

**DPVC INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

SCARROW & DONALD LLP  
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March 1, 2009

## AUDITORS' REPORT

### To the Shareholders of DPVC Inc.:

We have audited the balance sheet of DPVC Inc. as at December 31, 2008 and the statements of operations and deficit and cash flow for the date of incorporation on June 3, 2008 to December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the date of incorporation on June 3, 2008 to December 31, 2008 in accordance with Canadian generally accepted accounting principles.

*Scarrow & Donald LLP*

Chartered Accountants  
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for the opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

**DPVC INC.**  
**BALANCE SHEET**  
(expressed in Canadian Dollars)

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December 31,  
2008

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**ASSETS**

**Current**

Cash (note 4)	\$ 323,794
Accrued interest	109
Accounts receivable	<u>3,828</u>
	<hr/> <b>\$ 327,731</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current**

Accounts payable and accrued liabilities	\$ 7,751
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**Shareholders' Equity**

Share capital (note 6)	\$ 318,297
Contributed surplus (note 7)	8,169
Deficit	<u>( 6,486)</u>
	<b>\$ 319,980</b>
	<hr/> <b>\$ 327,731</b>

Approved by the Board:

"Greg Yuel"  
Director

"T. Richard Turner"  
Director

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

**DPVC INC.**  
**STATEMENT OF OPERATIONS AND DEFICIT**  
(expressed in Canadian Dollars)

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	For the date of incorporation on June 3, 2008 to December 31, 2008
<b>EXPENSES</b>	
Filing fees	\$ 3,128
Professional fees	5,151
Bank charges	<u>9</u>
	\$ 8,288
<b>OTHER ITEM</b>	
Interest income	\$ 1,802
<b>Loss and Comprehensive Loss</b>	(\$ 6,486)
<b>Retained Earnings, Beginning of Period</b>	\$ <u>          -</u>
<b>Deficit, End of Period</b>	<b><u>(\$ 6,486)</u></b>
<b>Basic and Diluted Loss Per Common Share (note 5)</b>	<b><u>(\$ 0.01)</u></b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b><u>1,066,651</u></b>

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

**DPVC INC.**  
**STATEMENT OF CASH FLOW**  
(expressed in Canadian Dollars)

	From date of incorporation on June 3, 2008 to December 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Loss for the period	(\$ 6,486)
Changes in Non-cash Working Capital Item:	
Increase in accounts receivable	( 3,828)
Increase in accrued interest	( 109)
Increase in accounts payable and accrued liabilities	<u>7,751</u>
Net Cash Used by Operating Activities	(\$ 2,672)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from share issuance	\$ 400,000
Share issuance costs	<u>( 73,534)</u>
Net Cash Provided by Financing Activities	<u>326,466</u>
<b>Change in Cash for the Period</b>	<b>\$ 323,794</b>
<b>Cash, Beginning of Period</b>	<u>-</u>
<b>Cash, End of Period</b>	<b>\$ 323,794</b>
<b>Cash Paid During the Period for Interest</b>	<u>\$ -</u>
<b>Cash Paid During the Period for Income Taxes</b>	<u>\$ -</u>

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

# **DPVC INC.**

## **NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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### **1. Incorporation**

DPVC Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act* on June 3, 2008 and is classified as a capital pool company as defined in TSX Venture Exchange Inc. (the “Exchange”) Policy 2.4. The Company issued share capital and commenced operations on June 30, 2008.

The Company is involved in securing equity financing, with which it intends to identify and evaluate opportunities for the acquisition of businesses and assets, and once identified and evaluated, to negotiate an acquisition thereof or participation therein subject to receipt of shareholder and regulator approval in order for the Company to complete a Qualifying Transaction approved by the Exchange.

The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will identify an appropriate business for acquisition or investment and even if so identified and warranted, it may not be able to finance such acquisition or investment. Additional funds may be required to enable the Company to pursue such an initiative and the Company may be unable to obtain such financing on terms that are satisfactory to it. Further, there is no assurance that businesses acquired will be profitable.

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

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, are expressed in Canadian dollars and include the following significant accounting policies.

#### **a) Accounting Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

## **DPVC INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008  
(expressed in Canadian dollars)

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## **2. Summary of Significant Accounting Policies (continued)**

### **b) Financial Instruments**

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified as held-for-trading are subsequently measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until the financial asset is derecognized. Investments in equity instruments are classified as available-for-sale if they do not have a quoted market price in an active market and are measured at cost.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment. The Company does not reclassify a financial instrument into or out of the held-for-trading category while it is held or issued, except in rare circumstances.

Derivative instruments are recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in other comprehensive income. The Company presently does not have any derivative financial instruments.

## DPVC INC.

### NOTES TO THE FINANCIAL STATEMENTS

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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## 2. Summary of Significant Accounting Policies (continued)

The Company has designated its financial instruments as follows:

<b>Financial Statement Item</b>	<b>Classification</b>	<b>Measurement</b>
Cash	Held for trading	Fair Value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payables	Other liabilities	Amortized cost

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method.

The Company assesses impairment of all its financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

Comprehensive income includes net income and other comprehensive income. Other comprehensive income generally includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company's financial statements will include a statement of other comprehensive income for any items included in other comprehensive income while the cumulative amount and accumulated other comprehensive income, will be presented as a category of shareholders' equity.

## **DPVC INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008  
(expressed in Canadian dollars)

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## **2. Summary of Significant Accounting Policies (continued)**

### **b) Stock Options**

The Company has a stock option plan available for officers, employees and directors. The fair value based method of accounting is applied to all stock-based compensation. Compensation expense for option based compensation awards is recognized when stock options are granted over the vesting periods. The fair value of stock options and warrants granted are estimated on the date of grant using the Black-Scholes option-pricing model. On the exercise of stock options, consideration received and the accumulated stock options amount relating thereto is credited to share capital. Awards of options and warrants related to private placements or public offerings of shares are treated as share issue costs.

### **c) Cash**

Cash consists of cash on deposit, and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

### **d) Loss Per Share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Shares held in escrow that are only released upon contingent events are not included in the calculation of the weighted average number of shares.

Basic loss per share is calculated by dividing the loss by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding during the year is net of contingently returnable shares.

### **e) Revenue Recognition Accounting Policy**

Interest revenue is recognized when reasonable assurance exists regarding measurement and collectability on a time proportion basis.

## **DPVC INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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#### **3. Future Changes to Significant Accounting Policies**

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis.

The Company is currently considering the effect on the financial statements of the new standards.

#### **4. Restriction on Use of Proceeds**

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to 30% of the gross proceeds may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange.

#### **5. Loss per Share**

The weighted average basic and diluted common shares outstanding for the period ended December 31, 2008 is 1,066,651. As the company is in a loss position, stock options outstanding are anti-dilutive.

## DPVC INC.

### NOTES TO THE FINANCIAL STATEMENTS

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

#### 6. Share Capital

	Number of Shares	Amount
Authorized:		
Unlimited number of shares		
Issued:		
Shares issued pursuant to private place at 0.10 per share (a)	2,000,000	\$ 200,000
Shares issued pursuant to initial public offering at \$0.20 per share (b)	1,000,000	\$ 200,000
Agent's options (b)		\$ (8,169)
Share issuance costs (b)		\$(73,534)
Balance as at December 31, 2008	3,000,000	\$ 318,297

(a) On June 30, 2008 the Company issued 2,000,000 common shares for cash consideration of \$200,000. These shares are held in escrow pursuant to the requirements of the Exchange to be released 10% on the issuance of the Final Exchange Bulletin (as defined under the policies of the Exchange) and 15% on each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> and 36<sup>th</sup> months following the issuance of the Final Exchange Bulletin. All Common Shares acquired on exercise of stock options prior to the completion of a Qualifying Transaction must also be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

In addition, all Common Shares of the Corporation acquired in the secondary market prior to the completion of a Qualifying Transaction by any person or corporation who becomes a control person are required to be deposited in escrow. Subject to certain exemptions permitted by the exchange, all securities of the corporation held by principals of the resulting issuer will also be escrowed.

**DPVC INC.****NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

**6. Share Capital (continued)**

(b) On October 17, 2008, the Company completed an initial public offering (the "Offering") by the issuance of 2,000,000 common shares at a price of \$0.20 per common share for gross proceeds of \$200,000. The agent for the Offering, (the "Agent"), received a cash commission of 10% of the gross proceeds of the Offering (\$20,000) and reimbursement of the Agent's legal fees and an administration fee. The Agent was also granted 100,000 options (the "Agent's Options") equal to 10% of the number of common shares sold pursuant to the Offering (valued at \$8,169) which was recorded as contributed surplus. Each Agent's Options entitles the Agent to purchase a common share for a period of 24 months from the date that the Company's common shares were listed on the TSX Venture Exchange (expiry date: October 16, 2010) at an exercise price of \$0.20 per common share. Additional share issue costs of \$73,534 were incurred in connection with the Offering.

**7. Contributed Surplus**

2008

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Stock options issued	\$ 8,169
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**8. Stock Options**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Opening, June 3, 2008	-	-
Stock options granted	100,000	\$0.20
Balance, December 31, 2008	100,000	\$0.20

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**DPVC INC.**

## NOTES TO THE FINANCIAL STATEMENTS

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

**8. Stock Options (continued)**

The following table summarizes information about stock options outstanding at December 31, 2008:

	Number of Options	Exercise Price	Expiry Date
Options outstanding at December 31, 2008	100,000	\$ 0.20	October 16, 2010
Options exercisable at December 31, 2008	100,000	\$0.20	October 16, 2010

For the period ended December 31, 2008, the Company recognized \$8,169 in stock-based compensation for stock options granted. The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Risk-free interest rate	2.349%
Expected average option term	24 months
Volatility	73%

**DPVC INC.****NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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**9. Income Taxes**

The Company has approximately \$14,988 of unused tax losses that will expire in 2028, and \$65,033 of unused income tax deductions for which no future income tax asset has been recognized. The Company would be subject to a statutory tax rate of 30.63%.

A reconciliation between the statutory Canadian income tax rate and the actual effective rate is as follows:

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	<u>2008</u>
Basic statutory tax rate	30.63%
Loss before taxes	(\$ 6,456)
Expected tax recovery on net loss, before income tax	(1,986)
Differences due to recognition of items for tax purposes	
Permanent differences	( 22,526)
Increase in valuation allowance	<u>24,512</u>
Provision for income taxes	\$ -

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## DPVC INC.

### NOTES TO THE FINANCIAL STATEMENTS

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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#### 9. Income Taxes (continued)

The significant components of the Company's future income tax assets is as follows:

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	<u>2008</u>
Future income tax asset	
Non capital loss carry forward	\$ 4,591
Share issuance costs	<u>19,921</u>
	24,512
Valuation allowance	<u>( 24,512)</u>
Future income tax asset	\$ -

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#### 10. Capital Management

The Company's objectives when managing capital, which is share capital and deficit, are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

## **DPVC INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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#### **11. Risk Management and Fair Values**

Management's risk management policies are typically performed as a part of the overall management of the Company's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Company has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. These risks and the actions taken to manage them include the following:

##### **Liquidity Risk:**

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company's source of liquidity is its equity. The funds are primarily used to finance working capital and are adequate to meet the Company's financial obligations associated with financial liabilities.

##### **Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The Company invests in short-term investments that may be cashed prior to maturity.

##### **Credit Risk:**

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable, which may include the analysis of the financial position of the debtor and review of credit limits. The Company also may review credit history before establishing credit and review credit performance. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The Company has no financial assets that are past due and does not have an allowance for doubtful accounts receivable.

## DPVC INC.

### NOTES TO THE FINANCIAL STATEMENTS

From date of incorporation on June 3, 2008 to December 31, 2008

(expressed in Canadian dollars)

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#### 11. Risk Management and Fair Values (continued)

##### Sensitivity Analysis:

The sensitivity analyses below show the impact on net loss and comprehensive loss if interest rates on short-term investments had been higher or lower:

Interest rate	-0.50%	-0.25%	+0.25%	+0.50%
Period ended December 31, 2008	(\$ 633)	(\$ 317)	\$ 317	\$ 633

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs or be mitigated by management actions to reduce exposure to risks.

##### Fair Values:

The fair value of cash, accounts payable and accrued liabilities approximates its recorded value. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at year-end may not represent fair values at any other date. The determination of fair value is also affected by the use of judgment and by uncertainty.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.