

BluePoint Data Storage, Inc.

Consolidated Financial Statements
December 31, 2008 and 2007
(expressed in US dollars)

April 30, 2009

Auditors' Report

To the Shareholders of BluePoint Data Storage, Inc.

We have audited the consolidated balance sheets of **BluePoint Data Storage, Inc.** as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit 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 audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

BluePoint Data Storage, Inc.

Consolidated Balance Sheets

As at December 31, 2008 and 2007

(expressed in US dollars)

	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	552,686	453,302
Accounts receivable and other assets (notes 4 and 12)	697,460	603,763
Current portion of deferred costs	22,040	26,202
	<u>1,272,186</u>	<u>1,083,267</u>
Equipment (note 6)	1,863,429	1,843,874
Intangible assets (note 7)	4,190,833	4,725,833
Deferred costs	64,811	82,362
	<u>7,391,259</u>	<u>7,735,336</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	1,078,608	1,008,502
Current portion of deferred revenue	374,303	305,678
Current portion of capital lease obligation	-	18,769
	<u>1,452,911</u>	<u>1,332,949</u>
Long-term deferred revenue	966,455	1,182,516
	<u>2,419,366</u>	<u>2,515,465</u>
Shareholders' Equity		
Share capital		
Common shares (note 8)	75,642,534	75,642,534
Contributed surplus	9,671,629	9,671,629
Deficit	<u>(80,342,270)</u>	<u>(80,094,292)</u>
	<u>4,971,893</u>	<u>5,219,871</u>
	<u>7,391,259</u>	<u>7,735,336</u>

Approved by the Board of Directors

_____ Director

_____ Director

BluePoint Data Storage, Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit For the years ended December 31, 2008 and 2007

(expressed in US dollars)

	2008 \$	2007 \$
Revenue	7,998,414	5,961,729
Expenses		
Operating costs	4,412,256	3,408,098
Selling, general and administrative	2,682,966	2,127,668
Amortization of equipment	600,000	858,000
Amortization of intangible assets	535,000	535,000
	<u>8,230,222</u>	<u>6,928,766</u>
Operating loss	(231,808)	(967,037)
Interest expense	16,170	21,735
Loss and comprehensive loss for the year	(247,978)	(988,772)
Deficit - Beginning of year	(80,094,292)	(79,105,520)
Deficit - End of year	<u>(80,342,270)</u>	<u>(80,094,292)</u>
Basic and diluted loss per share (note 8)	<u>(0.01)</u>	<u>(0.02)</u>
Weighted average number of shares used in computing basic and diluted loss per share (note 8)	<u>44,250,906</u>	<u>44,250,906</u>

BluePoint Data Storage, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(expressed in US dollars)

	2008 \$	2007 \$
Cash provided by (used in)		
Operating activities		
Loss for the year	(247,978)	(988,772)
Items not affecting cash		
Amortization of equipment	600,000	858,000
Amortization of intangible assets	535,000	535,000
Decrease in deferred costs	21,713	9,799
Change in non-cash working capital		
(Increase) decrease in accounts receivable and other assets	(93,697)	10,910
Increase in accounts payable and accrued liabilities	70,106	448,647
(Decrease) increase in deferred revenue	(147,436)	1,069,390
	<hr/> 737,708	<hr/> 1,942,974
Investing activities		
Acquisition of equipment	<hr/> (619,555)	<hr/> (1,370,289)
Financing activities		
Repayment of capital lease obligation	(18,769)	(72,847)
Repayment of long-term debt	-	(130,843)
	<hr/> (18,769)	<hr/> (203,690)
Increase in cash and cash equivalents during the year	99,384	368,995
Cash and cash equivalents - Beginning of year	<hr/> 453,302	<hr/> 84,307
Cash and cash equivalents - End of year	<hr/> <hr/> 552,686	<hr/> <hr/> 453,302
Supplemental disclosure		
Interest paid	16,170	21,735

BluePoint Data Storage, Inc.

Notes to Consolidated Financial Statements

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1 Organization and nature of operations

BluePoint Data Storage, Inc. (BluePoint or the Company) is incorporated under the Business Corporations Act (Yukon). 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 subsidiaries, BluePoint Data, Inc. and 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 and short-term deposits with original maturities of less than 90 days and demand deposits.

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	3 to 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 Storage, Inc.

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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 reported in US dollars, which is considered to be the functional currency of the Company. Operating revenue and expenses arising from transactions not recorded in US dollars are translated into US dollars at exchange rates in effect on the dates of the transactions. Monetary assets and liabilities are translated into US dollars at the exchange rate in effect at the consolidated balance sheet dates. Gains or losses arising from these transactions are included in the consolidated statements of operations, comprehensive loss and deficit.

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,

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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.

Financial instruments

All financial instruments are classified into the following categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets 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, held-to-maturity investments 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 income (loss) in the period in which they arise. Available-for-sale financial assets are subsequently measured at fair value, with revaluation gains and losses included in other comprehensive income (OCI) until the financial instrument is derecognized or impaired.

Comprehensive income

Comprehensive income consists of net income and OCI. The Company did not have OCI during the year ended December 31, 2008 and its comprehensive loss consisted of its net loss.

3 Changes in accounting policies and recent accounting pronouncements

Effective January 1, 2008, the Company adopted the following recommendations from The Canadian Institute of Chartered Accountants (CICA) Handbook:

Section 1535, Capital Disclosures

CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This section requires the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements to which it is subject; and (iv) if it has not complied, the consequences of such non-compliance.

Section 3862, Financial Instruments - Disclosures

Section 3863, Financial Instruments - Presentation

CICA Handbook Section 3862 modifies the disclosure requirements of CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation, and requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and performance, and the nature and extent of risks arising from financial instruments, including credit risk and liquidity risk, and how the entity manages those risks. CICA Handbook Section 3863 carries forward unchanged the presentation requirements for financial instruments of CICA Handbook Section 3861.

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Recent accounting pronouncements

The CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaced existing CICA Handbook Sections 3062, Goodwill and Other Intangible Assets, and 3450, Research and Development Costs. The new standard introduced changes to recognition, measurement and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. CICA Handbook Section 3064 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company will adopt this new standard effective January 1, 2009 and is assessing the impact of this new standard on its consolidated financial statements.

4 Financial instruments

The Company has classified each of its significant categories of financial instruments outstanding during the year ended December 31, 2008 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 and other assets are classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as other financial liabilities.

Determination of fair value

The carrying values of cash and cash equivalents, accounts receivable and other assets 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 and other assets. Exposure to credit risk varies due to the composition of individual customer balances. Customers are all located in the United States. The Company performs regular monitoring of overdue customer balances and provides allowances for potentially uncollectible accounts receivable and other assets. Accounts receivable and other assets are non-interest bearing and are generally due on 30- to 60-day terms.

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The composition of the Company's outstanding accounts receivable and other assets as at December 31, 2008 was as follows:

	2008	2007
	\$	\$
Less than 30 days	691,960	568,143
31 - 60 days	5,000	28,570
Greater than 60 days	500	7,050
	<hr/>	<hr/>
	697,460	603,763
	<hr/>	<hr/>

Included in the balance above is an allowance for potentially uncollectible receivables of \$15,000 (2007 - \$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, 2008, the Company did not have any cash invested in short-term or demand deposits.

Liquidity risk

As at December 31, 2008, the Company had approximately \$552,686 of cash. The Company monitors cash flows and manages liquidity risk through the receipt of up front 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 up front 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, 2008 is \$4,971,893. 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.

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6 Equipment

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer hardware and software	7,220,263	5,356,834	1,863,429
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer hardware and software	6,600,708	4,756,834	1,843,874

Included in equipment are assets held under capital leases. As at December 31, 2008, the cost of these assets is \$300,902 (2007 - \$300,902) and accumulated amortization of \$300,902 (2007 - \$295,246) has been recorded against these assets.

7 Intangible assets

The carrying value of intangible assets is as follows:

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Customer relationships	2,685,000	581,640	2,103,360
Contracts	2,665,000	577,527	2,087,473
	5,350,000	1,159,167	4,190,833
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Customer relationships	2,685,000	313,250	2,371,750
Contracts	2,665,000	310,917	2,354,083
	5,350,000	624,167	4,725,833

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8 Share capital

Authorized
Unlimited common shares, without par value

Issued

	2008		2007	
	Number of shares	\$	Number of shares	\$
Balance - Beginning and end of year	44,250,906	75,642,534	44,250,906	75,642,534

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.

The total number of stock options available for issuance as at December 31, 2008 is 1,550,000 (2007 - 1,550,000). A summary of the status of the Company's stock options outstanding is as follows:

	2008		2007	
	Number of stock options	Weighted average exercise price CA\$	Number of stock options	Weighted average exercise price CA\$
Outstanding - Beginning of year	810,000	0.11	985,000	0.11
Expired	-	0.11	(175,000)	0.11
Outstanding - End of year	810,000	0.11	810,000	0.11
Exercisable - End of year	810,000	0.11	810,000	0.11

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

Exercise price CA\$	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
0.10	650,000	1.0	650,000
0.15	160,000	0.1	160,000
	<u>810,000</u>		<u>810,000</u>

There were no employee stock options granted in 2008 or 2007. The expense relating to stock-based compensation in 2008 was \$nil (2007 - \$nil).

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding for the year of 44,250,906 (2007 - 44,250,906). 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 expense varies from the amount that would be computed by applying the combined federal and provincial income tax rate of 34.00% (2007 - 36.12%) to loss before income taxes as follows:

	2008 \$	2007 \$
Loss for the year	(247,978)	(988,772)
Income tax recovery based on statutory rates	(84,313)	(357,144)
Effect of foreign income tax rates differing from Canadian income tax rates	(9,919)	20,263
Expiry of loss carry-forwards	576,708	415,684
Non-deductible and other items	9,347	(101,157)
Change in valuation allowance	(491,823)	22,354
Income tax provision (recovery)	<u>-</u>	<u>-</u>

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

	2008 \$	2007 \$
Operating loss carry-forwards	6,754,706	7,189,636
Basis differences of Canadian property	1,458,427	1,458,427
Basis differences of US property	(387,967)	(387,967)
Deferred revenue, temporary differences	453,107	510,000
Other	158,786	158,786
	<hr/>	<hr/>
	8,437,059	8,928,882
Less: Valuation allowance	8,437,059	8,928,882
	<hr/>	<hr/>
Net future income tax assets	-	-
	<hr/>	<hr/>

As at December 31, 2008, 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:

	\$
2009	440,787
2021	7,243,338
2022	4,962,015
2023	3,054,338
2024	1,740,916
2025	297,407
2026	83,139
	<hr/>
	17,821,940
	<hr/>

The Company also has an estimated \$22,173,807 in allowable capital losses as at December 31, 2008 that can only be applied against taxable capital gains in certain jurisdictions in future years.

10 Line of credit

The Company has an operating line of credit with a bank of \$100,000. 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, 2008). 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, 2008.

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(expressed in US dollars)

11 Related party transactions

Two shareholders and directors of BluePoint also own 90% of Champion Solutions Group (Champion). During the year, the Company entered into the following transactions with Champion:

	2008	2007
	\$	\$
BluePoint's revenue from Champion	210,968	112,572
BluePoint's purchases from Champion	407,567	323,674
Amount due from Champion as at December 31	27,744	9,567
Amount due to Champion as at December 31	75,878	139,263

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

12 Significant customers

During 2008, one customer comprised 74% (2007 - 82%) of total revenue and 58% (2007 - 49%) of outstanding accounts receivable.

13 Commitments

The Company has future minimum lease payments under operating leases relating to premises and office equipment as follows:

	\$
2009	875,497
2010	876,821
2011	550,608
	<u>2,302,926</u>

14 Comparatives

Certain balances in the 2007 consolidated financial statements have been reclassified to conform with the consolidated financial statement presentation adopted for the current year.