

Financial Statements of

**SENTERNET TECHNOLOGIES INC.**

Years ended December 31, 2011 and 2010

# INDEPENDENT AUDITORS' REPORT

To the shareholders of: Senternet Technologies Inc.

We have audited the accompanying financial statements of Senternet Technologies Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2011 and December 31, 2010 and the income statements, statements of changes in equity and cash flow statements for the years ended December 31, 2011 and December 31, 2010.

## ***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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' 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 entity'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 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 financial statements.

We believe that the audit evidence we have obtained 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 the Company as of December 31, 2011, and December 31, 2010 and of its financial performance and its cash flows for the years ended December 31, 2011, and December 31, 2010 in accordance with International Financial Reporting Standards.

John Scholz CA  
Chartered Accountant  
Licensed Public Accountant  
April 14, 2012  
Toronto

# SENTERNET TECHNOLOGIES INC.

Balance Sheet

Audited

December 31, 2011 and 2010

	December 31 2011	December 31 2010	January 1 2010
<b>Assets</b>			
Current			
Cash and short-term investments (Note 2)	\$ 38	\$ 1,084	\$ 514
Accounts receivable	450	439	177
Deposits and sundry assets (Note 4)	-	5,000	5,000
	<u>488</u>	<u>6,523</u>	<u>5,691</u>
Marketable securities (Note 2)	<u>1</u>	<u>10,000</u>	<u>10,000</u>
	<u>\$ 489</u>	<u>\$ 16,523</u>	<u>\$ 15,691</u>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	\$ 185,617	\$ 168,120	\$ 150,567
<b>Capital Deficiency</b>			
Capital stock (Note 7)	3,036,071	3,036,071	3,036,071
Retained earnings (Deficit)	(3,221,199)	(3,187,668)	(3,170,947)
	<u>(185,128)</u>	<u>(151,597)</u>	<u>(134,876)</u>
	<u>\$ 489</u>	<u>\$ 16,523</u>	<u>\$ 15,691</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

\_\_\_\_\_ signed \_\_\_\_\_ "Ron Haller, Director"

\_\_\_\_\_ signed \_\_\_\_\_ "Peter Wood, Director"

# SENTERNET TECHNOLOGIES INC.

## Statements of Earnings

**Audited**

Years ended December 31, 2011 and 2010

	<u>12 months ended December 31, 2011</u>	<u>12 months ended December 31, 2010</u>
<b>Results from operating activities:</b>		
Revenue	\$ -	\$ -
Administrative expenses	<u>(18,532)</u>	<u>(16,721)</u>
<b>Net loss</b>	<u>(18,532)</u>	<u>(16,721)</u>
<b>Other comprehensive loss</b>	<u>(14,999)</u>	<u>-</u>
<b>Total comprehensive loss</b>	<u>\$ (33,531)</u>	<u>\$ (16,721)</u>
Net loss per share (basic and diluted)	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding	<u>6,694,330</u>	<u>6,694,330</u>

See accompanying notes to financial statements.

# SENTERNET TECHNOLOGIES INC.

Statements of Retained Earnings

Audited

Years ended December 31, 2011 and 2010

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance at January 1, 2010	\$ 3,036,071	\$ -	\$ (3,170,947)	\$ -	\$ (134,876)
<b>Total comprehensive income income (loss) for the period</b>					
Loss for the period			(16,721)		(16,721)
Balance at December 31, 2010	3,036,071	-	(3,187,668)	-	(151,597)
<b>Total comprehensive income income (loss) for the period</b>					
Loss for the period			(33,531)		(33,531)
Balance at December 31, 2011	<u>\$ 3,036,071</u>	<u>\$ -</u>	<u>\$ (3,221,199)</u>	<u>\$ -</u>	<u>\$ (185,128)</u>

See accompanying notes to financial statements.

# SENTERNET TECHNOLOGIES INC.

## Statement of Cash Flows

**Audited**

Years ended December 31, 2011 and 2010

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
<b>Cash provided by (used in) operating activities:</b>		
Net income (loss)	\$ (33,531)	\$ (16,721)
Depreciation	<u>-</u>	<u>-</u>
Funds used in operations	(33,531)	(16,721)
Net change in non-cash working capital	<u>32,485</u>	<u>17,291</u>
	<u>(1,046)</u>	<u>570</u>
<b>Net change in cash</b>	(1,046)	570
<b>Cash balance, beginning of period</b>	<u>1,084</u>	<u>514</u>
<b>Cash balance, end of period</b>	<u>\$ 38</u>	<u>\$ 1,084</u>

See accompanying notes to financial statements.

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## 1. FUTURE OPERATIONS

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The company has sustained losses in recent years and has accumulated a deficit of \$3,221,199 at December 31, 2011. The ability of the company to continue as a going concern is dependent on the company's ability to generate future profitable operations and receive the continued financial support of the shareholders and obtain additional financing.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The financial statements of the Company comply with International Financial Reporting Standards. This is the Company's first financial statements prepared in accordance with IFRS. The 2010 financial statements include an opening balance sheet as at January 1, 2010, date at which the impact of IFRS transition were recorded against equity, in accordance with the provisions of IFRS 1 "First time adoption of International Financial Reporting Standards" and the 2010 comparative statements were prepared using the same basis of accounting. A detailed reconciliation of the financial statements prepared under Canadian GAAP and the comparative 2010 IFRS financial information is presented in note 10.

### Basis of preparation

The financial statements are presented in Canadian dollars.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments held for trading and financial instruments classified as available-for-sale.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing an opening IFRS balance sheet at January 1, 2010 for the purpose of transition to IFRS.

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

Audited

Years ended December 31, 2011 and 2010

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Changes in accounting policy and disclosures (IAS 8)**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- *Earnings per Share* [replacement of IAS 33].
- *First-time Adoption of IFRS* [amendment of IFRS 1].
- *Management Commentary*.

### **Future changes in accounting policies**

The following standards have been issued but are not yet effective:

- *Financial Statement Presentation* [amendment of IAS 1]
- *Liabilities and Equity* [replacement of IAS 32]
- *Revenue Recognition* [replacement of IAS 11 and IAS 18]

The Company is currently evaluating the impact of the above standards on its financial performance, position and financial statement disclosures but expects that such impact will not be material.

### **Foreign currency translation (IAS 21)**

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate. All foreign currency adjustments are expensed, apart from adjustments on borrowing in foreign currencies, constituting a hedge for the net investment in a foreign entity. These adjustments are allocated directly to equity until the divestiture of the net investment.

Financial statements of subsidiaries, affiliates and joint ventures for which the functional currency is not the Canadian dollar are translated into Canadian dollar as follows: all asset and liability accounts are translated at the period-end exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in equity.

### **Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses.



# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Cash and cash equivalents (IAS 7)**

The "cash and cash equivalents" category consists of cash in banks, call deposits and other highly liquid investments with initial maturities of three months or less. Investments in securities, investments with initial maturities greater than three months without early redemption feature and bank accounts subject to restrictions, other than restrictions due to regulations specific to a country or activity sector (exchange controls, etc.) are not presented as cash equivalents but as financial assets. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **Derivative financial instruments (IAS 39)**

The Company infrequently uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives are accounted for as trading instruments as they do not qualify for hedge accounting.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognized immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

### **Share capital (IAS 1)**

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

### **Trade and other payables**

Trade and other payables are stated cost.

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Loss Per Share**

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options using the treasury stock method.

### **Measurement Uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results would differ from those estimates.

### **Share-based compensation (IFRS 2)**

The Company maintains stock option incentive plans that grant subscription and purchase options on its common shares to certain senior executives and employees and also to certain employees of equity affiliates. The purpose of these stock option plans is to align management interests with those of shareholders by providing an additional incentive to improve company performance and increase the share price on a long-term basis. The grant of stock option plans represents a benefit given to management, employees and retirees and constitutes additional compensation borne by the Company. This is valued at the fair value of the Company's stock options. The compensation expense is equal to the value of the option at grant date, measured using a binomial model. This compensation paid is recorded as an employee cost, offset against equity, and recognized over the vesting period of the benefit granted.

The dilutive effect of the stock option plans in the process of vesting for management and employees is reflected in the calculation of the diluted earnings per share.

### **Marketable Securities**

Marketable securities consist of 100,000 common shares of All World Resources Corp and are stated at cost less any provision for any other than temporary decline in market value. During the year the securities were written down to a nominal value of \$1.

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred taxes (IAS 12)

Differences existing at closing date between the tax base value of assets and liabilities and their carrying amount in the consolidated balance sheet form temporary differences. Pursuant to the liability method, these temporary differences impact the accounting as follows:

- Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted by the closing date. They are reviewed at the end of each year, in line with any changes in applicable tax rates.
- Deferred tax assets are recognized for all deductible temporary differences, carry-forward of tax losses and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry-forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact neither earnings, nor tax income or loss.
- For deductible temporary differences arising from investments in subsidiaries, affiliates and joint ventures, deferred tax assets are recorded to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and that taxable profit will be available against which the temporary difference can be utilized.
- The carrying amount of deferred tax assets is reviewed at each closing date, and revalued or reduced to the extent that it is more or less probable that a taxable profit will be available to allow the deferred tax asset to be utilized. When assessing the probability of a taxable profit being available, account is notably taken of prior year results, forecast future results, non-recurring items unlikely to occur in the future and the tax strategy. As such, the assessment of the Company's ability to utilize tax losses carried forward is to a large extent judgment-based. If the future taxable results of the Company prove significantly different to those expected, the Company will be obliged to increase or decrease the carrying amount of deferred tax assets, with a potentially material impact on the balance sheet and the income statement of the Company. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability results from impairment of goodwill losses not deductible for tax purposes, or initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact neither earnings, nor tax income or loss.
- For taxable temporary differences arising from investments in subsidiaries, affiliates and joint ventures, deferred tax liabilities are recorded except to the extent that both of the following conditions are satisfied:

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

the parent, investor or venturer is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

- Current tax and deferred tax shall be charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

### **Going concern**

The ability of the Company to continue as a going concern and realize the carrying value of its assets is dependent upon its ability to achieve sales levels adequate to supporting the Company's cost structure and success of its investments. It is not possible at this time to predict with assurance the outcome of these investments.

## **3. CHANGES IN ACCOUNTING POLICY**

### **(a) Convergence with International Financial Reporting Standards**

In February 2008 the Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace the Canadian GAAP for publically accountable enterprises for financial periods beginning on and after January 1, 2011. The company's first mandatory filing under IFRS, the first quarter of 2011, contained IFRS-compliant information on a comparable basis, as well as reconciliations for that quarter and as at the January 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The change to IFRS has had no change or impact on these financial statements.

## **4. DEPOSIT**

At the annual and special meeting of shareholders held May 1, 2006, a resolution was approved, to acquire up to 49% of the common shares of Real Fun Gifts Inc., a company that has interests in lifestyle properties. A deposit of \$5,000 towards the acquisition was paid.

## **5. INCOME TAXES**

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income uncertainties related to the industry

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## 5. INCOME TAXES (continued)

in which the Company operates and tax planning strategies in making this assessment. The income tax benefit in the consolidated statements of operations and comprehensive income differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 36% for the years ended December 31, 2011 and 2010 to loss for the year.

	<u>2011</u>	<u>2010</u>
Income tax recovery based on statutory rate	\$(1,147,346)	\$(1,140,675)
Unrecorded tax benefit of losses	<u>1,147,346</u>	<u>1,140,675</u>
	<u>\$ -</u>	<u>\$ -</u>

The company has losses for income tax purposes which are available to reduce taxable income in future periods. Such benefits will be recorded as an adjustment to the income tax provision in the year realized.

- Non-capital losses of \$155,163 available for application against future years' income, which will expire over the years to 2031
- Capital losses of \$917,398 available for application against future years' capital gains, with no expiry date.
- Resource expenditures of \$1,264,962 available for application against future years' income, with no expiry date.

## 6. RELATED PARTY TRANSACTIONS

During the year, the company paid \$16,474 to companies controlled by directors for administration, accounting and office services (2010- \$16,721)

## 7. CAPITAL STOCK

The Company is authorized to issue an unlimited number of common shares. Common shares issued and fully paid are as follows:

	Number of shares	Amount
Balance as at December 31, 2010	6,694,330	\$3,036,071
Issuance of common shares	<u>-</u>	<u>-</u>
Balance as at December 31, 2011	<u>6,694,330</u>	<u>\$3,036,071</u>

# SENTERNET TECHNOLOGIES INC.

Notes to Financial Statements

**Audited**

Years ended December 31, 2011 and 2010

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## **7. CAPITAL STOCK (continued)**

### **STOCK OPTIONS**

The company maintains a share option plan (the "Plan") for the benefit of management, directors, officers and employees. The Plan provides that the aggregate number of common shares available for issuance pursuant to options granted under the Plan is limited to 5,000,000 common shares. In general, the maximum number of common shares reversed for issuance in respect of any one individual may not exceed 5.0%, or in respect of insiders of the company, may not exceed 10.0% of the number of common shares issued and outstanding.

Options are granted under the Plan at the discretion of the Board of Directors at exercise prices determined as the trading prices of the company's common shares on the Toronto Stock Exchange on the day preceding the effective date of the grant. In general, options granted under the Plan vest over the period of up to a maximum of five years from the grant date and expire no later than the fifth anniversary of the date of grant. As at the balance sheet date there are no stock options issued or outstanding.

## **8. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

These audited financial statements represent an initial presentation of the company's financial position and results of operations under IFRS as at and for the year ended December 31, 2011. Previously, the Company prepared its interim and annual financial statements in accordance with GAAP applicable for Canada.

IFRS 1 requires the presentation of comparative information as at January 1, 2010 under IFRS and reconciliation between IFRS and the previous GAAP results. Due to the Company's:

- limited operations in 2010 and 2011;
- lack of assets as at January 1, 2010 and December 31, 2010; and

The implementation of IFRS did not trigger any adjustments to the Company's financial position and/or results of operations.