECHNOLOGY GROUP LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

**5. TRADE AND OTHER RECEIVABLES**

The Company's trade and other receivables arise from harmonized services tax ("HST") receivable due from government taxation authorities. These are broken down as follows:

	<b>As at,</b>		
	<b>December 31, 2011</b>	December 31, 2010	January 1, 2010
	\$	\$	\$
HST receivable	<b>2,889</b>	1,230	623
<b>Total trade and other receivables</b>	<b>\$ 2,889</b>	<b>\$ 1,230</b>	<b>\$ 623</b>

These trade and other receivables are outstanding for less than 30 days after filing the necessary government taxation returns.

At December 31, 2011, the Company anticipates full recovery of these amounts and therefore not impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 11.

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2011.

**6. TRADE AND OTHER PAYABLES**

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

	<b>As at,</b>		
	<b>December 31, 2011</b>	December 31, 2010	January 1, 2010
	\$	\$	\$
Less than 1 month	<b>18,863</b>	9,663	24,134
1 – 3 months	<b>16,376</b>	-	-
Over 3 months	<b>27,425</b>	2,436	-
<b>Total trade and other payables</b>	<b>\$ 62,664</b>	<b>\$ 12,099</b>	<b>\$ 24,134</b>

**7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2011, as part of the Company's shares for debt private placement the Company settled \$162,959 in debts owing to related parties through the issuance of 5,431,967 common shares. (see note 9)

Amounts due to related parties represent amounts owing to directors for cash advances. The amounts are unsecured, bear no interest and have no specified terms of repayment.

**WAMCO TECHNOLOGY GROUP LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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**8. LOAN PAYABLE**

On October 11, 2006, the Company entered into a loan agreement with Bifrost Consulting Group ("Bifrost") whereby Bifrost loaned the Company \$10,000. The loan is non-interest bearing, has no specified terms of repayment, and is secured by a general security agreement over all of the assets and properties of the Company.

During the year ended December 31, 2011, this liability was no longer outstanding and resulted in a gain on forgiveness of debt in the amount of \$10,000 (2010 – \$Nil), which is included under Gain on Forgiveness of Debt.

**9. SHARE CAPITAL**

**(a) Authorized – 100,000,000 Common shares without par value  
10,000,000 Preferred shares without par value**

**Common shares**

The issued and outstanding common shares are as follows:

	<b>Number of Shares</b>	<b>Amount</b>
		\$
<b>Balance, January 1, 2010 and December 31, 2010</b>	<b>8,741,954</b>	<b>2,899,858</b>
Issuance of shares for debt	<b>5,752,134</b>	<b>172,564</b>
Share issue costs – cash	<b>-</b>	<b>(7,500)</b>
<b>Balance, November 25, 2011</b>	<b>14,494,088</b>	<b>3,064,922</b>
<b>Consolidation 3:1</b>	<b>(9,662,726)</b>	<b>-</b>
<b>Balance, December 31, 2011</b>	<b>4,831,362</b>	<b>3,064,922</b>

On June 29, 2011, the Company closed a share for debt private placement at a price of \$0.03 per share by issuing 5,752,134 shares in order to settle \$172,564 of debt owing by the Company.

On July 11, 2011, the Company at its annual special meeting approved the consolidating each of the issued and outstanding Common Shares by changing each three (3) Common Shares into one (1) Common Share (3:1). The Company filed the articles of amendment on November 25, 2011 completing this consolidation.

**10. RESERVE FOR SHARE BASED PAYMENTS**

On December 3, 2003, the Company surrendered and cancelled all 1,500,000 performance escrow shares as a result of the disposal of a subsidiary company, reducing share capital and increasing contributed surplus by \$15,000.

## **11. FINANCIAL INSTRUMENTS**

### *Fair value*

The Company's financial instruments as at December 31, 2011 include cash, trade and other receivables, trade and other payables, due to related parties and loan payable. Fair value of cash is determined based on transaction value and is categorized as Level 1 measurement. Fair value of trade and other payables, due to related parties and loan payable are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements. The Company records its financial instruments at their carrying amounts which approximates fair value, unless otherwise disclosed in the financial statements. The carrying amounts approximate fair values due to the short-term maturities of these financial instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### *Interest rate risk*

The Company's cash includes bank deposits that are subject to floating interest rates. The Company's current policy is to invest excess cash in bank deposits by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to cash and HST recoverable included in current assets. The Company has no material concentration of credit risk arising from operations. Cash consists of bank deposits and cash held in trust with the Company's legal counsel, from which, management believes the risk of loss is remote. As at December 31, 2011, the Company's receivables primarily consist of amounts due from the Canadian government. The Company's receivables are normally collected within a 30-60 day period. The Company has not experienced any collection issues to December 31, 2011. The Company is exposed to credit risk with regards to debtors refusing payment and the government denying the Company claims filed.

The Company's maximum exposure to credit risk as at December 31, 2011 is the carrying value of cash and HST recoverable.

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had current assets of \$2,889 (December 31, 2010 - \$1,510) compared to current liabilities of \$62,664 (December 31, 2010 - \$175,058). The ability of the Company to continue to pursue its activities and continue as a going concern is dependant on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at December 31, 2011, the Company had a working capital deficiency of \$59,775 (December 31, 2010 - \$173,548).

## **12. CAPITAL MANAGEMENT**

The Company considers its capital to include components of equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's activities; to safeguard the Company's ability to continue as a going concern in order to pursue project opportunities; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company considers its capital to be share capital, reserve accounts and deficit, which as at December 31, 2011 totaled a deficiency of \$59,775 (December 31, 2010 – \$173,548).

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to pursue project opportunities. 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 currently has no major sources of revenue; as such the Company is dependent on external financing to fund its activities. In order to pursue project opportunities and pay for administrative costs, the Company will continue to assess its existing working capital position and raise additional amounts as needed.

The Company's investment policy is to invest its cash in bank deposits, to ensure it is available for upcoming expenditures.

The Company expects its capital resources will be sufficient to pursue project opportunities and carry out operations through its current operating period. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

**WAMCO TECHNOLOGY GROUP LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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**13. INCOME TAXES**

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the year ended December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Loss before income taxes	(51,291)	(24,356)
Combined statutory rate	<u>28.25%</u>	<u>28.5%</u>
Estimated recovery of income taxes	(14,500)	(6,900)
Change in current and future tax rates	1,800	500
Deductible share issue costs	(2,300)	-
Expiry of non-capital losses	-	5,800
Change in valuation allowance	<u>15,000</u>	<u>600</u>
Income tax expense	<u>-</u>	<u>-</u>

The Canadian statutory income tax rate of 28.25% (2010 – 28.5%) is comprised of the federal income tax rate at approximately 18.0% (2010 – 18.0%) and the provincial income tax rate of approximately 10.25% (2010 – 10.5%).

The primary differences which give rise to future income tax assets at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
<b><i>Future income tax assets</i></b>		
Deductible share issuance costs	2,500	1,400
Canadian exploration expenditures	285,500	285,500
Capital losses carried forward	98,100	98,100
Non-capital losses carried forward	<u>88,300</u>	<u>74,400</u>
	474,400	459,400
Less : valuation allowance	<u>(474,400)</u>	<u>(459,400)</u>
<b>Net future income tax assets</b>	<u>-</u>	<u>-</u>

The Company has available for carry forward non-capital losses of \$353,300 (2010 - \$298,600). As at December 31, 2011, the non-capital losses carry forwards expire as follows:

	\$
2014	13,500
2015	17,300
2026	203,100
2027	10,500
2028	9,100
2029	18,800
2030	26,300
2031	<u>54,800</u>
	<u>353,400</u>

**WAMCO TECHNOLOGY GROUP LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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**13. INCOME TAXES (*continued*)**

**Future Income Tax Expense (*continued*)**

As at December 31, 2011, the Company has cumulative Canadian exploration and evaluation expenditures totaling \$1,142,083 which are available to reduce taxable income of future years. The Company also has net capital losses of \$785,090 available to offset future taxable capital gains. These exploration expenditures and net capital losses can be carried forward indefinitely. In addition, the unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately \$9,900 (2010 - \$5,800) and will be deductible in Canada over the next 4 years.

Future tax benefits which may arise as a result of these losses and expenditures have not been recognized in these financial statements.