

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)

FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in U.S. Dollars)



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Stockholders,
Strategic Internet Investments, Incorporated
(A Development Stage Company)

We have audited the accompanying balance sheets of Strategic Internet Investments, Incorporated (the "Company", a Development Stage Company) as of December 31, 2010 and 2009 and the statements of operations, cash flows and changes in capital deficit for the years then ended and the period from inception (February 28, 1989) to December 31, 2010. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Strategic Internet Investments, Incorporated as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended and for the period from inception (February 28, 1989) to December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Canada LLP

Chartered Accountants

Vancouver, Canada
April 15, 2011

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)

BALANCE SHEETS

(Stated in U.S. Dollars)

	December 31, 2010	December 31, 2009
ASSETS		
Current		
Cash	\$ 236	\$ 311
Prepaid expenses	322	-
	<u>\$ 558</u>	<u>\$ 311</u>
LIABILITIES		
Current		
Accounts payable – Note 7	\$ 573,252	\$ 550,702
Loans payable – Note 4	737,138	624,712
TOTAL LIABILITIES	<u>1,310,390</u>	<u>1,175,414</u>
Class A Convertible Preferred stock, \$0.001 par value 10,000,000 authorized, 198,000 outstanding – Note 5	<u>792,000</u>	<u>792,000</u>
CAPITAL DEFICIT		
Capital Stock – Notes 4, 5 and 7		
Class B Preferred stock, \$0.001 par value 10,000,000 authorized, none outstanding		
Common stock, \$0.001 par value 100,000,000 authorized 27,610,326 issued (2009: 27,610,326 issued)	27,610	27,610
Additional paid-in capital	7,765,583	7,765,583
Deficit accumulated during the development stage	(9,895,025)	(9,760,296)
	<u>(2,101,832)</u>	<u>(1,967,103)</u>
	<u>\$ 558</u>	<u>\$ 311</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 4 and 7

SEE ACCOMPANYING NOTES

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)
STATEMENTS OF OPERATIONS
 (Stated in U.S. Dollars)

	Years ended December 31,		Cumulative from
	2010	2009	February 28, 1989 (Date of Inception) to December 31,
			2010
General and Administrative Expenses			
Accounting and audit fees	\$ 62,281	\$ 59,980	\$ 411,578
Amortization	-	-	3,616
Communications	678	1,086	106,367
Consulting fees – Note 7	-	10,000	3,419,546
Interest – Notes 4 and 7	54,073	48,961	510,019
Investor relations	-	-	91,385
Legal fees	-	-	166,684
Management fees – Note 7	-	-	546,325
Office and general	266	823	143,413
Regulatory fees	5,220	6,894	40,668
Rent – Note 7	-	-	135,615
Transfer agent fees	1,500	1,315	46,008
Travel	-	2,650	112,770
Loss on disposal of equipment	-	-	1,481
Write-down of advances to related party	-	-	606,337
Operating loss	(124,018)	(131,709)	(6,341,812)
Unauthorized distribution	-	-	(69,116)
Termination fee	-	-	(792,000)
Loss on foreign exchange	(10,711)	(23,095)	(43,702)
Gain on settlement of payables	-	-	25,233
Write-down of deferred costs – Note 3	-	(1)	(34,210)
Net loss for the period	\$ (134,729)	\$ (154,805)	\$ (7,255,607)
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	
Weighted average common shares outstanding	27,610,326	27,610,326	

SEE ACCOMPANYING NOTES

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)
STATEMENTS OF CASH FLOWS
 (Stated in U.S. Dollars)

	Years ended December 31,		Cumulative from February 28, 1989 (Date of Inception) to December 31,
	2010	2009	2010
Operating Activities			
Net loss for the period	\$ (134,729)	\$ (154,805)	\$ (7,255,607)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization	-	-	3,616
Beneficial conversion feature on convertible debt	-	-	239,662
Communications	-	-	28,000
Consulting fees	-	10,000	2,478,554
Gain on settlement of payables	-	-	(25,233)
Interest accrued on loans	54,073	48,961	146,679
Legal fees	-	-	25,000
Loss on disposal of equipment	-	-	1,481
Management fees	-	-	7,000
Stock-based compensation	-	-	736,053
Termination fees	-	-	792,000
Write-down of deferred costs	-	1	34,210
Write-down of advances to related party	-	-	606,337
Changes in non-cash item:			
Prepaid expenses	(322)	-	(322)
Accounts payable	22,550	12,986	711,197
Net cash used in operating activities	(58,428)	(82,857)	(1,471,373)
Investing Activities			
Organization costs	-	-	(750)
Acquisition of equipment	-	-	(4,347)
Deferred costs	-	-	(34,210)
Advances to related party	-	-	(606,337)
Net cash used in investing activities	-	-	(645,644)
Financing Activities			
Loans payable	58,353	82,912	943,924
Due to related parties	-	-	15,526
Proceeds from issuance of common stock	-	-	1,162,631
Payment of offering costs	-	-	(30,270)
Additional paid-in capital	-	-	25,442
Net cash provided by financing activities	58,353	82,912	2,117,253
Increase (decrease) in cash during the period	(75)	55	236
Cash, beginning of the period	311	256	-
Cash, end of the period	\$ 236	\$ 311	\$ 236
Supplementary disclosure of cash flows:			
Cash paid for Interest	\$ -	\$ -	\$ 93,859

Non-cash Transactions – Note 6

SEE ACCOMPANYING NOTES

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)

STATEMENTS OF CHANGES IN CAPITAL DEFICIT

For the period from February 28, 1989 (Date of Inception) to December 31, 2010

(Stated in U.S. Dollars)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
Balance, December 31, 1999	9,736,695	\$ 9,736	\$ 134,436	\$ (230,132)	\$ (85,960)
Issuance of stock for cash pursuant to a private placement – at \$0.30	1,133,334	1,133	338,867	-	340,000
Issue of stock for finders' fee	50,000	50	(50)	-	-
Net loss	-	-	-	(336,431)	(336,431)
Non-cash compensation charge	-	-	78,707	-	78,707
Balance December 31, 2000	10,920,029	10,919	551,960	(566,563)	(3,684)
Issuance of stock for services – at \$0.50	328,356	328	163,851	-	164,179
– at \$1.55	13,383	13	20,731	-	20,744
– at \$3.50	366,667	367	1,282,964	-	1,283,331
Issuance of stock for cash pursuant to a private placement – at \$0.30	883,332	883	264,117	-	265,000
Issuance of stock pursuant to the exercise of warrants – at \$2.00	28,800	29	57,571	-	57,600
Less: Issue costs	-	-	(17,858)	-	(17,858)
Net loss	-	-	-	(2,296,406)	(2,296,406)
Non-cash compensation charge	-	-	136,378	-	136,378
Balance, December 31, 2001	12,540,567	12,539	2,459,714	(2,862,969)	(390,716)
Issuance of stock for prepaid consulting – at \$0.35	80,000	80	27,920	-	28,000
Issuance of stock for deferred costs – at \$0.05	1,300,000	1,300	63,700	-	65,000
Issuance of stock for services – at \$0.05	100,000	100	4,900	-	5,000
– at \$0.055	60,000	60	3,240	-	3,300
– at \$0.10	105,000	105	10,395	-	10,500
– at \$0.148	27,000	27	3,973	-	4,000
– at \$0.20	175,000	175	34,825	-	35,000
– at \$0.209	17,143	17	3,583	-	3,600
– at \$0.35	120,000	120	41,880	-	42,000
Issuance of stock for debt – at \$0.20	458,135	458	91,169	-	91,627
– at \$0.209	222,751	223	46,156	-	46,379
Net loss	-	-	-	(214,758)	(214,758)
Balance, December 31, 2002	15,205,596	15,204	2,791,455	(3,077,727)	(271,068)
Non-cash compensation charge	-	-	53,500	-	53,500
Issue of stock for services	1,450,000	1,450	201,550	-	203,000
Issue of stock for cash pursuant to a private placement – at \$0.10	650,000	650	64,350	-	65,000
Net loss	-	-	-	(1,208,941)	(1,208,941)

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SEE ACCOMPANYING NOTES

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)

STATEMENTS OF CHANGES IN CAPITAL DEFICIT

For the period from February 28, 1989 (Date of Inception) to December 31, 2010

(Stated in U.S. Dollars)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
Balance, December 31, 2003	17,305,596	\$ 17,304	\$ 3,110,855	\$ (4,286,668)	\$(1,158,509)
Non-cash compensation charge	-	-	161,450	-	161,450
Issue of stock for cash pursuant to the exercise of warrants					
– at \$0.10	320,000	320	31,680	-	32,000
– at \$0.05	643,715	644	31,542	-	32,186
Issue of stock for cash pursuant to the exercise of options					
– at \$0.25	205,000	205	51,045	-	51,250
Issue of stock for debt					
– at \$0.05	563,000	563	29,437	-	30,000
– at \$0.06	825,364	825	47,712	-	48,537
– at \$0.30	50,000	50	14,950	-	15,000
Issuance of stock for services					
– at \$2.00	10,000	10	19,990	-	20,000
– at \$0.35	350,000	350	122,150	-	122,500
Cancellation of stock issued for deferred investment costs					
– at \$0.05	(1,300,000)	(1,300)	(63,700)	-	(65,000)
Net loss	-	-	-	(517,324)	(517,324)
Balance, December 31, 2004	18,972,675	18,971	3,557,111	(4,803,992)	(1,227,910)
Non-cash compensation charge	-	-	25,700	-	25,700
Issue of stock for cash pursuant to the exercise of warrants					
– at \$0.07	75,820	76	5,232	-	5,308
– at \$0.10	357,760	358	35,417	-	35,775
– at \$0.11	299,724	300	31,270	-	31,570
– at \$0.21	16,803	17	3,483	-	3,500
Issue of stock for debt					
– at \$0.39	635,901	636	249,524	-	250,160
Issuance of stock for services					
– at \$0.25	950,000	950	236,550	-	237,500
– at \$0.36	100,000	100	35,900	-	36,000
– at \$0.50	121,000	121	60,379	-	60,500
– at \$0.54	20,000	20	10,680	-	10,700
– at \$0.84	50,000	50	41,950	-	42,000
Issuance of stock dividend					
– at \$0.65	4,060,643	4,061	2,635,357	(2,639,418)	-
Net loss	-	-	-	(517,270)	(517,270)
Balance, December 31, 2005	25,660,326	25,660	6,928,553	(7,960,680)	(1,006,467)
Issue of stock for cash pursuant to a private placement					
– at \$0.40	200,000	200	79,800	-	80,000
Issue of stock for finder's fee					
– at \$0.40	100,000	100	39,900	-	40,000
Share issue costs	-	-	(43,000)	-	(43,000)
Beneficial conversion feature on convertible debt					
-	-	-	77,800	-	77,800
Net loss	-	-	-	(401,655)	(401,655)

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SEE ACCOMPANYING NOTES

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)

STATEMENTS OF CHANGES IN CAPITAL DEFICIT

For the period from February 28, 1989 (Date of Inception) to December 31, 2010

(Stated in U.S. Dollars)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
Balance, December 31, 2006	25,960,326	\$ 25,960	\$ 7,083,053	\$ (8,362,335)	\$(1,253,322)
Issue of stock for cash pursuant to a private placement					
– at \$0.25	200,000	200	49,800	-	50,000
Issuance of stock for services					
– at \$0.20	700,000	700	139,300	-	140,000
Non-cash compensation charge	-	-	29,240	-	29,240
Beneficial conversion feature on convertible debt	-	-	39,600	-	39,600
Net loss	-	-	-	(519,345)	(519,345)
Balance, December 31, 2007	26,860,326	26,860	7,340,993	(8,881,680)	(1,513,827)
Issuance of stock for services					
– at \$0.07	750,000	750	51,250	-	52,000
Non-cash compensation charge	-	-	251,078	-	251,078
Beneficial conversion feature on convertible debt	-	-	122,262	-	122,262
Net loss	-	-	-	(723,811)	(723,811)
Balance, December 31, 2008	27,610,326	27,610	7,765,583	(9,605,491)	(1,812,298)
Net loss	-	-	-	(154,805)	(154,805)
Balance, December 31, 2009	27,610,326	27,610	7,765,583	(9,760,296)	(1,967,103)
Net loss	-	-	-	(134,729)	(134,729)
Balance, December 31, 2010	27,610,326	\$ 27,610	\$ 7,765,583	\$ (9,895,025)	\$(2,101,832)

SEE ACCOMPANYING NOTES

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 and 2009
(Stated in U.S. Dollars)

1. Nature of Operations and Ability to Continue as a Going Concern

The Company is in the development stage and is devoting its efforts to exploring new investment opportunities, including real estate development projects.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2010, the Company had not yet achieved profitable operations, has an accumulated deficit of \$9,895,025 since its inception, has a working capital deficiency of \$1,309,832 and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. Management anticipates that it requires approximately \$75,000 over the twelve months ended December 31, 2011 to continue operations as well as the Company estimates it will accrue interest expenses of \$60,000 over the next 12 months on loans due to related parties. In addition to funding the Company's general, administrative and corporate expenses the Company is obligated to address its current obligations totaling \$1,310,390. To the extent that cash needs are not achieved from operating cash flow and existing cash on hand, the Company will be required to raise necessary cash through shareholder loans, equity issuances and/or other debt financing. Amounts raised will be used to continue the development of the Company's investment activities, and for other working capital purposes, which may be dilutive to existing shareholders. The Company currently has no agreement in place to raise funds for current liabilities and no guarantee can be given that we will be able to raise funds for this purpose on terms acceptable to the company. Failure to raise funds for general, administrative and corporate expenses and current liabilities could result in a severe curtailment of the company operations.

The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has no formal plan in place to address this concern but considers that the Company will be able to obtain additional funds by equity financing and/or related party advances, however there is no assurance of additional funding being available. The Company has historically satisfied its capital needs primarily by issuing equity securities and/or related party advances. Management plans to continue to provide for its capital needs during the year ended December 31, 2011, by issuing equity securities and/or related party advances.

The Company was incorporated in Colorado on February 28, 1989 as Jefferson Capital Corporation. Effective June 13, 1990 the Company changed its name to Ohio & Southwestern Energy Company. Effective July 1, 2001, the Company and Strategic Internet Investments, Incorporated ("Strategic"), an inactive Delaware corporation incorporated on March 2, 2001, were merged. All common shares outstanding of the Company were converted into an equal number of common shares of Strategic. The purpose of this merger was to change the corporate jurisdiction of the Company from Colorado to Delaware and to change the name of the Company. The surviving corporation of the merger is Strategic, a Delaware corporation.

2. Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may differ from those estimates.

The financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 and 2009
(Stated in U.S. Dollars)

2. Summary of Significant Accounting Policies – (cont'd)

Development Stage Company

The Company is a development stage company and is devoting substantially all of its present efforts to establish a new business and none of its planned principal operations have commenced. All losses accumulated since inception have been considered as part of the Company's development stage activities.

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740, *Income Taxes* ("ASC 740"). There are two major components of income tax expense, current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the applicable period. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates, which will be in effect when these differences reverse. Deferred tax expense or benefit is the result of changes between deferred tax assets and liabilities.

A valuation allowance is established when, based on an evaluation of objective verifiable evidence, it is more likely than not that some portion or all of deferred tax assets will not be realized.

The Company recognizes the impact of an uncertain income tax position at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority and includes consideration of interest and penalties. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. The liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the statements of operations. Accrued interest and penalties are included within unrecognized tax benefits and other long-term liabilities line in the balance sheet.

Basic Loss Per Share

The basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per share except that the denominator is increased to include the number of additional shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back any convertible preferred dividend and the after-tax amount of interest in the period associated with any convertible debt. The numerator is also adjusted for any other changes in income or loss that would result from the assumed conversion of these potential common shares. The if-converted method is used in calculating diluted loss per share for the convertible debentures. The treasury stock method is used in calculating diluted loss per share, which assumes that any proceeds received from the exercise of in-the-money stock options and share purchase warrants would be used to purchase common shares at the average market price for the period.

Common share equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method, and the dilutive effect of the assumed conversion of convertible debt and convertible preferred shares, using the if-converted method, only if the common stock equivalents are considered dilutive based upon the Company's net loss position at the calculation date.

At December 31, 2010, the Company had 17,397,588 (2009 – 17,816,588) common share equivalents in respect to convertible preferred shares, stock options, warrants and convertible debt. Because the Company incurred a loss diluted loss per share is the same as basic loss per share.

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 and 2009
(Stated in U.S. Dollars)

2. Summary of Significant Accounting Policies – (cont'd)

Foreign Currency Translation

Foreign currency transactions are translated into U.S. dollars, the functional and reporting currency, by the use of the exchange rate in effect at the date of the transaction, in accordance with ASC 830, *Foreign Currency Matters*. At each balance sheet date, recorded balances that are denominated in a currency other than U.S. dollars are adjusted to reflect the current exchange rate. Any exchange gains or losses are included in the Statements of Operations.

Financial Instruments

The carrying value of cash, accounts payable, and loans payable approximates fair value because of the demand or short term to maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

As a basis for considering market participant assumptions in fair value measurements, ASC 820-10 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy, as defined by ASC 820-10, contains three levels of inputs that may be used to measure fair value as follows:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company does not have any fair value measurements using Level 2 or Level 3 inputs as of December 31, 2010 and 2009.

Stock-based Compensation

The Company accounts for stock-based compensation using ASC 718 which requires public companies to recognize the cost of services received in exchange for equity instruments, based on the grant-date fair value of those instruments. The Company uses the Black-Scholes option valuation model to calculate stock-based compensation at the date of the grant. Option valuation models require the input of highly subjective assumptions, including the expected price volatility. Changes in assumptions can materially affect the fair value estimate. Compensation expense for unvested options to non-employees is revalued at each period end and is being amortized over the vesting period of the options.

Convertible Instruments and Beneficial Conversion Feature

When the Company issues convertible instruments with detachable instruments, the proceeds of the issuance are allocated between the convertible instrument and other detachable instruments based on their relative fair values pursuant to ASC 470-20 "*Application of Issue No. 98-5 to Certain Convertible Instruments*". The resulting discount of the convertible instrument is amortized into income as interest expense over the term of the convertible instrument. As at December 31, 2010 and 2009, there were no convertible instruments with detachable instruments outstanding.

STRATEGIC INTERNET INVESTMENTS, INCORPORATED

(A Development Stage Company)
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December 31, 2010 and 2009
(Stated in U.S. Dollars)

2. Summary of Significant Accounting Policies – (cont'd)

Convertible Instruments and Beneficial Conversion Feature – (cont'd)

When the Company issues convertible debt securities with a non-detachable conversion feature that provides for an effective rate of conversion that is below market value on the commitment date, it is known as a beneficial conversion feature (“BCF”). The Company first assessed the convertible debt securities to determine if the embedded conversion feature meets the exemption criteria of paragraph 11(a) of ASC 815 “Accounting for Derivative Instruments and Hedging Activities”. For the convertible debt securities outstanding as at December 31, 2009 and 2008, the embedded conversion features met the exemption criteria to be classified as equity instruments. Pursuant to ASC 470-20 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, the conversion feature of the security that has characteristics of an equity instrument is measured at its intrinsic value at the commitment date and is recorded as additional paid in capital. A portion of the proceeds of the security issued is allocated to the conversion feature equal to its intrinsic value to a maximum of the amount allocated to the convertible instrument. The resulting discount of the debt instrument is amortized into income as interest expense using the effective interest rate over the term of the loan. However, due to demand nature of the convertible debt securities, the discount of the debt instrument was immediately expensed.

New Accounting Standards

ASC 105. The Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, (“SFAS No. 168”) “— a replacement of FASB Statement No. 162. SFAS No. 168 is the new source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

ASC 805. The FASB issued ASC 805, “Business Combinations”. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

ASC 810. The FASB issued ASC 810, “Consolidation”. The standard requires all entities to report non-controlling (minority) interests as equity in consolidated financial statements. ASC 810 eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

ASC 855. The FASB issued Statement of ASC 855 (*prior authoritative literature: FAS No. 165, “Subsequent Events”*) which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ASC 855 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted ASC 855 during the first quarter of fiscal 2010, and its application had no impact on the Company’s consolidated financial statements.

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2. Summary of Significant Accounting Policies – (cont'd)

New Accounting Standards – (cont'd)

ASU 2010-06. The FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820)—Fair Value Measurements and Disclosures* (ASU 2010-06), to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. Certain provisions of this update will be effective for the Company in fiscal 2011 and the adoption of this standards update did not have a material impact on the Company's consolidated financial statements.

ASU 2010-09. The FASB issued ASU 2010-09, *Subsequent Events*. ASU 2010-09 was issued to amend ASC 855 to remove the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. This change is intended to alleviate potential conflicts with current SEC guidance. The provisions of ASU 2010-09 are effective upon issuance. The adoption of ASC 855 and ASU 2010-09 did not have a material impact on the Company's financial statements.

ASC 825-10-65-1, "Interim Disclosures about Fair Value of Financial Instruments" (FASB ASC 825-10-65-1), enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This FSP is effective for interim and annual periods ending after June 15, 2009, but entities may adopt it early for interim and annual periods ending after March 15, 2009. The adoption of this standard did not have a material impact on the Company's financial statements.

3. Deferred Costs

Deferred costs consist of consultants' fees and payments to reimburse Star Leisure and Entertainment Inc. ("Star Leisure") with respect to the acquisition of Gulf Star World Development W.L.L ("Gulf Star"). By a letter of agreement dated July 11, 2002, the Company agreed to purchase 80% of the outstanding shares of Gulf Star, a Bahrain corporation, from Star Leisure. Star Leisure is controlled by a director of the Company. Gulf Star is the 100% owner and developer of the residential and tourist project known as the Dream Island Resort, located in Bahrain. In 2005, due to the uncertainty of the future viability of the Dream Island project, the Company wrote-down the associated deferred costs to a nominal value of \$1. On May 20, 2009 the letter of agreement was terminated and the remaining related costs written-off.

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4. Loans Payable

	December 31, 2010	December 31, 2009
a) Loan payable to a company controlled by a director of the Company including accrued interest of \$6,614 (2009 - \$5,118). The loan is unsecured, bearing interest at 12% per annum and is repayable on demand.	\$ 13,416	\$ 11,920
b) Loans payable to companies controlled by directors of the Company. The loans are unsecured, non-interest bearing, and repayable upon demand.	164,682	106,329
c) Loan payable to a company controlled by a director of the Company, including accrued interest payable of \$57,459 (2009 - \$36,653), pursuant to a Convertible Loan Agreement. The loan is unsecured, bearing interest at 10% per annum and is repayable on demand. The lender may at anytime convert the principal sum into units of the Company. Each unit will consist of one common share plus one common share purchase warrant. The principal sum of \$163,766 may be converted into 2,320,858 units. Conversion of these loans and resulting associated warrants to equity will be based on the conversion price set at the time the principal amount was drawn ranging from \$0.05 to \$0.23. Upon conversion of this loan, the \$73,685 fair value of the warrants will be recognized as an interest expense and credited to additional paid-in capital.	221,225	200,419
d) Loan payable to a company controlled by a director of the Company, including accrued interest of \$82,606 (2009 - \$50,835), pursuant to a Convertible Loan Agreement. The loan is unsecured, bearing interest at 10% per annum and is repayable on demand. The lender may at anytime convert the principal sum into units of the Company. Each unit will consist of one common share plus one common share purchase warrant. The principal sum of \$255,209 may be converted into 4,526,436 units. Conversion of this loan and resulting associated warrants to equity will be based on the conversion price set at the time the principal amount was drawn ranging from \$0.05 to \$0.12. Upon conversion of this loan, the \$113,338 fair value of the warrants will be recognized as an interest expense and credited to additional paid-in capital.	337,815	306,044
	<u>\$ 737,138</u>	<u>\$ 624,712</u>

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5. Capital Stock – Notes 4 and 6

Capital Stock

On June 1, 2008, the Company issued 750,000 common shares to two consultants for consulting services to be provided over a twelve month period, valued at \$52,000. The Company determined the fair value of the shares issued using the market price on the share issuance date. In September 2008 the Company terminated its agreement with one of the consultants and the remaining value of these shares was charged to operations during the year ended December 31, 2008. In May 2009 the Company terminated its agreement with the other consultant and the remaining value of these shares was charged to operations during the year ended December 31, 2009.

Class A Convertible Preferred Shares

The Class A convertible preferred shares issued in 2003 have a par value of \$0.001 and are convertible to common shares at \$4.00 per share during the first 180 days following issuance, and thereafter at the average of twenty consecutive days closing prices, but shall not be less than \$1.50 per share or greater than \$6.00 per share. The Company has the right to redeem its Class A convertible preferred stock at any time by paying to the holders thereof the sum of \$4 per share.

The aggregate liquidation value of the Class A convertible preferred shares is \$792,000. A merger or consolidation of the Company that results in the Company's stockholders immediately prior to the transaction not holding at least 50% of the voting power of the surviving entity shall be deemed a liquidation event.

Stock Option Plan

The Company's board of directors approved a stock option plan. Under the plan directors, employees and consultants may be granted options to purchase common stock of the Company at a price of not less than 100% of the fair market value of the stock. The total number of options granted must not exceed 15% of the outstanding common stock of the Company. The plan expires on July 1, 2017.

Stock-based Compensation

In 2008 the Company granted share purchase options to directors, employees, and consultants of the Company at the closing price of the Company's common stock on the date of the grants. The options were granted with a term of 5 years.

During the years ended December 31, 2010 and 2009 the Company did not grant any stock options.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the Black-Scholes model does not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

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5. Capital Stock – Notes 4 and 6 – (cont'd)

Stock-based Compensation – (cont'd)

During the previous two years ended December 31, 2010, the change in share purchase options outstanding are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at December 31, 2008	4,125,000	\$0.15	3.96 years	\$ -
Cancelled during the year	(400,000)	\$0.15	4.24 years	-
Options outstanding at December 31, 2009	3,725,000	\$0.15	3.42 years	\$ -
Cancelled during the year	(550,000)	\$0.15	2.42 years	-
Options outstanding at December 31, 2010	3,175,000	\$0.15	2.42 years	\$ -

At December 31, 2010, the Company had share purchase options outstanding as follows:

Number of Options	Exercise Price	Expiry Date
3,175,000	\$0.15	June 1, 2013

At December 31, 2010 and December 31, 2009 all of the outstanding share purchase options were exercisable.

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6. Non-Cash Transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statements of cash flows. The Company issued common shares for settlement of debts, convertible loans, and for services provided to the Company during the following years:

Year		Number of Preferred Shares	Number of Common Shares	Weighted Average Price Per Share	Total
1995	Consulting fee	-	50,000	\$0.03	\$ 1,500
1998	Management fee	-	7,000,000	\$0.001	7,000
1998	Consulting fee	-	620,000	\$0.01	6,200
2000	Finders fee	-	50,000	\$0.001	50
2001	Consulting fee	-	708,406	\$2.07	1,468,254
2002	Deferred cost	-	1,300,000	\$0.05	65,000
2002	Consulting fee	-	684,143	\$0.19	131,400
2002	Debt settlement	-	680,886	\$0.20	138,006
2003	Consulting fee	-	1,450,000	\$0.14	203,000
2003	Termination fee	198,000	-	\$4.00	792,000
2004	Loan conversion	-	825,364	\$0.06	48,537
2004	Loan settlement	-	613,000	\$0.07	45,000
2004	Consulting fee	-	360,000	\$0.40	142,500
2004	Deferred cost (cancellation)	-	(1,300,000)	\$0.05	(65,000)
2005	Communications	-	56,000	\$0.50	28,000
2005	Consulting fees	-	1,135,000	\$0.29	333,700
2005	Legal fees	-	50,000	\$0.50	25,000
2005	Loan conversion	-	635,901	\$0.39	250,160
2005	Stock dividend	-	4,120,643	\$0.65	2,678,418
2006	Finders' fee	-	100,000	\$0.40	40,000
2007	Consulting fees	-	700,000	\$0.20	140,000
2008	Consulting fees	-	750,000	\$0.07	52,000
		198,000	20,589,343		\$ 6,530,725

These amounts have been excluded from the investing and financing activities of the statements of cash flows.

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7. Related Party Transactions – Notes 4 and 5

The Company was charged the following by stockholders, directors, by companies controlled by directors and/or stockholders of the Company, and by companies with directors in common:

	Year ended December 31,		Cumulative from
	2010	2009	February 28, 1989 (Date of Inception) to December 31, 2010
Consulting fees	\$ -	\$ -	\$ 249,043
Interest	54,073	48,961	362,254
Management fees	-	-	546,325
Office and general	-	-	26,944
Rent	-	-	130,232
	\$ 54,073	\$ 48,961	\$ 1,314,798

At December 31, 2010, accounts payable includes \$461,695 (2009 - \$459,499) due to directors of the Company and companies controlled by directors of the Company in respect of unpaid management fees and expenses incurred on behalf of the Company.

At December 31, 2010, accounts payable also includes \$15,527 (2009 - \$15,527) of expenses for operating costs paid on behalf of the Company by companies with directors in common.

The Company entered into two Management Services Agreements dated January 1, 2007 with a director and a company controlled by a director of the Company. Under the terms of these agreements they were each paid \$7,500 per month, plus taxes where applicable, for management services. These agreements expired in 2008. At December 31, 2010 the Company owed \$323,057 (2009 - \$324,057) pursuant to the two Management Services Agreements. If the Company is unable to pay for the services, the consultant may elect to settle any portion of outstanding amounts plus interest with units of the Company. Each unit shall consist of one common share and one share purchase warrant entitling the holder to purchase one additional common share of the Company. The price for the units and warrants will be determined based on a discount to the 10 day average market price ranging from 50% to 60%, but no less than \$0.05 per share.

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8. Income Taxes

The tax effects of temporary differences that give rise to deferred tax assets at December 31, 2010 and 2009 are presented below:

	December 31,	
	2010	2009
Net tax operating loss carryforwards	\$ 2,635,000	\$ 2,613,000
Accrued liabilities	162,000	143,000
Gross deferred tax assets	2,797,000	2,756,000
Valuation allowance for deferred tax asset	(2,797,000)	(2,756,000)
	\$ -	\$ -

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation allowance is reflected in current income.

At December 31, 2010, the Company has estimated accumulated non-operating losses of approximately \$7,529,000 (2009 - \$7,465,000) which may be carried forward to reduce taxation income in future years. The non-operating losses expire from 2011 to 2030.

The potential benefits of the losses have not been recorded in the financial statements. As at December 31, 2010 the Company is in arrears on filing its statutory income tax returns and the amounts presented above are based on estimates. The actual losses available could differ from these estimates.

The provision for income taxes differs from the result which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

	December 31,	
	2010	2009
Loss for the year	\$ (134,729)	\$ (154,805)
Statutory income tax rate	35%	35%
Expected income tax recovery	\$ (47,200)	\$ (54,200)
Permanent differences	-	-
Expiry of loss carryforward	6,200	700
Change in valuation allowance	41,000	53,500
Income tax expense	\$ -	\$ -

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8. Income Taxes – (cont'd)

All of the Company's tax returns are subject to tax examinations until respective statute of limitation. The Company currently has no tax years under examination.

The Company does not have an accrual for uncertain tax positions as of December 31, 2010 and 2009. If interest and penalties were to be assessed, the Company would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within twelve months of the reporting date.

The Company's tax filings are delinquent for all tax years since inception and are subject to audit by taxing authorities in jurisdictions where it conducts business. These audits may result in significant assessments of additional taxes, penalties and interest that are subsequently resolved with the authorities or potentially through the courts. Management believes the Company has adequately provided for any ultimate amounts that are likely to result from these audits; however, final assessments, if any, could be significantly different than the amounts recorded in the financial statements.

9. Subsequent Event

Subsequent to December 31, 2010 the Company received loans of \$40,000 from a company controlled by directors of the Company. This loan is unsecured, non-interest bearing, and repayable upon demand.

10. Comparative Figures

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