

**Bellair Ventures Inc.**  
**(A Capital Pool Corporation)**

**Financial Statements**

**Years ended August 31, 2011 and 2010**

**(Expressed in Canadian Dollars)**

## **Independent Auditors' Report**

To the Shareholders of  
Bellair Ventures Inc. (a Capital Pool Corporation)

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Bellair Ventures Inc. (a Capital Pool Corporation) which comprise the balance sheets as at August 31, 2011 and 2010 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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.

### **Auditors' 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 audits 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 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, these financial statements presents fairly, in all material respects, the financial position of Bellair Ventures Inc. (a Capital Pool Corporation) as at August 31, 2011 and 2010 and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

## **Emphasis of matter**

Without modifying our opinion, we draw attention to the fact that the financial statements have been prepared on a going concern basis. This basis may not be appropriate because its validity depends principally on the Corporation's ability to identify, evaluate and negotiate an acquisition of a business, or an interest therein. The financial statements do not include any adjustments that would arise from a failure to complete such a transaction. Details of the circumstances relating to this fundamental uncertainty are described in Note 1 of the financial statements.

Signed: ***"MSCM LLP"***

**Chartered Accountants  
Licensed Public Accountants**

Toronto, Ontario  
January 3, 2012



Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Balance Sheets**

*August 31, 2011 and 2010*

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	2011	2010
<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 107,208	\$ 352,809
Interest receivable	-	4,500
Sundry receivable	-	22,906
Note receivable (note 4)	-	225,000
	<hr/>	<hr/>
	\$ 107,208	\$ 605,215
<hr/>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 22,309	\$ 169,196
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<b>Shareholders' equity</b>		
Share capital (note 5)	773,977	773,977
Contributed surplus (note 5)	116,340	116,340
Deficit	(805,418)	(454,298)
	<hr/>	<hr/>
	84,899	436,019
	<hr/>	<hr/>
	\$ 107,208	\$ 605,215
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Going Concern (note 1)

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

Approved by the Board

Signed: "Emlyn J. David" \_\_\_\_\_

Director

Signed: "Rajiv Rai" \_\_\_\_\_

Director

Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Statements of Loss and Comprehensive Loss**  
*For the years ended August 31, 2011 and 2010*

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	2011	2010
<b>Interest income</b>	\$ 27,000	\$ 27,653
<b>Expenses</b>		
Professional fees	45,747	34,792
Filing fees	29,549	15,870
Office expense	47	8,900
Bad debt expense	46,277	-
Write-down of note receivable (note 4)	256,500	-
	378,120	59,562
<b>Net loss and comprehensive loss for the year</b>	\$ (351,120)	\$ (31,909)
<b>Loss per share - basic and diluted</b>	\$ (0.16)	\$ (0.01)
<b>Weighted average shares outstanding</b>	2,259,066	2,556,600

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

Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Statements of Changes in Shareholders' Equity**  
*For the years ended August 31, 2011 and 2010*

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	2011	2010
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<b>Share Capital</b>		
Balance, beginning and end of year	\$ 773,977	\$ 773,977
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<b>Contributed Surplus</b>		
Balance, beginning and end of year	\$ 116,340	\$ 116,340
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<b>Deficit</b>		
Balance, beginning of year	\$ (454,298)	\$ (422,389)
Net loss for the year	(351,120)	(31,909)
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<b>Balance, end of year</b>	<b>\$ (805,418)</b>	<b>\$ (454,298)</b>

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

Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Statements of Cash Flows**

*For the years ended August 31, 2011 and 2010*

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	2011	2010
<b>Cash flow from operating activities</b>		
Cash paid to suppliers	\$ (245,601)	\$ (79,749)
Interest received	-	39,279
<b>Decrease in cash</b>	<b>(245,601)</b>	<b>(40,470)</b>
<b>Cash, beginning of year</b>	<b>352,809</b>	<b>393,279</b>
<b>Cash, end of year</b>	<b>\$ 107,208</b>	<b>\$ 352,809</b>

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

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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## **1. Nature of Operations and Going Concern**

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Bellair Ventures Inc. (the "Corporation") was incorporated under the *Canada Business Corporation Act* on August 22, 2008 and is classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange").

The Corporation's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of a business, or an interest therein. Such an acquisition (a "Qualifying Transaction") will be subject to the approval of the regulatory authorities concerned and, in the case of a non-arm's-length transaction, of the majority of the minority shareholders.

The Corporation was not able to complete a Qualifying Transaction within the timeframe prescribed by the Exchange, and as such the Corporation's listing has been transferred to the NEX, a separate trading board of the Exchange. Trading in the Corporation's shares will remain suspended pending completion of a Qualifying Transaction. This action resulted in the cancellation of 600,000 common shares of the Corporation.

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business. There is, however, substantial doubt whether the Corporation will be able to complete a Qualifying Transaction.

## **2. Summary of Significant Accounting Policies**

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### **Basis of presentation**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), and are expressed in Canadian dollars. The significant accounting policies are summarized as follows:

### **Financial instruments**

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are included on the balance sheet and are measured at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. Held-for-trading financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired. The Corporation has classified its cash as held-for-trading, which is measured at fair value.

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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## **2. Summary of Significant Accounting Policies – continued**

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### **Financial instruments - continued**

The interest, sundry and note receivables are classified as loans and receivables, which are measured at amortized cost less any provision for impairment. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. The Corporation had neither available-for-sale nor held-to-maturity instruments during the years ended August 31, 2011 and 2010.

### **Income taxes**

Future income tax assets and liabilities are recognized for the future income tax consequences of events that have been included in the financial statements or income tax returns of the Corporation. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets, liabilities and certain carry forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The Corporation makes full provision for income taxes deferred as a result of claiming depreciation and other costs for income tax purposes which differ from the related amounts charged to earnings.

### **Stock-based compensation**

The Corporation has in effect a stock option plan which is described in note 5(c). All stock-based awards granted are accounted for using the fair value based method. Fair value is calculated using the Black-Scholes valuation model. Any consideration paid by eligible participants on the exercise of stock options is credited to share capital. The contributed surplus associated with options is transferred to share capital upon exercise.

### **Loss per share**

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the year. The Corporation applies the treasury stock method in the calculation of diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **3. Future Changes in Accounting Policies**

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#### **International Financial Reporting Standards ("IFRS")**

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Corporation's reporting for the first quarter of 2012 for which the current and comparative information will be prepared under IFRS. The Corporation is required to adopt all of those IFRS standards which are effective for fiscal year ending August 31, 2012 and apply them to its opening September 1, 2010 balance sheet.

The Corporation is currently assessing the impact of IFRS on its financial statements.

### **4. Note Receivable**

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As part of a proposed qualifying transaction agreement, the Corporation advanced \$225,000 to DiBattista Industries Inc. ("DBI") in fiscal 2009. The loan bears interest at 12%, was originally due on January 15, 2010 and is personally guaranteed by a principal of DBI. On April 23, 2009, the Corporation announced that it had terminated its definitive agreement in respect of the proposed qualifying transaction with DBI.

On January 18, 2010 the Corporation and DBI agreed to extend the repayment date to May 31, 2010. On June 16, 2010 DBI made an interest payment of \$39,279. On June 30, 2010, the Corporation, DBI, and a guarantor agreed to further extend the maturity date of the loan and obligations under the guarantee to August 31, 2010.

On November 25, 2010 the Corporation and DBI entered into a Letter of Intent whereby the Corporation intended to acquire all of the issued and outstanding common shares in the capital of KNR Management Inc. ("KNR") through a share exchange transaction ("Proposed Transaction"). If completed, the Proposed Transaction was expected to constitute the Corporation's qualifying transaction.

The closing of the Proposed Transaction was subject to a number of conditions, including the Corporation successfully completing a private placement for anticipated gross proceeds of at least \$500,000; KNR successfully closing on a term loan facility estimated to be in the amount of \$2,250,000; confirmation of a definitive valuation for KNR; completion of customary due diligence reviews by the Corporation and DBI; the parties entering into a definitive agreement and such other agreements as may be necessary to give effect to the Proposed Transaction; and the parties obtaining all necessary approvals and consents, including the approval of the Exchange.

Subsequent to August 31, 2011 the Corporation terminated the Proposed Transaction. As a result the balance of the note receivable of \$225,000, and unpaid accrued interest of \$31,500 at August 31, 2011, has been written down to \$Nil as collection is not reasonably assured.

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**5. Share Capital**

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**(a) Authorized**

An unlimited number of common shares

**(b) Issued**

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	<b>Number of common shares</b>	<b>Amount</b>
<b>Balance, August 31, 2010</b>	2,556,600	\$ 773,977
Common shares cancelled on transfer to NEX	(600,000)	-
<b>Balance, August 31, 2011</b>	1,956,600	\$ 773,977

**Private placement**

On September 20, 2008, 1,200,000 common shares were issued at a price of \$0.25 per common share as a private placement.

The common shares issued pursuant to this private placement are held in escrow as per to the requirements of the Exchange, to be released as to 10% thereof on the completion of the Corporation's Qualifying Transaction, as defined in the policies of the Exchange, and as to 15% thereof on each of the 6th, 12th, 18th, 24th, 30th and 36th months following the initial release.

All common shares issued on exercise of stock options granted to directors and officers prior to the completion of a Qualifying Transaction must also be deposited in escrow until the Final Exchange Bulletin is issued.

All common shares of the Corporation acquired in the secondary market prior to the completion of a Qualifying Transaction by a Control Person, as defined in the policies of the Exchange, are also required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Corporation held by principals of the resulting issuer will also be escrowed.

**Initial public offering**

On November 24, 2008, the Corporation completed its initial public offering ("IPO") via the issuance of 1,356,600 common shares at a price of \$0.50 per common share for gross proceeds of \$678,300. The Corporation incurred issuance costs of \$173,311. In addition, the Corporation granted the agents of the offering the option to acquire 135,660 common shares, valued at \$31,012 (note 5(c)), at a price of \$0.50 per share for a period of 24 months following the IPO. These options expired unexercised during the year.

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**5. Share Capital – continued**

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**(c) Stock options**

The Corporation adopted a stock option plan under which it is authorized to grant options to officers, directors, employees, and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Corporation. The options granted can be exercised for a maximum of 5 years and vest as determined by the Board of Directors. The exercise price of each option may not be less than fair market value of the common shares on the date of grant. At the closing of the IPO, the Corporation granted 255,660 director and officers stock options under this plan, vesting immediately, exercisable at a price of \$0.50 per share for a period of 5 years from the date of grant.

The Corporation uses the Black-Scholes option pricing model to determine the fair value of options granted. The fair value of the 135,660 agent options granted was determined to be \$31,012 and was included in share issuance costs. These agent options expired unexercised during the year. The fair value of the 255,660 director and officers stock options was determined to be \$85,328 and was included in the determination of net loss for the year ended August 31, 2009.

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at August 31, 2011 are as follows:

Options Outstanding			Options Exercisable		
Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price	
255,660	\$ 0.50	2.24	255,660	\$ 0.50	

Bellair Ventures Inc.  
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**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**6. Income Taxes**

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**Recovery of income taxes**

Major items causing the Corporation's income tax rate to differ from the Canadian statutory rate of approximately 29% (2010 - 32%) were as follows:

	2011	2010
Loss before recovery of income taxes	\$ (351,120)	\$ (31,909)
Expected income tax recovery at statutory rate	\$ (101,825)	\$ (10,211)
Adjustments resulting from:		
Non-deductible differences	-	-
Share issue costs	-	-
Tax rate changes	42,170	(22,247)
Change in valuation allowance	59,655	32,458
Recovery of income taxes	\$ -	\$ -

**Future income taxes**

The approximate tax effect of each type of temporary difference that gives rise to Corporation's future income tax assets are as follows:

	2011	2010
Non-capital losses	\$ 149,489	\$ 109,294
Capital losses	28,126	-
Share issue costs	17,238	25,904
Valuation allowance	(194,853)	(135,198)
Net future income tax assets	\$ -	\$ -

The Corporation has non-capital losses available to reduce future taxable income. These losses expire as follows:

2028	\$ 6,881
2029	363,723
2030	66,571
2031	160,782
	\$ 597,957

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**7. Capital Management**

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The Corporation's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Corporation's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to allow the Corporation to complete a qualifying transaction. The Corporation is not subject to externally imposed capital requirements.

**8. Financial Instruments**

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The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at August 31, 2011, the Corporation had cash of \$107,208 to settle current liabilities of \$22,309. The Corporation is not exposed to significant liquidity or market risk.

The carrying value of cash, and accounts payable and accrued liabilities reflected in the balance sheet approximates fair value because of the short-term nature of these instruments.