

BluePoint Data, Inc.

(formerly BluePoint Data Storage, Inc.)

Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in US dollars)

May 2, 2011

Independent Auditor's Report

To the Shareholders of BluePoint Data, Inc.

We have audited the accompanying consolidated financial statements of BluePoint Data, Inc. and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BluePoint Data, Inc. and its subsidiary as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

BluePoint Data, Inc.
 Consolidated Balance Sheets
 As at December 31, 2010 and 2009

(expressed in US dollars)

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	485,702	477,532
Accounts receivable (notes 4 and 12)	635,432	711,619
Current portion of deferred costs	22,040	22,040
	1,143,174	1,211,191
Equipment (note 6)	1,619,452	1,727,117
Intangible assets (note 7)	3,120,833	3,655,833
Deferred costs	21,386	43,098
	5,904,845	6,637,239
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	534,798	450,132
Current portion of deferred revenue	288,807	328,810
	823,605	778,942
Deferred revenue	701,611	944,920
	1,525,216	1,723,862
Shareholders' Equity		
Share capital		
Common shares (note 8)	4,971,893	4,971,893
Deficit	(592,264)	(58,516)
	4,379,629	4,913,377
	5,904,845	6,637,239

Commitments (note 13)

Approved by the Board of Directors

(signed) "Ian D. Sutcliffe" Director

(signed) "Paul C. Sachse" Director

BluePoint Data, Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit For the years ended December 31, 2010 and 2009

(expressed in US dollars)

	2010 \$	2009 \$
Revenue	6,666,629	7,158,088
Expenses		
Operating costs	4,127,857	3,941,748
Selling, general and administrative	1,859,520	2,102,356
Amortization of equipment	678,000	637,500
Amortization of intangible assets	535,000	535,000
	<u>7,200,377</u>	<u>7,216,604</u>
Loss and comprehensive loss for the year	(533,748)	(58,516)
Deficit - Beginning of year	(58,516)	(80,342,270)
Deficit reduction (note 8)	-	80,342,270
Deficit - End of year	<u>(592,264)</u>	<u>(58,516)</u>
Basic and diluted loss per share (note 8)	<u>(0.01)</u>	<u>(0.00)</u>
Weighted average number of shares used in computing basic and diluted loss per share (note 8)	<u>44,423,405</u>	<u>44,423,405</u>

BluePoint Data, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(expressed in US dollars)

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Loss for the year	(533,748)	(58,516)
Items not affecting cash		
Amortization of equipment	678,000	637,500
Amortization of intangible assets	535,000	535,000
Decrease in deferred costs	21,712	21,713
Change in non-cash working capital		
Decrease in accounts receivable	76,187	(14,159)
Increase (decrease) in accounts payable and accrued liabilities	84,666	(628,476)
Decrease in deferred revenue	(283,312)	(67,028)
	<hr/> 578,505	<hr/> 426,034
Investing activities		
Acquisition of equipment	<hr/> (570,335)	<hr/> (501,188)
Increase (decrease) in cash and cash equivalents during the year	8,170	(75,154)
Cash and cash equivalents - Beginning of year	<hr/> 477,532	<hr/> 552,686
Cash and cash equivalents - End of year	<hr/> <hr/> 485,702	<hr/> <hr/> 477,532

BluePoint Data, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

(expressed in US dollars)

1 Organization and nature of operations

BluePoint Data, Inc. (BluePoint or the Company) is incorporated under the Business Corporations Act (Yukon). On July 27, 2009, the Company's name was changed from BluePoint Data Storage, Inc. to BluePoint Data, Inc. The Company's corporate office is located in Toronto, Ontario and its operational office is located in Boca Raton, Florida.

The Company provides hosted and remotely managed information technology services delivered through Internet service providers, application service providers, system integrators and other reseller channels intended to meet the data storage needs of medium to large enterprises whose business is information-centric. The Company has one business segment and its customers are primarily in the United States.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Champion Managed Services, Inc. (CMS).

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents represent cash balances with banks, less outstanding cheques.

Equipment

Equipment is recorded at cost, less accumulated amortization and is amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Computer hardware and software	5 years
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Intangible assets

Intangible assets, consisting of customer relationships and contracts, are recorded at their fair value at the date of the CMS acquisition in November 2006. Intangible assets are amortized on a straight-line basis over their estimated useful lives of ten years.

BluePoint Data, Inc.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in US dollars)

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent, when testing for and measuring impairment. A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining when impairment is recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amounts of the long-lived assets exceed the sum of undiscounted cash flows expected to result from their use and eventual disposition and are measured at the amounts by which the long-lived assets' carrying amounts exceed their fair values.

Stock-based compensation

The Company recognizes compensation expense for stock options granted in the consolidated statements of operations, comprehensive loss and deficit using the fair value based method of accounting for all stock options issued on or after January 1, 2003 as a charge to selling, general and administrative expenses and a credit to contributed surplus. Any cash paid by an employee on the exercise of stock options is added to the stated value of common shares, with the related original charge made to contributed surplus reclassified to share capital.

Foreign currency translation

All amounts are expressed in US dollars, which is considered to be the functional currency of the Company.

Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered or the services have been provided, the sales price is fixed or determinable and collectibility is reasonably assured.

The Company recognizes managed data storage services revenue on a monthly basis as services are provided. Revenue from installation services and service initiation fees is recognized over the life of the related contract on a straight-line basis. Direct, incremental costs associated with these installation services are recorded as deferred costs and are recognized over the life of the related contract. Payments received in advance of the Company's recognition of revenue are recorded as deferred revenue.

Income taxes

The Company uses the liability method of accounting for income taxes. The liability method records future income tax assets and liabilities, which reflect the net income tax effects of temporary differences between the carrying amounts for financial statement reporting purposes and the amounts used for income tax purposes, using substantively enacted income tax rates. A valuation allowance is recorded to the extent that there is uncertainty regarding realization of future income tax assets.

BluePoint Data, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

(expressed in US dollars)

Financial instruments

All financial instruments are classified into the following categories: held-for-trading, loans and receivables, or other financial liabilities. All financial instruments are included in the consolidated financial statements and are initially measured at fair value. Subsequently, all financial instruments are remeasured to fair value at each reporting period, except for loans and receivables and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are subsequently measured at fair value and all gains and losses as a result of measurement are included in net earnings (loss) in the year in which they arise.

Comprehensive income

Comprehensive income consists of net earnings (loss) and other comprehensive income (OCI). The Company did not have OCI during the years ended December 31, 2010 and 2009 and its comprehensive loss consisted of its loss.

3 New accounting standards

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP, as set out in Part V of The Canadian Institute of Chartered Accountants Handbook, Accounting, for the periods beginning on January 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed in these consolidated financial statements, as they will never be applied by the Company.

4 Financial instruments

The Company has classified each of its significant categories of financial instruments outstanding during the year as follows:

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the year are recorded in income as interest income.
- Accounts receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as other financial liabilities.

Determination of fair value

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values given their short-term nature.

Credit risk

The Company is exposed to credit risk, primarily in relation to accounts receivable. Exposure to credit risk varies due to the composition of individual customer balances. Customers are all located in the United States.

BluePoint Data, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

(expressed in US dollars)

The Company performs regular monitoring of overdue customer balances and provides allowances for potentially uncollectible accounts receivable. Accounts receivable are non-interest bearing and are generally due on 30- to 60-day terms.

The composition of the Company's outstanding accounts receivable is as follows:

	2010 \$	2009 \$
Less than 30 days	561,860	711,619
31 - 60 days	34,766	-
Greater than 60 days	38,806	-
	<hr/> 635,432	<hr/> 711,619

Included in the balance above is an allowance for potentially uncollectible accounts receivable of \$nil (2009 - \$nil).

The Company may also have credit risk relating to cash and cash equivalents, which it manages by dealing with large chartered banks located in the United States. As at December 31, 2010 and 2009, the Company did not have any cash invested in short-term or demand deposits.

Liquidity risk

As at December 31, 2010, the Company had approximately \$485,702 (2009 - \$477,532) of cash. The Company monitors cash flows and manages liquidity risk through the receipt of upfront payments from its customers to finance capital expenditures used to service customers as well as the collection of monthly service charges used to fund ongoing operations. The Company monitors its financial position on a monthly basis.

5 Management of capital

The Company's objective in managing capital is to ensure liquidity to pursue its organic growth strategy. Management monitors cash flows through the receipt of upfront payments from its customers, primarily used to purchase the necessary equipment to service those customers. Remaining monthly service charges are used to fund the Company's ongoing operations.

The Company's capital is composed of share capital, contributed surplus and accumulated deficit. The total capital as at December 31, 2010 is \$4,379,629 (2009 - \$4,913,377). The Company's primary uses of capital are to finance operating cash flows and capital expenditures. The Company currently funds these requirements from internally generated cash flows. The Company's objectives when managing capital are to ensure the Company will continue to have enough liquidity so that it can deliver the product or provide the services to its customers and returns to shareholders.

The Company governs its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize its ability to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

BluePoint Data, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

(expressed in US dollars)

8 Share capital

On June 30, 2009, the shareholders of the Company approved a \$70,670,641 reduction in the stated capital of the Company, a \$9,671,629 reduction in contributed surplus and a corresponding \$80,342,270 reduction in the accumulated deficit (the plan). The total shareholders' equity remains unchanged as a result of the reduction. These balances have accumulated since the original incorporation of the Company in 1993, and related mainly to the discontinued mining operations, which were sold in 1999. The effect of the plan on the common shares outstanding and shareholders' equity was as follows:

	\$
Issued and outstanding common shares before plan	75,642,534
Reduction in stated capital	<u>(70,670,641)</u>
Stated capital after reduction - December 31, 2010 and 2009	<u>4,971,893</u>

Authorized
Unlimited common shares, without par value

Issued

	<u>2010</u>		<u>2009</u>	
	<u>Number of shares</u>		<u>Number of shares</u>	
		\$		\$
Balance - Beginning and end of year	<u>44,423,405</u>	4,971,893	<u>44,423,405</u>	<u>4,971,893</u>

Stock option plan

The Company has a stock option plan under which the Company may grant stock options to its officers, directors, employees and consultants. Under this plan, the exercise price of each stock option for officers, directors, employees and consultants equals the market price of the Company's common shares on the date of the grant and provides for a maximum term of five years. Stock options are granted throughout the year and are subject to various vesting provisions, ranging from immediate vesting to vesting over a period of three years. The exercise prices are stated in Canadian dollars, as the public market for the Company's common shares is the Toronto Venture Exchange.

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(expressed in US dollars)

The total number of stock options available for issuance as at December 31, 2010 is 1,550,000 (2009 - 1,550,000).

	Number of stock options	Weighted average exercise price CA\$
Outstanding - Beginning of year, January 1, 2009	810,000	0.11
Expired	<u>(810,000)</u>	0.11
Outstanding - End of year, December 31, 2009	<u>-</u>	-

There were no employee stock options granted in 2010 or 2009. The expense relating to stock-based compensation in 2010 was \$nil (2009 - \$nil).

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding for the year of 44,423,405 (2009 - 44,423,405). No effect has been given to the potential exercise of stock options or warrants in the calculation of diluted earnings (loss) per share, as the effect would be anti-dilutive.

9 Income taxes

Income tax provision (recovery) varies from the amount that would be computed by applying the combined federal and provincial income tax rate of 34% (2009 - 34%) to loss before income taxes as follows:

	2010 \$	2009 \$
Loss before income taxes	<u>(533,748)</u>	<u>(58,516)</u>
Income tax recovery based on statutory rates	(181,474)	(19,895)
Effect of foreign income tax rates differing from Canadian income tax rates	(21,350)	(2,342)
Expiry of loss carry-forwards	-	149,868
Change in valuation allowance	<u>202,824</u>	<u>(127,631)</u>
Income tax provision (recovery)	<u>-</u>	<u>-</u>

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(expressed in US dollars)

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2010 \$	2009 \$
Operating loss carry-forwards	7,263,317	6,952,834
Basis differences of Canadian property	1,458,427	1,458,427
Basis differences of US property	(387,967)	(387,967)
Deferred revenue, temporary differences	376,359	484,018
Other	158,786	158,786
	<hr/>	<hr/>
	8,868,922	8,666,098
Less: Valuation allowance	8,868,922	8,666,098
	<hr/>	<hr/>
Net future income tax assets	-	-

As at December 31, 2010, the Company has loss carry-forwards, which may be available in certain jurisdictions to reduce taxable income in future years. These losses expire as follows:

	\$
2020	32,000
2021	7,606,158
2022	4,962,015
2023	3,054,338
2024	1,740,916
2025	297,407
2026	83,139
2027	-
2028	395,414
2029	125,544
2030	817,060
	<hr/>
	19,113,991

The Company also has an estimated \$22,173,807 in allowable capital losses as at December 31, 2010 that can only be applied against taxable capital gains in certain jurisdictions in future years.

10 Operating line of credit

The Company has an operating line of credit of \$100,000 with a US bank. Borrowings under the operating line of credit bear interest at the prime rate, as published in the money rate table of the Wall Street Journal, plus 2.00% (5.25% as at December 31, 2010). As security, two officers of the Company have provided guarantees collateralized by their personal assets. The terms of the banking agreement require the Company to comply with certain financial and non-financial covenants. No amounts were borrowed under the operating line of credit as at December 31, 2010 and 2009.

BluePoint Data, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

(expressed in US dollars)

11 Related party transactions

On April 16, 2010, two former directors (who also own 90% of Champion Solutions Group) resigned from the board. During the year, the following related party transactions occurred related to the aforementioned related parties.

	2010 \$	2009 \$
BluePoint's revenue from Champion	504,343	592,323
BluePoint's purchases from Champion	714,376	269,641

These transactions were recorded at their exchange amounts. There are no other related party transactions.

12 Significant customers

During 2010, one customer comprised 78% (2009 - 80%) of total revenue and 57% (2009 - 79%) of outstanding accounts receivable.

13 Commitments

The Company has one future minimum lease payment under an operating lease relating to premises and office equipment as follows:

	\$
2011	<u>550,608</u>