

CINEMA INTERNET NETWORKS INC.

REPORT AND FINANCIAL STATEMENTS
(Expressed in U.S. dollars)

OCTOBER 31, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CINEMA INTERNET NETWORKS INC.
BALANCE SHEETS
(Expressed in U.S. dollars)
AS AT OCTOBER 31, 2009

	October 31, 2009	(Audited) July 31, 2009
ASSETS		
Current		
Cash and cash equivalents	\$ 6,917	\$ 4,805
Accounts receivable, net	14,419	20,519
Subscriptions receivable	-	-
Prepaid expenses	-	-
	<u>21,336</u>	<u>25,324</u>
Related party loan (note 9)	35,500	35,500
Equipment (note 4)	<u>25,494</u>	<u>26,536</u>
	<u>\$ 82,330</u>	<u>\$ 87,360</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	\$ 579,595	\$ 532,130
Customer deposits and deferred revenue	20,764	20,764
Obligation under capital lease (note 6)	<u>45,667</u>	<u>45,667</u>
	<u>646,026</u>	<u>598,561</u>
Shareholders' deficiency		
Capital stock (note 7)	6,368,813	6,368,813
Contributed surplus (note 7)	99,957	99,957
Deficit	<u>(7,032,466)</u>	<u>(6,979,971)</u>
	<u>(563,696)</u>	<u>(511,201)</u>
	<u>\$ 82,330</u>	<u>\$ 87,360</u>

Nature and continuance of operations (note 1)

Commitments (note 16)

Subsequent events (note 20)

On behalf of the Board:

_____ [*Bill Massey*] _____ Director _____ [*Moez Manji*] _____ Director

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

CINEMA INTERNET NETWORKS INC.
STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in U.S. dollars)
THREE MONTHS ENDED OCTOBER 31, 2009

	October 31, 2009	(Audited) July 31, 2009
REVENUES	\$ 27,131	\$ 287,461
DIRECT COSTS	<u>(11,354)</u>	<u>(121,210)</u>
GROSS PROFIT	<u>15,777</u>	<u>166,251</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization of equipment	1,042	11,132
Bad debts (recovery)	-	(4,770)
Bank charges and interest	636	8,150
Consulting fees	14,415	141,582
Filing and transfer agent fees	3,392	15,798
Foreign exchange	(71)	(3,845)
Interest on capital lease obligation	-	-
Interest on notes payable	-	3,291
Investor relations	-	-
Management fees	18,300	100,500
Office and miscellaneous	3,134	19,093
Professional fees	17,885	57,067
Rent	3,161	37,457
Telephone and communications	6,378	13,739
Travel, promotion and marketing	<u>-</u>	<u>-</u>
	<u>68,272</u>	<u>399,194</u>
Loss before other items and income taxes	(52,495)	(232,943)
OTHER ITEMS		
Write-off of sales taxes payable (Note 18)	-	156,339
Write-off of prior year's accounts payable	<u>-</u>	<u>3,818</u>
Net loss for the year	(52,495)	(72,786)
Deficit, beginning of year	<u>(6,979,971)</u>	<u>(6,907,185)</u>
Deficit, end of year	<u>\$ (7,032,466)</u>	<u>\$ (6,979,971)</u>
Basic and diluted loss per common share	<u>\$ (0.001)</u>	<u>\$ (0.001)</u>
Weighted average number of common shares outstanding	<u>41,886,395</u>	<u>41,886,395</u>

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

CINEMA INTERNET NETWORKS INC.
STATEMENTS OF CASH FLOWS
(Expressed in U.S. dollars)
THREE MONTHS ENDED OCTOBER 31, 2009

	October 31, 2009	(Audited) July 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (52,495)	\$ (72,786)
Items not affecting cash:		
Amortization	1,042	11,132
Bad debts	-	-
Write-off of sales taxes payable	-	156,339
Write-off of prior year's accounts payable	-	3,818
Changes in non-cash working capital items:		
Accounts receivable	6,100	7,285
Prepaid expenses	995	739
Customer deposits and deferred revenue	-	11,699
Accounts payable and accrued liabilities	<u>46,470</u>	<u>(115,275)</u>
Net cash used in operating activities	<u>2,112</u>	<u>2,951</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Related party loan	-	-
Repayment of related party loan	-	-
Purchase of equipment	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of costs	-	-
Subscriptions receivable	-	5,000
Proceeds from notes payable	-	-
Deferred revenue	-	(11,699)
Repayment of notes payable and accrued interest	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>-</u>	<u>(6,699)</u>
Change in cash during the year	2,112	(3,748)
Cash and cash equivalents, beginning of year	<u>4,805</u>	<u>8,553</u>
Cash and cash equivalents, end of year	<u>\$ 6,917</u>	<u>\$ 4,805</u>

Supplemental disclosure with respect to cash flows (note 12)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Cinema Internet Networks Inc. (the “Company”) is primarily engaged in the sales and installation of broadband, high speed Internet services to the hospitality industry and other commercial customers.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. However, the Company has incurred significant operating losses in the year ended July 31, 2009 and 2008, as well as the period ended October 31, 2009, has a working capital deficiency as at October 31, 2009 and July 31, 2009 and has defaulted on its capital lease obligation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

	October 31, 2009	(Audited) July 31, 2009
		(Audited)
Working capital deficiency	\$ (624,690)	\$ (573,237)
Deficit	(7,032,466)	(6,979,971)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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 amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Accounts specifically requiring the use of management’s best estimates and assumptions in determining carrying values are accounts receivable, equipment, accounts payable and accrued liabilities, notes payable, obligation under capital lease and future income taxes. Actual results could differ from these estimates.

Equipment

Equipment is recorded at cost. Amortization is recorded using the declining balance basis at rates of 20% to 30% per annum.

Foreign currency translation

The Company uses the U.S. dollar as its reporting currency.

The Company’s Canadian dollar-denominated monetary items are translated into U.S. dollars at the rate of exchange in

effect at the balance sheet date. Non-monetary items are translated at the exchange rate in effect on the date of the transaction. Revenues and expenses are translated at the rates approximating those in effect at the date of the transaction. Foreign currency transaction gains and losses are included in determining loss for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Revenue recognition

Revenue for the sale and installation of equipment is recognized when the title passes and the system is installed and operational. Revenue from the sale of services is recognized when the services are provided. Amounts received relating to future periods are recorded as customer deposits and are recognized when the services are provided.

Income taxes

Income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and is recorded as stock-based compensation expense.

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 loss 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. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

Financial Instruments

Effective August 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' ("CICA") under Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial Instruments (cont'd)

Under Section 3855, all financial instruments are classified into one of five categories; held-for-trading, held-to-maturity investments, loans and receivables, available-for sale assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is de-recognized or impaired.

Financial instruments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Financial instruments not classified as held-to-maturity or as trading are classified as available-for-sale. Receivables are classified as loans and receivables, and accounts payable and accrued liabilities and due to related parties are classified as other liabilities, all of which are measured at amortized cost. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale.

On the date of adoption, the Company re-measured its financial assets and liabilities as appropriate. There was no impact on the financial statements arising from the adoption of the standard and, accordingly, prior period financial statements have not been restated.

Changes in Accounting Policies

From time to time, new accounting standards are pronounced by the Canadian Institute of Chartered Accountants. When released, these policies are reviewed by management to determine their impact on the Company's reported operating results and disclosures. New standards which become effective for the Company's 2009 fiscal year or thereafter are:

a) **Financial Instruments**

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3862, Financial Instruments - Disclosures, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, Financial Instruments - Recognition and Measurement, Section 3863, Financial Instruments - Presentation, and Section 3865, Hedges. The Company adopted these standards effective August 1, 2008 and has included the required disclosure in note 13 of these financial statements.

The AcSB issued CICA Handbook Section 3863, Financial Instruments - Presentation, which is to enhance statements users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of elected interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The Company adopted these 1 standards effective August 1, 2008 and the adoption of this policy has no significant impact to the Company's consolidated financial statements.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd...)

Changes in Accounting Policies (cont'd)

b) **Capital Disclosures**

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy has been included in note 19.

c) **Going-concern**

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern. The Company adopted this standard effective August 1, 2008. Refer to note 1 to these consolidated financial statements for disclosure relating to this section.

d) **Goodwill and Intangible Assets**

This new standard replaces the current standard for goodwill and intangible assets, Section 3062, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. There was no significant impact on the Company's financial statements as a result of adopting this abstract.

Future Accounting Changes

a) **Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

In January 2009, the CICA issued Handbook Sections 1582 - Business Combinations, 1601 - Consolidated Financial Statements and 1602 - Non-controlling Interests which replace CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted.

Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future Accounting Changes (cont'd)

b) International Financial Reporting Standards (IFRS)

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. ACQUISITION TRANSACTIONS

a) 3One Systems US Inc.

On December 29, 2006, the Company entered into a share purchase agreement to acquire a 51% interest in 3One Systems US Inc. ("3One"), a private Washington State corporation in exchange for 2,000,000 common shares (issued) and CDN\$500,000 (CDN\$100,000 paid).

The 2,000,000 common shares were valued at CDN\$0.05, being the quoted market value of the Company's shares as of the date of the agreement, or \$86,170 (CDN\$100,000). The transaction was not completed, and pursuant to a Termination and Redemption Agreement dated May 23, 2007, the transaction was terminated and the 2,000,000 common shares were returned to the Company and were held in treasury. The shares were released from treasury in January 2009 (notes 7 and 15).

b) Expansive Networks Corp.

On March 27, 2008, the Company announced the acquisition of a 51% of the common shares of Expansive Networks Corp. ("EXN"), a private company provider of next-generation WiFi and WiMAX wireless networks for residential, business, and enterprise customers. The Company was to assume certain EXN liabilities not exceeding CDN\$35,000 and issue 1,000,000 based upon EXN revenue milestones. The transaction was not completed and advances of \$20,000 to EXN at July 31, 2009 have been written off.

4. EQUIPMENT

	October 31, 2009			(Audited) July 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 9,019	\$ 6,535	\$ 2,484	\$ 9,019	\$ 6,475	\$ 2,544
Computer equipment	22,100	19,009	3,091	22,100	18,988	3,112
Hotel equipment	<u>147,741</u>	<u>127,822</u>	<u>19,919</u>	<u>147,741</u>	<u>126,861</u>	<u>20,880</u>
	<u>\$ 178,860</u>	<u>\$ 153,366</u>	<u>\$ 25,494</u>	<u>\$ 178,860</u>	<u>\$ 152,324</u>	<u>\$ 26,536</u>

Included in hotel equipment is \$50,000 (2008 - \$50,000) of equipment under capital lease, with a net book value of \$5,764 (July 31, 2008 - \$7,470). Amortization of assets under capital lease is combined with total amortization.

CINEMA INTERNET NETWORKS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. dollars)
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5. NOTES PAYABLE

	October 31, 2009	July 31, 2009 (Audited)
Notes payable, non-interest bearing, unsecured and due on demand	\$ -	\$ -
Note payable including interest, due to a director, bearing interest at 12% per annum, secured by hotel equipment and service contracts, repayable in annual instalments of \$60,000		80,658
Less amounts settled for treasury shares	-	(80,658)
Less amounts settled under obligation to issue shares (Note 15)	-	-
	-	-
Current portion	-	-
	\$ -	\$ -

6. OBLIGATION UNDER CAPITAL LEASE

	October 31, 2009	July 31, 2009 (Audited)
Lease payable bearing interest at 12% per annum, repayable in monthly instalments of \$4,152 including interest, secured by leased hotel equipment and guaranteed by a director of the Company. During fiscal 2004, the Company defaulted on the lease. Estimated minimum lease payments to maturity are \$45,667 including interest, plus penalty. (An agreement has been reached to settle for Share for Debt as noted in the subsequent events.)	\$ 45,667	\$ 45,667

CINEMA INTERNET NETWORKS INC.
NOTES TO THE FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited number of common shares without par value			
2,500,000 cumulative 12% dividends, convertible, non-voting, non-participating Series A preferred shares			
2,500,000 cumulative 12% dividends, convertible, non-voting, non-participating Series B preferred shares			
2,500,000 cumulative, convertible, non-voting, non-participating Series C preferred shares			
2,500,000 cumulative, convertible, non-voting, non-participating Series D preferred shares			
As at July 31, 2008	27,474,382	\$ 5,609,820	\$ 99,957
Release of shares held in treasury (notes 14 and 15)	2,920,000	129,510	-
Issued pursuant to private placements	6,000,000	298,530	-
Shares issued for debt settlement	3,678,160	181,278	-
Less share issue costs	-	(2,548)	-
As at July 31, 2009	40,072,542	\$ 6,216,590	\$ 99,957
Shares issued for debt settlement	<u>3,627,705</u>	<u>152,223</u>	<u>-</u>
As at July 31, and October 31, 2009	43,700,247	\$ 6,368,813	\$ 99,957

- a) During the year ended July 31, 2009, the Company issued 3,627,705 common shares to settle debts of \$152,223. Included in the settlement were 347,686 common shares issued for debts of \$25,372 owed to certain directors.
- b) During the year ended July 31, 2008, the Company issued 3,678,160 common shares to settle debts of \$181,278. Included in the settlement were 1,952,800 common shares issued for debts of \$96,243 owed to a director and a company with common director.

8. STOCK OPTIONS AND WARRANTS

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees and certain consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less an applicable discount. The options can be granted for a maximum term of five years.

Stock option transactions are summarized as follows:

	Stock Options	
	Number	Weighted Average Exercise Price
Outstanding, July 31, 2009	2,640,000	CDN\$ 0.10
Options expired	(2,640,000)	CDN\$ 0.10
Outstanding, October 31, 2009	-	
Number currently exercisable, end of year	-	

At October 31, 2009, there were no incentive stock options outstanding.

At October 31, 2009, share purchase warrants were outstanding enabling the holders to acquire the following number of shares:

	October 31, 2009		(Audited) Year ended July 31, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants exercisable, beginning of period	12,000,000	CDN \$0.10	6,000,000	CDN \$0.10
Issued (expiring December 22, 2009)	-		2,000,000	CDN \$0.10
Issued (expiring May 21, 2010)	-		4,000,000	CDN \$0.10
Warrants exercisable, end of period	12,000,000	CDN \$0.10	12,000,000	CDN \$0.10

8. STOCK OPTIONS AND WARRANTS (cont'd ...)

Stock-based compensation

The Company granted 1,710,000 stock options to consultants on May 31, 2007. Stock-based compensation related to the grant was \$50,374 with a weighted average fair value of \$0.03 per option.

The Company granted 360,000 stock options to consultants on December 22, 2006. Stock-based compensation related to the grant was \$10,323 with a weighted average fair value at \$0.03 per option.

The Company granted 570,000 stock options to consultants and directors on September 15, 2006. Stock-based compensation related to the grant was \$7,963 with a weighted average fair value of \$0.02 per option.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

	Granted May 31, 2007	Granted December 18, 2006	Granted September 15, 2006
Risk-free interest rate	4.57%	3.97%	4.33%
Expected life of options	2 years	2 years	2 years
Annualized volatility	109.70%	183.93%	147.82%
Dividend rate	0.00%	0.00%	0.00%

9. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with directors, an officer and a company with a common director during the three months ended October 31:

	2009	(Audited) July 31, 2009
Management fees	\$ 18,300	\$ 100,000
Consulting fees	\$ 14,415	\$ 60,000
Debts settled for issuance of shares	\$ -	\$ 25,372

During the period ended October 31, 2009, the company loaned \$35,500 (2009 - 35,500) a director for a term of four years at an interest rate of 5% per annum, payable monthly, unsecured.

Included in accounts payable and accrued liabilities at October 31, 2009 is \$24,772 (2009 - \$29,048) owing to directors, an officer and a company with a director in common.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. INCOME TAXES

The tax effect of temporary differences that give rise to significant components of future income tax assets and liabilities by applying the combined federal and provincial income tax rate of 30.0% (2008 – 31.5%) as follows for the year ended July 31:

	2009	2008
Net loss for the period	\$ (72,786)	\$ (416,290)
Expected income tax (recovery)	\$ (22,928)	\$ (131,132)
Non-deductible items	4,710	68,108
Unrecognized benefits of non-capital losses	18,218	63,024
Total income taxes (recovery)	\$ -	\$ -

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2009	2008
Future income tax assets:		
Non-capital losses available for future periods	\$ 540,000	\$ 743,073
Equipment	321,000	326,730
Gross future income tax assets	861,000	1,069,803
Valuation allowance	(861,000)	(1,069,803)
Net future income tax assets	\$ -	\$ -

The Company has incurred non-capital losses of approximately \$1,800,000 which, if unutilized, will expire through 2029. Future tax benefits that may arise as a result of these losses and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

11. SEGMENTED INFORMATION

The Company conducts substantially all of its operations in one business segment, being the contract sales and installation and maintenance of broadband, high speed Internet services to the hospitality industry and other commercial customers. The Company operates in the following geographical areas:

	October 31, 2009	(Audited) July 31, 2009
Revenue (three months to October 31)		
Canada	\$ 13,835	\$ 84,340
United States	13,296	203,121
Bahamas	-	-
	<u>\$ 27,131</u>	<u>\$ 287,461</u>
Equipment		
Canada	\$ 14,161	\$ 14,325
United States	9,432	9,835
Bahamas	<u>1,901</u>	<u>2,376</u>
	<u>\$ 25,494</u>	<u>\$ 26,536</u>

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	October 31, 2009	(Audited) July 31, 2009
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

During the year ended July 31, 2009, the Company issued 3,627,705 common shares to settle debts of \$152,223. Included in the settlement were 347,686 common shares issued for debts of \$25,372 owed to certain directors.

During the year ended July 31, 2008, the Company issued 3,678,160 common shares to settle debts of \$181,278. Included in the settlement were 1,952,800 common shares issued for debts of \$96,243 owed to a director and a company with common director.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The fair values of cash and cash equivalents, receivables, related party loan and accounts payable and accrued liabilities customer deposits and deferred revenue and obligation under capital lease.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument-related risks. The Board approves and monitors the risk management process.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risk is primarily attributable to its bank accounts and accounts receivable. Bank accounts are with several Canadian Schedule 1 banks. Management believes that the credit risk with respect to receivable is remote.

Liquidity Risk

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due or that it will be required to meet them at excessive cost. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash.

Interest Rate Risk

The Company is exposed the risk that the value of financial instruments will change due to movements in market interest rates. As of July 31, 2009, the Company has no interest-bearing debt with long-term maturities and therefore does not believe that interest rate risk is significant. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

Foreign Currency Risk

The Company is exposed to financial risk arising from fluctuations in foreign currency rates and the degree of volatility of these rates.

14. GAIN ON SETTLEMENT OF LAWSUIT

During the year ended July 31, 2007, the Company received judgment in its lawsuit against three former employees of the Company and their company, Highspeed Systems Corporation (the "Defendants"). The Company received damages and special costs totaling \$52,706 (CDN\$58,818), together with the return of 920,000 common shares of the Company held by the Defendants valued at \$43,340.

15. OBLIGATION TO ISSUE SHARES

At July 31, 2007 the Company had agreed with a director to settle notes payable of \$120,774 and accounts payable of \$8,736 owing to the director by the issuance of shares. This had been reflected as obligation to issue shares at that date, however, the shares were released from treasury in January, 2009.

16. COMMITMENTS

The Company entered into management agreements with two directors of the Company, whereby it is required to pay \$5,000 and CDN\$5,000 per month commencing July 1, 2006 for a term of five years. In the event there is an acquisition of control of more than 20% of all the issued capital of the Company, each agreement can be terminated at the option of each director and the Company is required to pay compensation of \$120,000 and CDN\$120,000, respectively.

The Company was committed to minimum annual operating lease payments on its premise as follows:

2010	4,235 CDN
<u>2011</u>	<u>4,235 CDN</u>
Total	\$8,470 CDN

The operating lease commitment has been transferred back to the Landlord, and now, the company is subleasing for CDN\$ 1,000.00 per month-to-month bases.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

18. WRITE-OFF OF INTERNET SALES TAXES PAYABLE

The Company has written off approximately \$156,339 in internet sales taxes relating to its hotel operations in the States of New York and Florida, USA, because sales taxes are not exigible on internet sales.

19. CAPITAL DISCLOSURES

The Company manages its cash and cash equivalents, common shares, stock options, and shares purchase warrants as capital. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Board of directors does not establish quantitative returns on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of its business.

The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

20. SUBSEQUENT EVENTS

Subsequent to July 31, 2009:

- Subject to regulatory approval, the Company intends to settle approximately \$366,000 of debt by issuing common shares at \$0.02CDN per share. (includes settlement of lease commitment of \$45,667 as per note 6.)
- Subject to regulatory approval, the Company intends to change its name to SIMBA Energy Networks Inc.
- 2,000,000 warrants with an exercise price of \$0.10CDN expired, unexercised.