

Financial Statements of

**COQUITLAM OPTICAL NETWORK
CORPORATION (QNET)**

Period from November 12, 2008 to December 31, 2008



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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Coquitlam Optical Network Corporation (QNet) (the "Company") as at December 31, 2008 and the statements of operations and deficit and cash flows for the period from November 12, 2008 to December 31, 2008. 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, 2008 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Burnaby, Canada

February 27, 2009

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Balance Sheet

December 31, 2008

Assets

Property and equipment (note 3) \$ 521,701

Liabilities and Shareholder's Equity

Current liabilities:

Accounts payable and accrued liabilities \$ 31,904

Due to City of Coquitlam (note 4) 808,738

Shareholder's equity:

Share capital:

Authorized:

Unlimited common shares, without par value

Issued:

1 common share

1

Deficit (318,942)

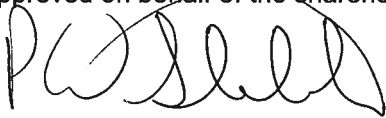
(318,941)

Economic dependence (note 6)

\$ 521,701

See accompanying notes to financial statements.

Approved on behalf of the shareholder:



COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Statement of Operations and Deficit

Period from November 12, 2008 to December 31, 2008

Operating expenses:	
General and administrative	\$ 295,935
Amortization expense	11,186
	<hr/>
	307,121
Loss before other item	(307,121)
Other expenses:	
Interest expense	11,821
Net loss, being deficit, end of period	<hr/>
	\$ (318,942)

See accompanying notes to financial statements.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Statement of Cash Flows

Period from November 12, 2008 to December 31, 2008

Cash provided by (used in):

Operations:

Net loss	\$ (318,942)
Amortization of network and equipment, item not involving cash	11,186
Net changes in non-cash operating working capital balances:	
Accounts payable and accrued liabilities	31,904
	<hr/>
	(275,852)

Financing:

Increase in due to City of Coquitlam	808,738
Issuance of share capital	1
	<hr/>
	808,739

Investments:

Purchase of property and equipment	(532,887)
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Change in cash position, being cash position, end of period	\$ -
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See accompanying notes to financial statements.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements

Period from November 12, 2008 to December 31, 2008

1. Operations:

Coquitlam Optical Network Corporation (QNet) (the "Company") was incorporated on November 12, 2008 under the British Columbia Business Corporations Act. The Company's business involves providing open access to optical fibre networks. It is a wholly municipal-owned subsidiary of the City of Coquitlam and operates its business within the City of Coquitlam municipality boundaries. The Company is a local government corporation and is exempt from income taxes.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Revenue recognition:

The Company recognizes revenue when services are provided to customers, price is fixed or determinable, and collectibility is reasonably assured.

(b) Property and equipment:

Property and equipment are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Fibre optics	25 years
Civil Infrastructure (ducts)	85 years
Software	8 years
Telecommunication equipment	5 years

(c) Impairment of long-lived assets:

Long-lived assets, consisting of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment loss is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Period from November 12, 2008 to December 31, 2008

2. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of allowance for doubtful accounts, useful lives for amortization of property and equipment, and provisions for contingencies. Actual results may ultimately differ from these estimates.

(e) Financial instruments:

The Company accounts for its financial instruments in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, CICA Handbook Section 3865, *Hedges*, CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*.

These sections require that all non-derivative financial assets and liabilities be measured at fair value with the exception of (i) loans and receivables and held-to-maturity investments, which should be measured at amortized cost; and (ii) investments in equity instruments that do not have a quoted market price in an active market, which should be measured at cost, other than such instruments that are classified as held-for-trading. The section also requires that gains and losses on financial instruments measured at fair value be recognized in net income in the periods in which they arise, with the exception of (i) unrealized gains and losses on financial assets classified as available-for-sale, which are recognized directly in the appropriate fund in net assets until the financial asset is derecognized or becomes impaired; and (ii) certain financial instruments that are part of a designated hedging relationship. In addition, disclosure with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the year and at the balance sheet date, and how an entity manages these risks is provided in the financial statements.

The Company's financial instruments are accounts payable and accrued liabilities and due to City of Coquitlam. The Company classifies its accounts payable and accrued liabilities as other liabilities and recorded at amortized cost which approximates fair value.

The fair value of amounts due to City of Coquitlam is not practicable to determine due to their related party nature and terms and the limited amount of comparable market information available.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risk arising from these financial instruments.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Period from November 12, 2008 to December 31, 2008

2. Significant accounting policies (continued):

(f) Assessing going concern:

CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*, requires management to assess and disclose an entity's ability to continue as a going concern. Based on the assessment by management, there is no issue regarding the Company's ability to continue as a going concern.

(g) Capital disclosures:

CICA Handbook Section 1535, *Capital Disclosures*, requires quantitative disclosure about what is regarded as capital and disclosure of information with respect to the objectives, policies and processes used by the Company to manage capital. These disclosures are included in Note 7 to the financial statements.

(h) Future accounting changes:

(i) Goodwill and intangible assets:

CICA Section 3064, *Goodwill and Intangible Assets* will replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The standard is effective for fiscal years beginning on or after October 1, 2008.

The Company is currently evaluating the impact of the above new accounting standard for the next fiscal year ending December 31, 2009 and expects that there will be no significant impact.

(ii) Accounting framework:

The Public Standards Accounting Board ("PSAB") is currently evaluating the accounting framework for government organizations. The Company's accounting framework may change due to conclusions reached by PSAB which is expected to be in 2009.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Period from November 12, 2008 to December 31, 2008

3. Property and equipment:

	Cost	Accumulated amortization	Net book value
Fibre optics	\$ 151,837	\$ 1,807	\$ 150,030
Civil infrastructure	243,756	1,205	242,551
Software	73,116	4,064	69,052
Telecommunications equipment	64,178	4,110	60,068
	<u>\$ 532,887</u>	<u>\$ 11,186</u>	<u>\$ 521,701</u>

4. Due to City of Coquitlam:

Amount due to City of Coquitlam of \$808,738 is related to funding of the purchase of capital assets and operating expenses of the Company. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration negotiated and agreed by the related parties.

Amounts due to (from) related parties are unsecured, interest bearing at 3.56% and have no set terms of repayment.

5. Related party transactions:

During the year, certain employees of the City of Coquitlam performed administrative services for the Company, including purchasing, accounting, clerical and other operational-type services. The Company was not charged by the City of Coquitlam for these services for the period ended December 31, 2008. Management costs and direct infrastructure services related to the Company were charged from the City of Coquitlam and are shown as expenses in the financial statements.

6. Economic dependence:

The Company's operations are currently wholly funded by the City of Coquitlam. It is expected that in 2013 the Company will begin to earn a profit and hence will be able to be self-sustaining.

7. Capital disclosures:

The Company's capital currently consists of its share capital. As the Company is expected to begin to earn a profit in 2013, future capital will consist of its retained earnings and share capital. The Company's objective when managing capital is to safeguard its assets and to ensure that adequate capital is managed for future requirements.