

Financial Statements of

NITAR TECH CORP. AND SUBSIDIARIES

January 31, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
NITAR TECH CORP. AND SUBSIDIARIES
(A Corporation registered in the State of Delaware, United States of America)
Delaware, United States of America

I have audited the accompanying consolidated balance sheets of Nitar Tech Corp., and its Subsidiaries, as of January 31, 2005 (2nd Quarter) and July 31st, 2004 (Full Fiscal Year), and the related statements of operations, stockholders' equity, and cash flows the respective periods ended January 31, 2005 and July 31, 2004. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on our audits.

I conducted my auditS in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audits to obtain reasonable assurance about 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 consolidated financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nitar Tech Corp., and Subsidiaries, as of January 31, 2005 and July 31, 2004, and the results of its operations and its cash flows for the respective periods ended January 31, 2005 and July 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

George Parselias

GEORGE PARSELIAS, C.G.A., C.M.A.
Mississauga, Ontario, Canada
February 21, 2005

NITAR TECH CORP. AND SUBSIDIARIES

Balance Sheet

January 31, 2005 and July 31, 2004

	<u>2005 Q2</u>	<u>2004</u>
ASSETS		
Current Assets		
Cash	\$ 81	\$ 75
Accounts Receivable - Net of Allowance for Doubtful Accounts	18,914	16,883
Total Current Assets	<u>\$ 18,995</u>	<u>\$ 16,958</u>
Property and Equipment - Net of Accumulated Depreciation	4,922	5,653
Software Development	401,929	446,588
Total Assets	<u><u>\$ 425,846</u></u>	<u><u>\$ 469,199</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank Indebtedness	\$ 37,909	\$ 35,839
Accounts Payable & Accrued Liabilities	34,937	28,345
Total Liabilities	<u>\$ 72,845</u>	<u>\$ 64,184</u>
Other Liabilities		
Deferred Tax Liability	52,141	63,498
Shareholder Advances	17,982	28,245
Total Liabilities	<u>\$ 142,967</u>	<u>\$ 155,927</u>
Shareholders' Equity		
Common Stock, \$0.001 par per share		
- 50,000,000 shares authorized		
- 10,522,936 shares issues and outstanding	\$ 10,523	\$ 10,523
Additional Paid In Capital	180,832	\$ 144,518
Retained Earnings	110,214	163,073
Accumulated Comprehensive Gain/(Loss)	(18,691)	(4,842)
Total Shareholders' Equity	<u>\$ 282,878</u>	<u>\$ 313,272</u>
Total Liabilities and Shareholders' Equity	<u><u>\$ 425,846</u></u>	<u><u>\$ 469,199</u></u>

NITAR TECH CORP. AND SUBSIDIARIES

Statements of Stockholders' Equity

January 31, 2005 and July 31, 2004

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - July 31, 2003	—	—	115,829	124,262	717	240,808
Net Income	—	—		38,811	—	38,811
Common Stock Issued in Connection with Formation of Nitar Tech. Corp.	8,936,440	8,936	—	—	—	8,936
Additional Common Stock Issued with Connection with Reorganization of Labtech Systems Inc.	1,586,496	1,587	(1,587)	—	—	—
Contributed Services by Shareholders	—	—	30,276	—	—	30,276
Foreign Currency Translation Loss	—	—	—	—	(5,559)	(5,559)
Balance - July 31, 2004	10,522,936	\$ 10,523	\$ 144,518	\$ 163,073	\$ (4,842)	\$ 313,272
Net Income	—	—	—	(52,859)	—	(52,859)
Contributed Services by Shareholders	—	—	36,314	—	—	36,314
Foreign Currency Translation Loss	—	—	—	—	(13,849)	(13,849)
Balance - April 30, 2005	10,522,936	\$ 10,523	\$ 180,832	\$ 110,214	\$ (18,691)	\$ 282,878

NITAR TECH CORP. AND SUBSIDIARIES

Statements of Operations

Six-Months Ended January 31, 2005 and Full-Year Ended July 31, 2004

	<u>2005 Q2</u>	<u>2004</u>
Revenue	\$ 72,686	\$ 162,242
Operating Expenses:		
Advertising & Promotion	-	532
Bad Debt Expense	-	5,200
Depreciation of Fixed Assets	44,371	2,098
Insurance	950	1,826
Interest and Bank Charges	2,677	4,294
Office Expenses	970	434
Professional Fees	6,499	8,095
Rental, Premises and Equipment	11,031	19,107
Salaries and Benefits	60,156	32,769
Travel and Entertainment	10,831	4,586
Telecommunications	7,579	15,599
Other Expenses	840	4,112
Total Operating Expenses	<u>145,905</u>	<u>98,652</u>
Income Before Provision for Taxes	<u>(73,219)</u>	<u>63,590</u>
Provision for Income Taxes	(20,360)	15,843
Net Income	<u>(52,859)</u>	<u>47,747</u>
Foreign Currency Translation Loss	(13,849)	(5,559)
Comprehensive Income	<u><u>\$ (66,708)</u></u>	<u><u>\$ 42,188</u></u>

NITAR TECH CORP. AND SUBSIDIARIES

Statement of Cash Flows

January 31, 2005 and July 31, 2004

	<u>2005 Q2</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ (52,859)	\$ 47,747
<i>Non-Cash Adjustments</i>		
Depreciation Expense	52,591	2,317
Bad Debt Expense	-	5,200
<i>Changes in Operating Assets and Liabilities</i>		
Accounts Receivable	(802)	(20,403)
Accounts Payable & Accrued Liabilities	4,871	9,649
Deferred Tax Liability	(20,359)	15,843
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (16,558)</u>	<u>\$ 60,353</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Paid for Software Development	-	(100,132)
NET CASH FROM INVESTING ACTIVITIES	<u>\$ -</u>	<u>\$ (100,132)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Advance (Repayment) from Bank Indebtness	(527)	(2,014)
Advances from Shareholders	25,306	42,012
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>\$ 24,779</u>	<u>\$ 39,998</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(8,215)</u>	<u>(215)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 6	\$ 4
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	75	71
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 81</u></u>	<u><u>\$ 75</u></u>
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 2,677	\$ 4,294
Income Taxes Paid	\$ —	\$ —

NITAR TECH CORP. AND SUBSIDIARIES
Notes to Financial Statements
Years Ending January 31, 2005 and July 31, 2004

1. INCORPORATION

NITAR TECH. CORP., (the "Company") was incorporated on January 12, 2004, under the laws of the State of Delaware. On July 22, 2004 Nitar entered into an agreement with Labtech Systems Inc., (a Canadian Corporation), in the form of a reverse merger whereby Nitar exchanges 7,030,000 shares of its common stock, par value \$0.001 per share, for all of Labtech's issued and outstanding common stock. As part of this agreement Labtech transferred and assigned to Nitar all of its copyrights, trademarks and intellectual property rights, including its U.S. Patent Application on its technology – File Number 60502213. Labtech had operated as internet technology business developed to enhance productivity to various clients.

2. ACCOUNTING POLICIES

a. Accrual Accounting and Management Estimates

Revenue and expenses are recorded on an accrual basis. Preparation of these financial statements requires management to make estimates and assumptions that may affect the stated amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the reporting date as well as the stated amounts of revenues and expenses during the reporting period. Any variations between these estimates and actual amounts are not expected to materially affect the reported amounts, unless otherwise disclosed.

b. Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

c. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of an allowance for doubtful accounts. The Company estimates the allowance based on its analysis of specific balances, taking into consideration the age of the past due account and anticipated collections resulting from legal issues. Based on these factors, there is an allowance for doubtful accounts of \$3,585 and \$5,599 at January 31, 2005 and July 31, 2004, respectively. Changes to the allowance for doubtful accounts, is charged to expense, and reduced by charge-offs, net of recoveries.

d. Property, Equipment and Depreciation

Property and Equipment are presented at original cost, less accumulated depreciation. Depreciation is computed using the declining balance at the following annual rates for the following applicable asset classes:

- *Computer Hardware* - 30% declining balance
- *Furniture and Equipment* - 20% declining balance

The cost of significant improvements to property and equipment are capitalized. Maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property and equipment, the cost and related depreciation are eliminated from the accounts, and any resulting gain or loss is recognized.

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NITAR TECH CORP. AND SUBSIDIARIES
Notes to Financial Statements
Years Ending January 31, 2005 and July 31, 2004

2. ACCOUNTING POLICIES – continued

e. Software Development Costs

The Company accounts for the costs of software to be marketed in compliance with Statement of Financial Accounting Standards No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Software development costs are expensed as incurred until technological feasibility of the product is established. Development costs incurred subsequent to technological feasibility are capitalized and amortized on a straight-line basis over the estimated economic life of the product. Capitalization of computer software costs is discontinued when the computer software product is available to be sold, leased, or otherwise marketed. Amortization begins when the product is available for release to customers. The Company amortizes software costs related to its *Choozmail*® product using the straight-line method over the estimated economic useful life of 60 months. As of January 31, 2005, *Choozmail*® was made available for release to customers therefore amortization has been recognized for the first 6 months of the current fiscal year ending January 31, 2005, in the amount of \$43,640. There was no accumulated amortization for the year ended July 31, 2004. The Company capitalized \$0 and \$100,476 of development costs in the years ending January 31, 2005 and July 31, 2004 respectively.

f. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," using the asset and liability approach, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of such assets and liabilities. This method utilizes enacted statutory tax rates in effect for the year in which the temporary differences are expected to reverse and gives immediate effect to changes in income tax rates upon enactment. Deferred tax assets are recognized, net of any valuation allowance, for temporary differences and net operating loss and tax credit carry forwards. Deferred income tax expense represents the change in net deferred assets and liability balances.

g. Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable when the service connection has been initiated and the subscription connection has been provided to the customer, the sales price is fixed for the one-time connection fee, and variable based on transaction volume thereafter, is readily determinable and collectibility is reasonably assured.

h. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

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NITAR TECH CORP. AND SUBSIDIARIES
Notes to Financial Statements
Years Ending January 31, 2005 and July 31, 2004

2. ACCOUNTING POLICIES – continued

i. Foreign Currency Translation

The functional currency of the Company's is the local currency where the Company operates. The financial statements of the Company's have been translated into U.S. dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. The income and cash flow statements amounts have been translated using the weighted average exchange rate for the year. Foreign currency cash flows are translated at the weighted average rate of exchange in effect during the period due to the minimal fluctuation in the currency exchange rates during the period. Management believes that substantially the same results would be derived if foreign cash flows were translated at the rates in effect at the time of the cash flows

Accumulated net translation adjustments have been reported separately in other comprehensive loss in the financial statements. Foreign currency translation adjustments resulted in losses of \$13,849 and \$12,451 in the years ending January 31, 2005 and July 31, 2004, respectively. Foreign currency transaction gains (losses) resulting from exchange rate fluctuations on transactions denominated in a currency other than the functional currency totaled approximately \$0 in the years ending January 31, 2005 and July 31, 2004, and are included in other expense in the accompanying statements of operations.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

January 31, 2005, and July 31, 2004	2005	2004
Computer Hardware	\$ 18,773	\$ 18,773
Furniture & Fixtures	4,941	4,941
	\$ 23,714	\$ 23,714
Less: Accumulated Depreciation	18,793	18,061
Net Property and Equipment	\$ 4,922	\$ 5,653

Depreciation expense for the years ended January 31, 2005 and July 31, 2004 was \$731 and \$2,098 respectively.

4. RELATED PARTY TRANSACTIONS

During the years ended January 31, 2005 and July 31, 2004, principal stockholders rendered services to the Company in the amounts of \$16,247 and \$30,276, respectively. In addition, the Company rented office space from a principal stockholder for \$7,244 and \$11,098 during the year's ended January 31, 2005 and July 31, 2004.

Advances from stockholders' are advances and payments from principal stockholders. The notes are unsecured, non-interest bearing, and due on demand with no predetermined fixed terms of repayment. Advances from Shareholders' at January 31, 2005 and July 31, 2004 were \$229,576 and \$189,984, respectively.

NITAR TECH CORP. AND SUBSIDIARIES
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5. DEFERRED INCOME TAXES

The components of the deferred tax asset (liability) at January 31, 2005 are as follows:

January 31, 2005, and July 31, 2004	2005	2004
Net Operating Loss	\$ 76,129	\$ 31,611
Gross Deferred Tax Assets	76,129	31,611
Software Development Costs	(128,270)	(95,109)
Gross Deferred Tax Liabilities	(128,270)	(95,109)
Net Deferred Tax Liabilities	(52,141)	(63,498)
Valuation Allowance	—	—
Net Deferred Taxes	\$ (52,141)	\$ (63,498)

The net operating loss carryforwards expire in 2010.