

**BV! MEDIA INC.**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**BV! MEDIA INC.**

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## AUDITORS' REPORT

To the Shareholders of  
**BV! Media Inc.**

We have audited the balance sheets of **BV! Media Inc.** as at December 31, 2009 and 2008 and the statements of earnings and comprehensive income, retained earnings and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Demers Beaulne, LLP<sup>(1)</sup>*

Chartered Accountants

Montreal, March 17, 2010

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<sup>(1)</sup> CA auditor permit n° 20481

**BV! MEDIA INC.****STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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|   | 2009              | 2008                |
|---|-------------------|---------------------|
| <b>REVENUES</b>   |                   |                     |
| Advertising and content   | \$ 11,029,896     | \$ 5,695,683        |
| Others (Note 6)   | <u>133,349</u>    | <u>34,309</u>       |
|   | 11,163,245        | 5,729,992           |
| <b>COST OF SALES</b>  | <u>5,522,249</u>  | <u>2,622,051</u>    |
| <b>GROSS PROFIT</b>   | 5,640,996         | 3,107,941           |
| <b>OPERATING EXPENSES</b> (Note 6)  | <u>4,917,399</u>  | <u>3,731,145</u>    |
| <b>EARNINGS (LOSS) BEFORE INCOME TAXES AND<br/>NON-CONTROLLING INTEREST</b> | <u>723,597</u>    | <u>(623,204)</u>    |
| <b>INCOME TAXES</b> (Note 12)   |                   |                     |
| Current (recovered)   | 293,892           | (33,439)            |
| Future  | <u>-</u>          | <u>(242,052)</u>    |
|   | <u>293,892</u>    | <u>(275,491)</u>    |
| <b>EARNINGS (LOSS) BEFORE NON-CONTROLLING INTEREST</b>                      | 429,705           | (347,713)           |
| <b>NON-CONTROLLING INTEREST</b>   | <u>-</u>          | <u>32,660</u>       |
| <b>NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME</b>                         | \$ <u>429,705</u> | \$ <u>(315,053)</u> |
| <b>EARNINGS PER SHARE</b> (Note 14)   |                   |                     |
| Basic and diluted earnings (loss) per share                                 | \$ <u>0.01</u>    | \$ <u>(0.01)</u>    |

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

**BV! MEDIA INC.**

**STATEMENTS OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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|  | <u>2009</u>              | <u>2008</u>              |
|--|--------------------------|--------------------------|
| <b>RETAINED EARNINGS - BEGINNING OF YEAR</b>   | <b>\$ 258,002</b>        | <b>\$ 573,055</b>        |
| Net earnings (loss)                            | <u>429,705</u>           | <u>(315,053)</u>         |
| <b>RETAINED EARNINGS - END OF YEAR</b>         | <b>\$ <u>687,707</u></b> | <b>\$ <u>258,002</u></b> |
| <br>   |                          |                          |
| <b>CONTRIBUTED SURPLUS - BEGINNING OF YEAR</b> | <b>\$ 114,575</b>        | <b>\$ 74,941</b>         |
| Stock options exercised                        | (735)                    | (25,203)                 |
| Shares issuance (Note 13)                      | (15,600)                 | -                        |
| Shares and stock options granted               | <u>60,883</u>            | <u>64,837</u>            |
| <b>CONTRIBUTED SURPLUS - END OF YEAR</b>       | <b>\$ <u>159,123</u></b> | <b>\$ <u>114,575</u></b> |

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

**BV! MEDIA INC.****BALANCE SHEETS  
AS AT DECEMBER 31, 2009 AND 2008**

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|   | 2009                | 2008                |
|---|---------------------|---------------------|
| <b>CURRENT ASSETS</b>                                   |                     |                     |
| Cash and cash equivalents                               | \$ 468,658          | \$ 146,205          |
| Short-term investments (Note 7)                         | -                   | 300,000             |
| Accounts receivable                                     | 3,952,274           | 3,268,524           |
| Receivable from shareholders                            | -                   | 150,825             |
| Prepaid expenses and other                              | <u>128,841</u>      | <u>51,941</u>       |
|   | 4,549,773           | 3,917,495           |
| <b>LONG-TERM INVESTMENTS</b> (Note 7)                   | -                   | 5,509               |
| <b>FIXED ASSETS</b> (Note 8)                            | 193,422             | 202,254             |
| <b>INTANGIBLE ASSETS</b> (Note 9)                       | 2,142,534           | 2,512,471           |
| <b>GOODWILL</b>   | <u>2,807,201</u>    | <u>2,807,201</u>    |
|   | \$ <u>9,692,930</u> | \$ <u>9,444,930</u> |
| <b>CURRENT LIABILITIES</b>                              |                     |                     |
| Bank indebtedness (Note 10)                             | \$ -                | \$ 64,795           |
| Accounts payable and accrued liabilities                | 1,595,390           | 1,651,079           |
| Income taxes  | 287,238             | 31,561              |
| Current portion of advances from shareholders (Note 11) | 337,053             | 255,933             |
| Deferred revenues                                       | 132,546             | 77,974              |
| Future income taxes (Note 12)                           | <u>40,739</u>       | <u>17,668</u>       |
|   | 2,392,966           | 2,099,010           |
| <b>ADVANCES FROM SHAREHOLDERS</b> (Note 11)             | 222,675             | 730,553             |
| <b>FUTURE INCOME TAXES</b> (Note 12)                    | <u>237,580</u>      | <u>260,651</u>      |
|   | 2,853,221           | 3,090,214           |
| <b>NON-CONTROLLING INTEREST</b>                         | -                   | 6,352               |
| <b>SHAREHOLDERS' EQUITY</b>                             |                     |                     |
| Capital stock (Note 13)                                 | 5,992,879           | 5,975,787           |
| Retained earnings                                       | 687,707             | 258,002             |
| Contributed surplus                                     | <u>159,123</u>      | <u>114,575</u>      |
|   | 6,839,709           | 6,348,364           |
|   | \$ <u>9,692,930</u> | \$ <u>9,444,930</u> |

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

**APPROVED BY THE BOARD**

(s) Patrick Pierra \_\_\_\_\_, Director

(s) Athanasios Vorias \_\_\_\_\_, Director

**BV! MEDIA INC.****STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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|  | 2009              | 2008             |
|--|-------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                            |                   |                  |
| Net earnings (loss)                                    | \$ 429,705        | \$ (315,053)     |
| Items not affecting cash:                              |                   |                  |
| Depreciation of fixed assets                           | 71,012            | 41,117           |
| Impairment of fixed assets                             | 28,163            | -                |
| Amortization of intangible assets                      | 357,975           | 194,210          |
| Impairment of intangible assets                        | 3,849             | 556,542          |
| Write-down of long-term investments                    | 2,589             | 29,491           |
| Loss on disposal of long-term investments              | 5,160             | -                |
| Future income taxes                                    | -                 | (242,052)        |
| Non-controlling interest                               | -                 | (32,660)         |
| Stock-based compensation cost                          | <u>60,883</u>     | <u>64,837</u>    |
|  | <b>959,336</b>    | 296,432          |
| Net change in non-cash operating working capital items | <u>(505,019)</u>  | <u>(207,908)</u> |
|  | <b>454,317</b>    | <u>88,524</u>    |
| <b>FINANCING ACTIVITIES</b>                            |                   |                  |
| Advances from shareholders                             | (275,933)         | 2,453            |
| Issuance of common shares                              | <u>757</u>        | <u>36,250</u>    |
|  | <u>(275,176)</u>  | <u>38,703</u>    |
| <b>INVESTING ACTIVITIES</b>                            |                   |                  |
| Disposals of short-term investments                    | 300,000           | 965,000          |
| Acquisitions of fixed assets                           | (90,343)          | (44,030)         |
| Acquisitions of intangible assets                      | -                 | (685,468)        |
| Transactions costs                                     | -                 | (189,542)        |
| Other  | <u>(1,550)</u>    | <u>(38,314)</u>  |
|  | <b>208,107</b>    | <u>7,646</u>     |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>           | <b>387,248</b>    | 134,873          |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>   | <u>81,410</u>     | <u>(53,463)</u>  |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>         | <b>\$ 468,658</b> | <b>\$ 81,410</b> |

Cash and cash equivalents include cash and bank indebtedness.

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

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## **1. INCORPORATION AND NATURE OF BUSINESS ACTIVITIES**

BV! Media Inc. (formerly Branchez-Vous! Inc.) was incorporated on April 7, 2000 under the Canada Business Corporations Act. The Company consists of a media business deriving most of its revenues from advertising sales.

The financial statements for the year ended December 31, 2008, include the financial statements of the Company and its subsidiaries, 4306112 Canada Inc., NetWorldMedia Inc. and TonClip.com Inc.

On January 1<sup>st</sup>, 2009, the Company and its subsidiaries, 4306112 Canada Inc. and NetWorldMedia Inc., were amalgamated. The operations of the amalgamated companies were continued under the name Branchez-vous! Inc. The amalgamation was accounted for using the continuity-of-interests method maintaining the carrying amount of the assets and liabilities of the combined entities.

On January 1<sup>st</sup>, 2009, the Company sold 32 shares (32% of voting shares) of its subsidiary TonClip.com Inc. for an amount of \$1,250. As a result of the completion of this transaction, TonClip.com Inc. is no longer a subsidiary. All assets and liabilities related to this subsidiary, which were not significant, were derecognized. The Company retains an investment of 19% of the shares in TonClip.com Inc., which was written-down as at December 31, 2009.

On May 27, 2009, at the Annual General and Special Meeting of Shareholders, the Company shareholders approved an amendment authorizing the Company to change its name from Branchez-Vous! Inc. to BV! Media Inc. Articles of amendment were filed and accepted on May 28, 2009, changing the name to BV! Media Inc. Coincident with the name change, the Company also updated its trading symbol on the TSX Venture Exchange to BVM.

## **2. ACCOUNTING POLICIES**

### ***USE OF ESTIMATES***

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses for the year. Actual results could differ from those estimates.

### ***CASH AND CASH EQUIVALENTS***

Cash consists of cash balances with banks and bank indebtedness. Cash equivalents are short-term, highly liquid investments that are easily convertible to known amounts of cash and which are subject to an insignificant risk of value change. Cash equivalents include term deposits with maturities of three months or less from the date of acquisition.

### ***REVENUES***

Revenues are recorded in the period in which the services are rendered and when there is reasonable expectation of collection. Payments received prior to rendering of services are recorded as deferred revenues.

**2. ACCOUNTING POLICIES (Continued)**

***REVENUES*** (Continued)

The Company's different revenue streams are recognized as follows:

Pay-per-click advertising revenue is recognized when Internet consumers click on the advertisement displayed on the Web site they are consulting. Clients often deposit funds to provision their pay-per-click campaigns. Management validates what is delivered on a monthly basis for each client and records the portion of the deposits that are not spent as deferred revenues.

Display (banner) advertising revenue is recognized when the banner advertisements are displayed on the Web sites. The display of banners (impressions) is predetermined in advance for each client campaign along with the invoicing schedule. Every month, management validates that the impressions are delivered according to schedule. If impressions are under delivered, management lowers the invoice amounts or defers its recognition of revenue.

Professional fees for Internet advertising consulting are divided into two categories: set up fees and management fees. Set up fees are recorded in the month the services are rendered. Management fees are charged on the delivery of the advertising services rendered over the duration of the contract.

Interest income is recognized as earned and is recorded in other revenues.

***EARNINGS PER SHARE***

Basic earnings per share are determined using the weighted average number of common shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of common shares outstanding during the year, plus the effects of dilutive securities such as stock options. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive securities had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase common shares of the Company at the average market value during the year.

***NON-MONETARY TRANSACTIONS***

In the normal course of operations, the Company advertises on its various sites in exchange for services. Income is recorded on the basis of the fair value of the services rendered.

***FIXED ASSETS***

Fixed assets are depreciated using the following methods and rates:

|                        | <u>Methods</u>    | <u>Rates</u> |
|------------------------|-------------------|--------------|
| Office equipment       | Declining balance | 20%          |
| Computer equipment     | Declining balance | 30%          |
| Production equipment   | Declining balance | 20%          |
| Leasehold improvements | Straight-line     | 5 years      |

**2. ACCOUNTING POLICIES (Continued)*****INTANGIBLE ASSETS***

Intangible assets that are subject to amortization are amortized using the following methods and rates:

|                      | <u>Methods</u>    | <u>Rates</u>  |
|----------------------|-------------------|---------------|
| Client relationships | Straight-line     | 2 to 15 years |
| Non-compete clause   | Straight-line     | 2 years       |
| Software             | Declining balance | 30%           |
| Web sites            | Straight-line     | 4 years       |

Trademarks have been considered to have an indefinite useful life and therefore, are not amortized. Trademarks are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. The impairment test consists of a comparison of the fair value of the trademarks with its carrying amount. When the carrying amount of the trademarks exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The fair value is calculated based on evaluations of future discounted cash flows.

***GOODWILL***

Goodwill, which represents the excess of the cost of an acquired subsidiary over the net of the amounts assigned to assets acquired and liabilities assumed, is not amortized. It is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The goodwill of a reporting unit and any potential impairment is identified by comparing the carrying amount of the reporting unit with its fair value. When the carrying amount exceeds the fair value, an impairment loss should be recognized in an amount equal to the excess. The fair value of a reporting unit is calculated on a discounted cash flow basis.

As at December 31, 2009 and 2008, the goodwill was tested for impairment and no impairment loss was recognized.

***STOCK OPTION PLAN***

The Company has a stock option plan, which is described in Note 13. The Company uses the fair value method to account for stock-based compensation cost for stock options granted to its employees, directors and consultants. Under this method, the fair value for stock options is established at the time of grant using the Black & Scholes model. The compensation cost is recorded over the vesting period with a corresponding increase in contributed surplus. Any consideration paid on exercise of stock options is credited to capital stock.

***INCOME TAXES***

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying amounts and tax values of the assets and liabilities using enacted tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

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2. ACCOUNTING POLICIES (Continued)

*IMPAIRMENT OF LONG-LIVED ASSETS*

Fixed assets and intangible assets that are subject to amortization are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The fair value is calculated based on market prices, when available, or calculated based on valuation techniques such as evaluations of discounted cash flows.

*FOREIGN CURRENCY TRANSLATION*

Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transaction. Translation gains and losses are reflected in net earnings.

*FINANCIAL INSTRUMENTS*

Section 3855, Financial Instruments - Recognition and Measurement, requires that financial assets and financial liabilities, including derivative financial instruments, be recognized in the balance sheet when the entity becomes a party to the contractual provisions of the financial instrument. When all financial instruments within the scope of Section 3855, including embedded derivatives that are not closely related to the host contract, are recognized initially, they should be measured at their fair value, except for specific related party transactions. The subsequent measurement of the financial instruments depends on their classification: financial assets and liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other than held for trading financial liabilities.

*Financial assets and liabilities held for trading*

Financial assets and liabilities held for trading are measured at fair value at each balance sheet date. Gain or loss arising from a change in the fair value is recognized in net income for the period in which it arises.

*Held-to-maturity investments*

Held-to-maturity investments are measured at amortized cost using the effective interest method. Interest revenues are included in net income.

2. ACCOUNTING POLICIES (Continued)

*FINANCIAL INSTRUMENTS* (Continued)

*Loans and receivables, and other than held for trading financial liabilities*

Loans and receivables, and other than held for trading financial liabilities are measured at amortized cost using the effective interest method. Interest revenues or expenses are included in net income.

*Available-for-sale financial assets*

Available-for-sale financial assets are measured at fair value at each balance sheet date. Gain or loss arising from a change in the fair value is recognized in other comprehensive income for the period in which it arises. When the financial asset is derecognized, the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in net income for the period.

*Classification*

|  |                                 |
|--|---------------------------------|
| Cash and cash equivalents                | Held for trading                |
| Short-term investments                   | Held for trading <sup>(1)</sup> |
| Accounts receivable                      | Loans and receivables           |
| Receivable from shareholders             | Loans and receivables           |
| Long-term investments                    | Available-for-sale              |
| Bank indebtedness                        | Other than held for trading     |
| Accounts payable and accrued liabilities | Other than held for trading     |
| Advances from shareholders               | Other than held for trading     |

<sup>(1)</sup> Financial assets designated as held for trading.

*Comprehensive income*

Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes essentially gains and losses, net of income taxes, arising from a change in the fair value of available-for-sale financial assets.

*Transaction costs*

For a financial asset or financial liability classified as held for trading, all transaction costs are recognized immediately in net income. For a financial asset or financial liability classified as other than as held for trading, all transactions costs directly attributable to the acquisition or the issuance of a financial asset or financial liability are added to the fair value of the instrument and recorded in the net income using the effective interest method.

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**3. CHANGE IN ACCOUNTING POLICIES**

On January 1, 2009, the Company adopted CICA Accounting Handbook Section 3064 “Goodwill and Intangible Assets”, which replaces “Goodwill and Other Intangible Assets”, Section 3062, and “Research and Development Costs”, Section 3450. The new standard strengthens standards for the recognition and measurement of intangible assets at initial recognition, including internally generated intangible assets. This new standard had no material impact on the Company’s financial statements for the year ended December 31, 2009.

**4. FUTURE ACCOUNTING POLICIES**

***INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)***

The Accounting Standards Board of Canada announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company is currently assessing the future impact of these new standards on its financial statements.

**5. BUSINESS ACQUISITION**

In 2008, the Company acquired all issued and outstanding shares of 4306112 Canada Inc., a privately-held Montreal-based holding company whose main holding was NetWorldMedia Inc., an Internet advertising and media company. Total consideration is \$4,361,336, paid at closing through the issuance of 30,000,000 common shares at a price of \$0.144 per share plus transaction costs of \$189,542. As per the purchase agreement, a non-interest-bearing amount of \$150,825 has been recorded as a purchase price adjustment receivable.

This acquisition was accounted for under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying financials statements since the date of acquisition, October 31, 2008.

The allocation of the purchase price was based on the fair value of identifiable assets, including intangible assets acquired and liabilities assumed at the effective date of the acquisition, and other information available at those dates, and the difference being allocated to goodwill.

**5. BUSINESS ACQUISITION (Continued)**

The allocation of the purchase price in respect to the acquisition of 4306112 Canada Inc. is summarized as follows:

**ASSETS**

|                        |                  |
|------------------------|------------------|
| Accounts receivable    | \$ 1,539,398     |
| R&D credits receivable | 133,860          |
| Equipment              | 123,331          |
| Software               | 268,000          |
| Non-compete clause     | 104,000          |
| Client relationships   | 1,730,000        |
| Goodwill               | <u>2,807,201</u> |
|                        | <u>6,705,790</u> |

**LIABILITIES**

|                                  |                  |
|----------------------------------|------------------|
| Bank indebtedness                | 38,314           |
| Accounts payable and liabilities | 516,095          |
| Income taxes                     | 80,194           |
| Deferred revenues                | 96,122           |
| Sales taxes payable              | 109,325          |
| Shareholders' advances           | 984,033          |
| Future income taxes              | <u>520,371</u>   |
|                                  | <u>2,344,454</u> |

**NET ASSETS ACQUIRED** \$ 4,361,336

**CONSIDERATION**

|                              |                     |
|------------------------------|---------------------|
| Transaction costs            | \$ 189,542          |
| Receivable from shareholders | (150,825)           |
| Share issuance               | <u>4,322,619</u>    |
|                              | <u>\$ 4,361,336</u> |

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**6. ADDITIONAL INFORMATION**

- a) Other revenues include interest incomes totalling \$8,251 (\$24,740 in 2008).  
b) Operating expenses include the following items:

|   | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| Depreciation of fixed assets              | \$ 71,012   | \$ 41,117   |
| Impairment of fixed assets                | 28,163      | -           |
| Amortization of intangible assets         | 357,975     | 194,210     |
| Impairment of intangible assets           | 3,849       | 556,542     |
| Loss on disposal of long-term investments | 5,160       | -           |
| Write-down of long-term investments       | 2,589       | 29,491      |

Non-monetary transactions are summarized as follows:

|                    |            |            |
|--------------------|------------|------------|
| Revenues           | \$ 123,521 | \$ 129,750 |
| Operating expenses | 123,521    | 129,750    |

**7. SHORT-TERM AND LONG-TERM INVESTMENTS**

The short-term investments, as at December 31, 2008, are recorded at fair value and consist of \$300,000 invested in Guaranteed Investment Certificates. These investments were redeemed during 2009.

The long-term investments, as at December 31, 2009 and 2008, represent investments in private companies and are recorded at cost.

As at December 31, 2009, a write-down of \$2,589 was recorded on two of the Company's long-term investments as management believes the carrying amount will not be recoverable. Estimates of future cash flows were used to test the recoverability of these long-term investments. During the year, the Company additionally disposed of its investments in two companies and recorded a loss of \$5,160 on disposal.

**8. FIXED ASSETS**

|                      | <u>2009</u>       |                             |                   |
|----------------------|-------------------|-----------------------------|-------------------|
|                      | Cost              | Accumulated<br>amortization | Net<br>amount     |
| Office equipment     | \$ 82,240         | \$ 58,266                   | \$ 23,974         |
| Computer equipment   | 405,347           | 237,699                     | 167,648           |
| Production equipment | <u>11,747</u>     | <u>9,947</u>                | <u>1,800</u>      |
|                      | \$ <u>499,334</u> | \$ <u>305,912</u>           | \$ <u>193,422</u> |

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

## 8. FIXED ASSETS (Continued)

|                        | 2008              |                             |                   |
|------------------------|-------------------|-----------------------------|-------------------|
|                        | Cost              | Accumulated<br>amortization | Net<br>amount     |
| Office equipment       | \$ 77,945         | \$ 52,452                   | \$ 25,493         |
| Computer equipment     | 319,300           | 176,823                     | 142,477           |
| Production equipment   | 17,566            | 8,042                       | 9,524             |
| Leasehold improvements | <u>43,502</u>     | <u>18,742</u>               | <u>24,760</u>     |
|                        | <u>\$ 458,313</u> | <u>\$ 256,059</u>           | <u>\$ 202,254</u> |

On March 1, 2009, the Company moved into a larger office space to accommodate all of its new employees. As a result of the move, the Company recorded an impairment loss of \$22,343 on its leasehold improvements.

During the year, the Company additionally discontinued use of certain production equipment and recorded an impairment loss of \$5,819 as at December 31, 2009 to reflect the equipments' estimated resale value.

## 9. INTANGIBLE ASSETS

|                      | 2009                |                             |                     |
|----------------------|---------------------|-----------------------------|---------------------|
|                      | Cost                | Accumulated<br>amortization | Net<br>amount       |
| Client relationships | \$ 1,730,000        | \$ 247,294                  | \$ 1,482,706        |
| Non-compete clause   | 104,000             | 60,667                      | 43,333              |
| Trademarks           | 397,141             | -                           | 397,141             |
| Software             | 360,613             | 169,259                     | 191,354             |
| Web sites            | <u>104,671</u>      | <u>76,671</u>               | <u>28,000</u>       |
|                      | <u>\$ 2,696,425</u> | <u>\$ 553,891</u>           | <u>\$ 2,142,534</u> |

  

|                      | 2008                |                             |                     |
|----------------------|---------------------|-----------------------------|---------------------|
|                      | Cost                | Accumulated<br>amortization | Net<br>amount       |
| Client relationships | \$ 1,730,000        | \$ 35,327                   | \$ 1,694,673        |
| Non-compete clause   | 104,000             | 8,667                       | 95,333              |
| Trademarks           | 407,206             | -                           | 407,206             |
| Software             | 360,613             | 87,251                      | 273,362             |
| Web sites            | <u>128,365</u>      | <u>86,468</u>               | <u>41,897</u>       |
|                      | <u>\$ 2,730,184</u> | <u>\$ 217,713</u>           | <u>\$ 2,512,471</u> |

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**9. INTANGIBLE ASSETS (Continued)**

On March 1, 2008, the Company acquired the Fanatique.ca sports Web site and the HumourQuebec.com humour Web site for a consideration of \$290,000, of which \$225,000 was paid in cash and \$65,000 in common shares of the Company. Including transactions cost, \$298,104 were accounted as follows: \$72,000 for Web sites and \$226,104 for trademarks. These acquisitions were not accounted for as business combinations.

On April 1, 2008, the Company acquired several Web sites for \$600,000, of which \$300,000 were paid in cash and \$300,000 in common shares of the Company. The main acquired assets included the Matin.qc.ca (Matinternet), a general news Web site, and Showbizz.net, an entertainment news Web site. Including transaction costs, \$610,996 were accounted as follows: \$60,000 for Web sites and \$550,996 for trademarks. These acquisitions were not accounted for as business combinations.

On May 1, 2008, the Company acquired the LeCinema.ca Web site for a cash amount varying between \$100,000 and \$150,000, depending on the financial performance of the site during the year following the acquisition. Management estimates the total cost of LeCinema.ca to be \$115,000. Including transaction costs, \$116,509 were accounted as follows: \$30,000 for Web site and \$86,509 for trademarks. This acquisition was not accounted for as a business combination.

In the year ended December 31, 2008, the Company recorded an impairment loss of \$24,546 for the Web site and trademark in the Company's former subsidiary TonClip.com Inc., as management believes the carrying amount will not be recoverable.

As at December 31, 2008, the Company additionally recorded an impairment loss on intangible assets of \$508,412 as management believed the carrying amount will not be recoverable. This consisted of an impairment of \$490,557 for Web sites acquired in 2008, Fanatique.ca, HumourQuebec.com, Matin.qc.ca, Showbizz.net and LeCinema.ca and an impairment loss of \$17,855 for Materre.ca. Estimates of future cash flows were used to test the recoverability of the intangible assets.

**10. BANK INDEBTEDNESS**

The Company has an authorized line of credit of \$700,000 bearing interest at the bank's prime rate plus 1%, secured by a movable hypothec on the accounts receivable.

The loan agreement provides for certain covenants including provisions relating to the maintenance of certain financial ratios, which were respected as at December 31, 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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11. ADVANCES FROM SHAREHOLDERS

|  | <u>2009</u>              | <u>2008</u>              |
|--|--------------------------|--------------------------|
| Shareholder's advances, bearing interest at prime rate plus 2%, payable on demand, interest payable monthly  | \$ -                     | \$ 155,933               |
| Shareholder's advances, bearing interest at prime rate plus 2%, payable by August 5, 2009, interest payable monthly  | -                        | 100,000                  |
| Shareholder's advances, non-interest-bearing until January 1, 2010, then bearing interest rate at prime rate plus 1%, payable on January 1, 2011, interest payable monthly | <b>222,675</b>           | 373,500                  |
| Shareholders' advances, non-interest-bearing until January 1, 2010, then bearing interest at prime rate plus 1%, payable on January 1, 2010, interest payable monthly      | <b><u>337,053</u></b>    | <b><u>357,053</u></b>    |
|  | <b>559,728</b>           | 986,486                  |
| Current portion of advances from shareholders  | <b><u>(337,053)</u></b>  | <b><u>(255,933)</u></b>  |
|  | <b>\$ <u>222,675</u></b> | <b>\$ <u>730,553</u></b> |

These advances cannot be repaid without the consent of the bank.

12. INCOME TAXES

The reconciliation between the Company's statutory and effective income tax rates is as follows:

|   | <u>2009</u>              | <u>2008</u>                |
|---|--------------------------|----------------------------|
| Income taxes calculated using combined Canadian statutory tax rates (recovered) | \$ 223,591               | \$ (192,570)               |
| Stock-based compensation cost   | 18,813                   | 20,035                     |
| Non-deductible expenses   | 7,943                    | 66,367                     |
| Tax benefits not recognized in previous years                                   | -                        | (171,044)                  |
| Other elements  | <b><u>43,545</u></b>     | <b><u>1,721</u></b>        |
| Current income taxes (recovered)  | <b>\$ <u>293,892</u></b> | <b>\$ <u>(275,491)</u></b> |

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**12. INCOME TAXES (Continued)**

The tax effects of temporary differences that give rise to future income tax asset and liability are as follows:

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| <b>Future income tax asset</b>             |                     |                     |
| Fixed assets                               | \$ 9,523            | \$ 68,047           |
| Other                                      | <u>6,708</u>        | <u>-</u>            |
|  | <u>\$ 16,231</u>    | <u>\$ 68,047</u>    |
| <b>Future income tax liability</b>         |                     |                     |
| Intangible assets                          | \$ <u>(294,550)</u> | \$ <u>(346,366)</u> |
| Classified in the financial statements as: |                     |                     |
| Current future income tax liability        | \$ (40,739)         | \$ (17,668)         |
| Long-term future income tax liability      | <u>(237,580)</u>    | <u>(260,651)</u>    |

**13. CAPITAL STOCK**

Authorized, an unlimited number:

Common shares, voting and participating;

Preferred shares, issuable in one or more series, having the rights, privileges, restrictions and conditions as determined by the Board of Directors prior to their issuance.

Issued:

|                                | <u>2009</u>         |                  | <u>2008</u>         |                  |
|--------------------------------|---------------------|------------------|---------------------|------------------|
|                                | Number of<br>shares | \$               | Number of<br>shares | \$               |
| Common shares:                 |                     |                  |                     |                  |
| Balance - beginning<br>of year | 60,361,015          | 5,975,787        | 29,375,117          | 1,226,715        |
| Exercise of stock options      | 6,250               | 1,492            | 240,000             | 61,453           |
| Share issuance                 | 100,000             | 15,600           | 30,745,898          | 4,687,619        |
| Balance - end of year          | <u>60,467,265</u>   | <u>5,992,879</u> | <u>60,361,015</u>   | <u>5,975,787</u> |

**13. CAPITAL STOCK** (Continued)

During the year, the Company issued 100,000 common shares to an employee in an ancillary transaction related to the purchase of NetWorldMedia Inc. Stock-based compensation costs with respect to these shares amounted to \$9,230 (\$6,370 in 2008).

In October 2008, 500,000 options to purchase NetWorldMedia Inc.'s shares were cancelled in exchange for an agreement to issue 300,000 shares of the Company. These shares were granted over three years of a continuous employment and are issued per tranche of 50,000 shares per six month period.

In 2008, the Company issued 30,000,000 common shares in exchange of all issued and outstanding shares of 4306112 Canada Inc. (Note 5). The Company also issued 745,898 shares for the acquisition of several Web sites (Note 9).

**Stock option plan**

The Company has a stock option plan in order to grant stock options to officers, directors, employees and consultants providing ongoing services to the Company. Under the terms of the plan, which is administrated by the Board of Directors, these options vest over a period of four years and expire after a period of five years. The maximum number of common shares that can be issued under the plan is limited to 6,046,726 (6,036,101 in 2008), representing 10% of the issued and outstanding common shares.

During the year, the Company did not grant any new stock options (1,908,000 in 2008).

The following table summarizes information on stock options:

|                             | 2009                    |                                       | 2008                    |                                       |
|-----------------------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
|                             | Number<br>of<br>options | Weighted<br>average<br>exercise price | Number<br>of<br>options | Weighted<br>average<br>exercise price |
|                             |                         | \$                                    |                         | \$                                    |
| Balance - beginning of year | 2,711,600               | 0.1832                                | 1,422,400               | 0.2675                                |
| Granted                     | -                       | -                                     | 1,908,000               | 0.1100                                |
| Exercised                   | (6,250)                 | 0.1212                                | (240,000)               | 0.1510                                |
| Cancelled                   | (1,720,550)             | 0.2096                                | (88,800)                | 0.1516                                |
| Expired                     | -                       | -                                     | (290,000)               | 0.1500                                |
| Balance - end of year       | 984,800                 | 0.1374                                | 2,711,600               | 0.1832                                |

**13. CAPITAL STOCK** (Continued)

The tables below summarize information on exercisable stock options:

As at December 31, 2009:

| Outstanding options | Weighted average<br>remaining contractual life<br>(months) | Weighted<br>average exercise price<br>\$ | Exercisable options |
|---------------------|--|--|---------------------|
| 684,000             | 47   | 0.11                                     | 185,250             |
| 28,800              | 32   | 0.60                                     | 16,800              |
| 72,000              | 24   | 0.15                                     | 54,000              |
| 200,000             | 16   | 0.16                                     | 183,333             |
| <b>984,800</b>      | <b>39</b>  | <b>0.1374</b>                            | <b>439,383</b>      |

As at December 31, 2008:

| Outstanding options | Weighted average<br>remaining contractual life<br>(months) | Weighted<br>average exercise price<br>\$ | Exercisable options |
|---------------------|--|--|---------------------|
| 1,908,000           | 59   | 0.11                                     | -                   |
| 335,000             | 28   | 0.16                                     | 208,333             |
| 139,800             | 36   | 0.15                                     | 67,400              |
| 28,800              | 44   | 0.60                                     | 2,400               |
| 300,000             | 45   | 0.65                                     | 18,750              |
| <b>2,711,600</b>    | <b>52</b>  | <b>0.1832</b>                            | <b>296,883</b>      |

**Stock-based compensation expense for options**

The average fair value of stock options, at the time of grant, granted in 2008 is \$0.11 per option. The fair value of each option granted was established using the Black & Scholes model and based on the following assumptions:

|  |         |
|--|---------|
| Risk-free interest rate                              | 2%      |
| Expected life  | 5 years |
| Expected volatility in the market price of the share | 2.0     |
| Expected dividend yield                              | 0.00%   |

Compensation costs with respect to these options amounted to \$51,653 for the current year and were included in operating expenses (\$58,467 in 2008).

**14. EARNINGS PER SHARE**

The following is a reconciliation of the numerators and denominators used for the computation of the basic and diluted earnings per share:

|   | <u>2009</u>       | <u>2008</u>         |
|---|-------------------|---------------------|
| Net earnings (loss)                                     | \$ <u>429,705</u> | \$ <u>(315,053)</u> |
| Weighted average number of shares outstanding - basic   | <u>60,396,580</u> | 35,176,862          |
| Effect of dilutive securities                           | <u>354,604</u>    | -                   |
| Weighted average number of shares outstanding - diluted | <u>60,751,184</u> | <u>35,176,862</u>   |
| Basic and diluted earnings (loss) per share             | \$ <u>0,01</u>    | \$ <u>(0,01)</u>    |

For the year ended December 31, 2009, 28,800 stock options were excluded from the computation of diluted earnings per share since they were not “in the money” (328,800 in 2008). For the year ended December 31, 2008, the potentially diluted loss per share was the same as the basic loss per share since the effect of the outstanding stock options would have been anti-dilutive.

**15. COMMITMENTS**

The Company has the following commitments under lease obligations and for services with respect to Web sites:

|      |            |
|------|------------|
| 2010 | \$ 514,490 |
| 2011 | 163,276    |
| 2012 | 116,185    |
| 2013 | 105,102    |
| 2014 | 102,102    |

**16. CASH FLOWS**

Cash flows from operating activities include the following:

|                   | <u>2009</u>      | <u>2008</u> |
|-------------------|------------------|-------------|
| Income taxes paid | \$ <u>38,215</u> | \$ 15,194   |

During the year, the Company has offset advances receivable and payable to shareholders for an amount of \$150,825.

**17. FINANCIAL INSTRUMENTS*****RISK MANAGEMENT POLICIES***

The Company conducts transactions in foreign currencies and is exposed to foreign exchange risks. The Company is also exposed to interest rate risk due to the nature of its financial instruments. Risk management is the responsibility of management and the Company did not use derivative financial instruments for the purpose of speculation.

***CREDIT RISK***

The Company grants credit to its clients in the normal course of business. On a continued basis, the Company carries out credit assessments of its clients and maintains allowances for potential bad debts. The Company generally does not require collateral. Advertisers place advertisement through advertising agencies, thus an advertising agency may represent several clients. As at December 31, 2009, the Company does not have a significant exposure to any individual client.

The following table sets out details of the age of receivables that are outstanding and the related allowance for doubtful accounts:

|                                       | <u>2009</u>         | <u>2008</u>         |
|---------------------------------------|---------------------|---------------------|
| Current                               | \$ 1,347,347        | \$ 964,843          |
| 31-90 days                            | 1,833,620           | 1,822,777           |
| 91-150 days                           | 497,327             | 368,726             |
| Over 150 days                         | 353,886             | 174,915             |
| Less: allowance for doubtful accounts | <u>(79,906)</u>     | <u>(62,737)</u>     |
| Total accounts receivable, net        | \$ <u>3,952,274</u> | \$ <u>3,268,524</u> |

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of income within operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statements of income.

Cash and cash equivalents and short-term investments (except for an amount of \$2,343 as at December 31, 2009) are held at a Canadian chartered bank.

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**17. FINANCIAL INSTRUMENTS (Continued)**

***LIQUIDITY RISK***

Liquidity risks arise from an excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents.

As at December 31, 2009, the Company is holding cash and cash equivalents of \$468,658. In addition, the Company has the credit facilities described in Note 10.

***INTEREST RATE RISK***

The Company is exposed to interest risk relating to shareholders' advances in the event of fluctuation of the prime rate of the Bank of Canada. As at December 31, 2009, the Company has \$559,728 of interest bearing shareholders' advances (\$986,486 as at December 31, 2008). A variation of 1% of the prime rate would not have a significant impact on the Company's results for the years ended December 31, 2009 and 2008. These shareholders advances are described in Note 11.

***FOREIGN CURRENCY RISK***

Foreign exchange risks for royalties payable are not significant because these royalties are calculated in Canadian dollars. The foreign exchange risks are limited to accounts payable in Euros and American dollars. Increase or decrease of 1% of the exchange rate will not have a significant impact on net income.

As at December 31, 2009, accounts payable include an amount of US\$14,999 (CA\$15,763) and an amount of EUR25,954 (CA\$38,931) and accounts receivable include an amount of US\$36,888 (CA\$38,769).

As at December 31, 2008, cash and cash equivalents include an amount of US\$30,428 (CA\$37,262) and accounts payable include an amount of EUR36,287 (CA\$59,246).

***FAIR VALUE***

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms.

The Company has determined that the fair value of its current financial assets and liabilities corresponds to their respective carrying amounts as at the balance sheet dates because of their short-term maturity.

The fair value of the advances from shareholders approximates their carrying amounts because they bear interest at rates similar to market rates.

As at December 31 2008, the long-term investments are classified as financial instrument available-for-sale and are recorded at cost since the fair value of this financial asset is not available.

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## **18. CAPITAL MANAGEMENT**

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue growth organically or via strategic acquisitions, to ensure the externally imposed capital requirements relating to its credit facilities are met, to provide services to its customers and to provide returns to shareholders. The Company defines capital as the aggregate of its shareholders' equity and long-term debt.

As at December 31, 2009, total managed capital is \$7,062,384 (\$7,085,269 in 2008) and consists of shareholders' equity of \$6,839,709 (\$6,354,716 in 2008) and long-term debt of \$222,675 (\$730,553 in 2008). The long-term debt is owed to the previous shareholders of 4306112 Canada Inc.

The Company manages its capital structure in a manner that ensures operation cash flow together with cash on its balance sheet is greater than interest expense and principal repayments required to be paid. The Board of Directors reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions or other major investment or divestiture, reimbursement of shareholder advances as well as capital and operation budgets.

According to the credit agreement conditions, the Company is subjected to certain restrictive clauses with regard to the maintenance of financial ratios on an annual basis at the end of the fiscal year. These financial ratios were respected as at December 31, 2009 and 2008.

## **19. SEGMENT DISCLOSURE**

For the year ended December 31, 2009, revenues from one client represent approximately \$1,655,000 (\$863,000 in 2008) of the Company's total revenues.

## **20. RELATED PARTY TRANSACTIONS**

For the year ended December 31, 2009, the Company incurred legal fee expenses for \$21,412 (\$92,445 in 2008) with a firm of which one of the partners is also a director of the Company. These transactions were carried out in the normal course of business and are recorded at the exchange value.

## **21. SUBSEQUENT EVENTS**

- a) In February 2010, the Company renegotiated its line of credit of \$700,000. This line of credit will now bear interest at the bank's prime rate plus 1.6%. All other terms remain the same.
- b) In February 2010, the Company also granted stock options to buy 2,000,000 common shares of the Company at an exercise price of \$0.175 to an employee. Up to half of these options are subject to cancellation before June 30, 2011 if certain financial targets for the Company are not met for the year ending December 31, 2010. These options are issued pursuant to the Company's employee stock option plan and can be exercised until February 14, 2015.