

ARMADA DATA CORPORATION

NOTICE OF NO AUDITOR REVIEW OF UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of unaudited consolidated interim financial statements by an entity's auditor.

ARMADA DATA CORPORATION
CONSOLIDATED INTERIM BALANCE SHEET
AS AT NOVEMBER 30, 2010
(UNAUDITED)

| | <u>November 30, 2010</u> | <u>May 31, 2010</u> |
|---|--------------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 964,394 | \$ 1,081,165 |
| Accounts receivable (notes 6(b) and 10) | 555,694 | 411,938 |
| Prepaid expenses and sundry assets | 18,758 | 20,550 |
| Deposits on Acquisition | - | 22,975 |
| | <u>1,538,846</u> | <u>1,536,628</u> |
| Property, Plant and Equipment - net | <u>74,328</u> | <u>27,433</u> |
| Intangible assets - net (note 5(b)) | <u>209,966</u> | <u>-</u> |
| | <u>\$ 1,823,140</u> | <u>\$ 1,564,061</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities(note 6(b)) | \$ 164,721 | \$ 164,808 |
| Current portion-Note Payable(note 5(b)) | 60,000 | - |
| Corporation income taxes payable (note 8) | 54,797 | 56,997 |
| | <u>279,518</u> | <u>221,805</u> |
| Long Term Debt | | |
| Long term portion-Note Payable (note 5(b)) | <u>10,000</u> | <u>-</u> |
| | <u>289,518</u> | <u>221,805</u> |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (note7) | 1,183,190 | 1,079,690 |
| Contributed Surplus (note 11) | 175,505 | 171,555 |
| Retained Earnings | <u>174,927</u> | <u>91,011</u> |
| | <u>1,533,622</u> | <u>1,342,256</u> |
| | <u>\$ 1,823,140</u> | <u>\$ 1,564,061</u> |

APPROVED ON BEHALF OF THE BOARD:

“R. James Matthews” Director
R. James Matthews

“Paul Timoteo” Director
Paul Timoteo

“The accompanying notes form an integral part of these consolidated interim financial statements”

ARMADA DATA CORPORATION

CONSOLIDATED INTERIM STATEMENT OF OPERATIONS AND RETAINED EARNINGS

**FOR THE PERIOD ENDED NOVEMBER 30, 2010
(UNAUDITED)**

| | 3 months ended November 30 | | 6 months ended November 30 | |
|--|-------------------------------|-----------------|-------------------------------|------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Revenue (notes 3 & 10) | \$ 711,520 | \$ 750,628 | \$ 1,456,159 | \$ 1,497,323 |
| Expenses | | | | |
| General and administration | 635,380 | 683,968 | 1,218,196 | 1,250,791 |
| Stock-based compensation | 1,721 | 37,218 | 3,950 | 50,490 |
| | <u>637,101</u> | <u>721,186</u> | <u>1,222,146</u> | <u>1,301,281</u> |
| Earnings before Interest, Taxes, Depreciation and Amortization* | 74,419 | 29,442 | 234,013 | 196,042 |
| Amortization (notes 3 & 4) | <u>7,223</u> | <u>10,302</u> | <u>13,218</u> | <u>20,604</u> |
| Income for the Period before corporation income taxes | 67,196 | 19,140 | 220,795 | 175,438 |
| Less: Provision for corporation income taxes – current (note8) | 20,200 | - | 66,200 | - |
| Income for the Period | 46,996 | 19,140 | 154,595 | 175,438 |
| Retained Earnings(Deficit), beginning of period | 198,610 | 26,583 | 91,011 | (129,715) |
| Dividends | (70,679) | (67,994) | (70,679) | (67,994) |
| Retained Earnings(Deficit), end of period | 174,927 | (22,271) | 174,927 | (22,271) |
| Earnings Per Share | | | | |
| Basic | \$.01 | \$.01 | \$.01 | \$.01 |
| Fully Diluted | \$.01 | \$.01 | \$.01 | \$.01 |

Share Capital

Authorized – Unlimited common shares

| | As at November 30, 2010 | | As at May 31, 2010 | |
|---|-------------------------|---------------------|--------------------|---------------------|
| | # | \$ | # | \$ |
| Outstanding Common Shares | | | | |
| Outstanding end of period | 14,135,820 | \$ 1,183,190 | 13,755,497 | \$ 1,079,690 |
| Securities Convertible Into Common Shares | | | | |
| Director's and officer's stock options, convertible into common shares | 633,334 | 63,333 | 633,334 | 63,333 |
| Consultants – stock options, convertible into common shares | 90,000 | 13,500 | 180,000 | 27,000 |
| Fully Diluted Common Shares | 14,859,154 | \$ 1,260,023 | 14,568,831 | \$ 1,170,023 |

*Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) is provided as it is the closest figure to cash flow from operating activities and thus a significant indicator of the success of any business. However, EBITDA does not have a standardized meaning prescribed by Generally Accepted Accounting Principals (GAAP) and is therefore unlikely to be comparable to similar measures used by other issuing companies.

“The accompanying notes form an integral part of these consolidated interim financial statements”

ARMADA DATA CORPORATION

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

**FOR THE PERIOD ENDED NOVEMBER 30, 2010
(UNAUDITED)**

| | 3 months ended November 30 | | 6 months ended November 30 | |
|--|-------------------------------|-------------------|-------------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Operating Activities | | | | |
| Income for the period | \$ 46,996 | \$ 19,140 | \$ 154,595 | \$ 175,438 |
| Items not involving cash | | | | |
| Amortization | 7,223 | 10,302 | 13,218 | 20,604 |
| Stock-based compensation costs | 1,721 | 37,218 | 3,950 | 50,490 |
| | 55,940 | 66,660 | 171,763 | 246,532 |
| Changes in non-cash working capital | | | | |
| Accounts receivable | (37,234) | (9,691) | (143,756) | (177,118) |
| Prepaid Expenses | (3,951) | 175 | 1,792 | 2,952 |
| Deposits on acquisition | - | - | 22,975 | - |
| Accounts payable & accrued liabilities | (74,177) | (29,463) | (87) | (75,439) |
| Corporation income taxes payable | (48,200) | - | (2,200) | - |
| Cash (used in) operating activities | (163,562) | (38,979) | (121,276) | (249,605) |
| Investing Activities | | | | |
| Purchase of capital assets | (17,724) | - | (53,249) | (1,312) |
| Proceeds from issue of share capital pursuant to stock options exercised | - | - | 13,500 | - |
| Purchase of intangible assets | - | - | (216,830) | - |
| Cash (used in) investing activities | (17,724) | - | (256,579) | (1,312) |
| Financing Activities | | | | |
| Issuance of capital stock | - | - | 90,000 | - |
| Dividends | (70,679) | (67,994) | (70,679) | (67,994) |
| Note payable - net | (15,000) | - | 70,000 | - |
| Cash provided by (used in) Financing activities | (85,679) | (67,994) | 89,321 | (67,994) |
| (Decrease) in Cash | (211,025) | (40,313) | (116,771) | (72,379) |
| Cash, beginning of period | 1,175,419 | 662,952 | 1,081,165 | 695,018 |
| Cash, end of period | \$ 964,394 | \$ 622,639 | \$ 964,394 | \$ 622,639 |

“The accompanying notes form an integral part of these consolidated interim financial statements”

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2010
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated interim balance sheet of Armada Data Corporation (formerly CCC Internet Solutions Inc./Formerly Duke Capital Corp.) ("CCCBC") a company incorporated under the laws of the province of British Columbia, gives effect to the reverse takeover whereby CCCBC, the legal parent, was acquired by CCC Internet Solutions Inc.(Formerly E-Tom Technologies Inc.) ("CCCFED") a company incorporated under the laws of Canada, the legal subsidiary.

This reverse takeover occurred on October 30, 2000 pursuant to a Share Purchase Agreement whereby CCCBC acquired all of the outstanding shares of CCCFED in exchange for 6,500,000 CCCBC shares and \$150,000 of which \$100,000 had been paid. The remaining \$50,000 was exchanged for 166,666 common shares of "CCCBC" as described in fiscal 2002.

These consolidated interim financial statements include the accounts of CCCBC and CCCFED. All material inter-company balances, transactions and profits have been eliminated.

The prior year's comparative figures have been reclassified, where necessary, to conform with the current year's presentation.

2. BUSINESS COMBINATION

- a) The business combination occurred on October 30, 2000 and is accounted for by the purchase method, with CCCFED being deemed the acquirer, because this exchange of shares leaves the former shareholders of CCCFED with the majority of the issued shares of CCCBC.

As a result, the balance sheet of CCCFED is recorded at book value and the balance sheet of CCCBC is recorded at fair market value at October 30, 2000.

| | |
|--|------------------|
| b) Current Assets Of CCCBC @ October 30, 2000 | \$677,842 |
| Liabilities Assumed Of CCCBC @ October 30, 2000 | _____ - |
| Cost Of Purchase | \$677,842 |

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include short-term investments having an original maturity of less than or equal to 90 days.

COMPREHENSIVE INCOME

Section 1530 – "Comprehensive Income" introduces the concept of comprehensive income to Canadian GAAP. Comprehensive income is the change in equity (net assets) of the company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income.

The company had no comprehensive income or loss transactions, other than its net income which is present in the Consolidated Statement of Income, during the periods that have been presented. Accordingly a statement of comprehensive income has not been presented.

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant policies:

ARMADA DATA CORPORATION
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2010
(UNAUDITED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at historical cost. Amortization is charged to earnings over the estimated useful life of the assets on the following basis:

| | |
|------------------------|------------------------------|
| Leasehold improvements | - straight line over 5 years |
| Furniture and fixtures | - 20% declining balance |
| Computer hardware | - 30% declining balance |
| Computer software | - 100% declining balance |
| Telephone equipment | - 20% declining balance |

Property, plant and equipment purchased during the period are amortized at one-half the above stated rates. These critical accounting estimates have been determined and represented by management.

REVENUE RECOGNITION AND DEFERRED REVENUE

Customer membership fees are recognized on a monthly pro rata basis. The unearned portion, if any, is reflected as deferred revenue on the interim balance sheet.

INTANGIBLE ASSETS

Intangible assets are recorded at acquisition cost. Amortization is provided on a straight line basis over 10 years (which represents the estimated future benefit period of this intangible asset) with half rates taken in the year of acquisition. This critical accounting estimate has been determined and represented by management.

SHARE ISSUE COSTS

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred acquisition costs. Share issue costs consist primarily of corporate finance fees, legal fees and managing dealer commissions and marketing fees.

INCOME PER SHARE

The computation of income per share is based on the weighted average number of common shares outstanding during the period.

STOCK-BASED COMPENSATION

The company has a stock-based compensation plan which is described in Note 7. The company uses the Canadian Institute of Chartered Accountant's handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. All stock-based awards are measured and recognized using the fair-value method as determined by the Black-Scholes option pricing model. Agent's warrants, stock options and direct awards of stock are recorded at fair value on the date of grant.

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2010
(UNAUDITED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

ASSET RETIREMENT OBLIGATIONS

Effective June 1, 2005, the company adopted CICA 3110 "Asset Retirement Obligations" ("CICA 3110"). CICA 3110 requires that the estimated fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. A corresponding increase to the carrying amount of the related asset (where one is identifiable) is recorded and depreciated over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability will be subject to remeasurement at each reporting period. The estimates are based principally on legal and regulatory requirements.

USE OF ESTIMATES

The preparation of consolidated interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets and risk management and useful lives for depreciation and amortization. Actual results could differ from those estimates.

FINANCIAL INSTRUMENTS - DISCLOSURES

Effective April 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3862, Financial Instruments – Disclosures.

The provisions in Section 3862, Financial Instruments – Disclosures, increase the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The Company has included disclosures recommended by the new Handbook section in Note 3 and Note 13 to its May 31, 2010 and November 30, 2010 financial statements.

FINANCIAL INSTRUMENTS – PRESENTATION

Effective April 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3863, Financial Instruments – Presentation, which replaces the existing requirements on presentation of financial instruments.

CAPITAL DISCLOSURES

Effective April 1, 2008, the Company adopted CICA Handbook Section 1535 Capital Disclosures, which specifies 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; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 13 to these financial statements.

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**NOVEMBER 30, 2010
(UNAUDITED)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

GOODWILL AND INTANGIBLE ASSETS

Effective October 1, 2008, the Company adopted CICA Handbook Section 3064 Goodwill and Intangible Assets, the new guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The adoption of this standard is not expected to have a material effect on the Company's earning and financial position.

FUTURE ACCOUNTING CHANGES – INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February, 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's owned generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011. While the company has begun assessing the adoption of IFRS for 2011 and 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

FUTURE INCOME TAX

The company accounts for income taxes using the liability method of income tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis. Future income tax assets and liabilities are measured using substantively enacted income tax rates as at the balance sheet date. The effect on future income tax assets and liabilities of a change in rates included in income during the year that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

| | <u>November 30, 2010</u> | | <u>May 31, 2010</u> | |
|------------------------|--------------------------|---------------------------------|-----------------------|-----------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Leasehold improvements | \$ 55,808 | \$ 49,122 | \$ 6,686 | \$ 2,004 |
| Furniture and fixtures | 18,015 | 10,852 | 7,163 | 2,267 |
| Computer hardware | 119,325 | 75,346 | 43,979 | 20,873 |
| Computer software | 39,238 | 39,238 | - | - |
| Telephone equipment | 21,214 | 4,714 | 16,500 | 2,289 |
| | <u>\$ 253,600</u> | <u>\$ 179,272</u> | <u>\$ 74,328</u> | <u>\$ 27,433</u> |

5. OTHER ASSETS

a) **Intangible assets** consist of the “Autohotline” as described in note 6(e).

| | <u>November 30, 2010</u> | | <u>May 31, 2010</u> | |
|--------------------------------|--------------------------|-----------|---------------------|-----------|
| Acquisition cost | \$ | 300,000 | \$ | 300,000 |
| Less: Accumulated amortization | | (300,000) | | (300,000) |
| | <u>\$</u> | <u>-</u> | <u>\$</u> | <u>-</u> |

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**NOVEMBER 30, 2010
(UNAUDITED)**

5. OTHER ASSETS (Cont'd)

b) Cybernet Finder assets as described below and in note 6(d)

| | <u>November 30, 2010</u> | | <u>May 31, 2010</u> | |
|--------------------------------|--------------------------|----------------|---------------------|----------|
| Acquisition cost | \$ | 216,830 | \$ | - |
| Less: Accumulated amortization | | (6,864) | \$ | - |
| | \$ | <u>209,966</u> | | <u>-</u> |

In July, 2010, the company purchased certain assets of Cybernet Finder Corporation, consisting of goodwill, client and supplier contracts in the value of \$180,000, and equipment and computer hardware in the value of \$20,000. The purchase price for the assets was \$200,000, which was paid by \$20,000 cash on closing, an issuance of a promissory note (note payable) in the amount of \$90,000 and the issuance of 290,323 shares at \$0.31 per share, with an aggregate value of \$90,000. The promissory note is non-interest bearing, commencing August 1, 2010 and ending January 1, 2012, with monthly installments of \$5,000 on the first day of each month. The current portion of the note payable is \$60,000, and the long-term portion of the note payable is \$10,000.

6. RELATED PARTY TRANSACTIONS

- a) Two directors of the company are also directors and controlling shareholders of Lease Busters Inc. Another director is a partner in a legal firm which provides services to the company.
- b) i) Included in accounts receivable is \$ 84,322 due from related parties.
ii) Included in accounts payable is \$ 26,059 due to related parties
- c) Management salaries were paid to certain directors of the company.
- d) Intangible assets and property, plant and equipment were acquired from Cybernet Finder Corporation, the directors of which are related to a director of the company.
- e) Intangible assets were acquired from Lease Busters Inc. and represent the purchase of the rights, systems, data and clientele of Lease Busters Inc.'s "Autohotline".
- f) Included in sales are \$21,876 in sales made to parties related to directors of the company.
- g) Included in expenses are the following paid to directors and parties related to directors of the company:

| | <u>November 30, 2010</u> | | <u>November 30, 2009</u> | |
|---------------------|--------------------------|----------------|--------------------------|----------------|
| Advertising | \$ | 4,164 | \$ | 26,401 |
| Automobile | | 3,600 | | 3,600 |
| Computer Consulting | | 1,862 | | 31,954 |
| Insurance | | 3,000 | | 1,200 |
| Management Salaries | | 65,549 | | 56,250 |
| Professional Fees | | 19,236 | | 39,992 |
| Rent | | - | | 4,500 |
| Salaries – Office | | 22,541 | | 24,494 |
| | \$ | <u>119,952</u> | \$ | <u>188,391</u> |

All of the above transactions have been in the normal course of operations and, in management's opinion undertaken with the same terms and conditions as transactions with unrelated parties. The value of these transactions approximates fair value.

ARMADA DATA CORPORATION
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
NOVEMBER 30, 2010
(UNAUDITED)

7. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value

b) Issued

CCC Internet Solutions Inc.

| | # | | \$ |
|--|------------|----|----|
| Balance as at May 31, 2010 and November 30, 2010 | 100 | \$ | 1 |

Armada Data Corporation

| | | | |
|--|-------------------|----|-----------|
| Combined balances at May 31, 2010 | 13,755,597 | \$ | 1,940,764 |
| Eliminate consolidation of subsidiary | (100) | | (861,074) |
| Issuance of capital stock for partial consideration of asset purchase (note 5) | 290,323 | | 90,000 |
| Issuance of capital stock pursuant to the exercise of options by directors | 90,000 | | 13,500 |
| Consolidated balance at November 30, 2010 | 14,135,820 | \$ | 1,183,190 |

c) Fully Diluted Shares

| | | | |
|---|-------------------|----|-----------|
| Balance at November 30, 2010 in note 7(b) | 14,135,820 | \$ | 1,183,190 |
| Common shares issuable pursuant to incentive stock options held by directors and officers of CCCBC (note 7d(i)) | 723,334 | | 76,833 |
| Fully diluted share capital | 14,859,154 | \$ | 1,260,023 |

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2010
(UNAUDITED)

7. CAPITAL STOCK (Cont'd)

d) Stock Options

Stock Options of the company are granted to eligible persons (as defined in the company's Stock Option Incentive Plan) and include any director, employee or consultant of the company. The exercise price of such options are determined by the Board of Directors, provided that such price is not lower than the closing price for the underlying shares as quoted on the TSX Venture Exchange for the market trading day immediately prior to the date of grant less any discount permitted by the TSX Venture Exchange. These options are not transferable and are presently exercisable for a period of up to 5 years from the date of grant.

Stock options outstanding at November 30, 2010 are summarized as follows:

I. Directors

| | <u>Number of Share options</u> | | <u>Exercise Price</u> | | <u>Date Granted</u> | | <u>Expiry Date</u> |
|---------|------------------------------------|----|-----------------------|--|---------------------|--|--------------------|
| Options | 633,334 | \$ | .10 | | May 11, 2009 | | May 11, 2012 |

II. Consultants

| | | | | | | | |
|---------|---------------|----|-----|--|-----------------|--|-----------------|
| Options | <u>90,000</u> | \$ | .15 | | August 19, 2009 | | August 19, 2014 |
|---------|---------------|----|-----|--|-----------------|--|-----------------|

Total Options 723,334

On August 19, 2009 the company entered into a consulting agreement which provides for the granting of stock options. These options expire on August 19, 2014. Options under this agreement are exercisable 1/3rd six (6) months from the Grant date, 1/3rd twelve (12) months from the Grant date and 1/3rd eighteen (18) months from the Grant Date, having an exercise price of \$0.15 per share.

The fair value of the options granted during the period ended August 31, 2009 was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|--------------------------|------------|
| Expected volatility rate | 125% |
| Risk-free interest rate | 1.98% |
| Expected life | 4.25 years |
| Expected dividend yield | 0.05% |

Option pricing models require 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 existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

As of June 1, 2005, the company adopted the Canadian Institute of Chartered Accountants recommendations on stock-based compensation. The company uses the fair value method to value and expense stock-based compensation. This method consists of recording compensation cost to earnings over the vesting period of options granted. When stock options are exercised, any consideration paid by the grantee and the related compensation expenses recorded as Contributed Surplus in Shareholders' Equity is credited to share capital. The company has chosen to recognize this accounting policy on a prospective basis, whereby prior-years' financial statements are not restated to reflect this accounting policy. The company has adopted the cash method of accounting for forfeitures, there were no forfeitures during the period.

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2010
(UNAUDITED)

7. CAPITAL STOCK (Cont'd)

e) Shares Issuable Under the Plan

Subject to the requirements of the Exchange:

- i. the aggregate number of Option Shares that may be issuable pursuant to Options granted under the plan will not exceed 2,700,000 shares;
- ii. unless approval of this Plan is obtained by Disinterested Shareholder Approval,
 - a. the number of shares reserved for issuance under Options granted to insiders of the corporation under this plan and all outstanding stock option plans or grants of options may not at any time exceed ten percent (10%) of the issued shares of the Corporation;
 - b. no more than an aggregate of ten percent (10%) of the issued shares of the Corporation, calculated at the date the option(s) is(are) granted, may be granted to Insiders of the Corporation in any twelve (12) month year under this Plan and all outstanding stock option plans or grants of options;
 - c. no more than an aggregate of five percent (5%) of the issued shares of the Corporation, calculated at the date the Option is granted, may be granted to any one Optionee in any twelve (12) month year under this Plan and all outstanding stock option plans or grants of options;

however, upon obtaining the requisite Disinterested Shareholder Approval, these provisions shall no longer apply;
- iii. no more than two percent (2%) of the issued shares of the Corporation, calculated at the date the Option is granted, may be granted to any one Consultant in any twelve (12) month year;
- iv. no more than an aggregate of two percent (2%) of the issued shares of the Corporation, calculated at the date the option is granted, may be granted to persons providing Investor Relations Activities in any twelve (12) month year.

8. INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on the future tax liabilities and assets of a change in tax rates is recognized in the period that the change occurs.

In fiscal 2010, the company utilized \$135,801 in non-capital losses from prior years in order to offset the current fiscal year's taxable income.

9. COMMITMENTS

The company has entered into various operating leases which continue until fiscal 2015. The minimum rental payments (net of HST) for the next four fiscal years are as follows:

| | | |
|-------------|----|---------------|
| Fiscal 2011 | \$ | 5,637 |
| 2012 | | 12,369 |
| 2013 | | 11,835 |
| 2014 | | 7,819 |
| 2015 | | 1,955 |
| | \$ | <u>39,615</u> |

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**NOVEMBER 30, 2010
(UNAUDITED)**

9. COMMITMENTS (Cont'd)

Effective September 1, 2010, the company entered into a five year lease for its premises. This lease is from September 2010 to August 2015. The minimum rental for the next five fiscal years including estimated operating costs are as follows:

| | | |
|-------------|----|---------|
| Fiscal 2011 | \$ | 40,384 |
| 2012 | | 89,972 |
| 2013 | | 92,370 |
| 2014 | | 96,270 |
| 2015 | | 97,920 |
| | | 416,916 |
| | \$ | 416,916 |

10. SEGMENTED INFORMATION

The Company's operations consist of six main divisions: Insurance Services, Retail Services, Dealer Services, Auto Marketing Group Services ("AMGS") Internet Technology ("IT") and Advertising/Marketing Services. The Insurance Service division derives its revenue from the sale of total loss replacement vehicle reports to major Canadian insurance companies. The Retail division consists of the sale of new car pricing data to consumers primarily through the Company's website as well as the reselling of this new car pricing data to qualified third party vendors. The Dealer Services division generates revenue through the sale of new vehicle leads derived from membership sales from CarCostCanada. The AMGS division derives its revenue from the administration and maintenance of certain websites of business partners. The IT division comprises web and email hosting, website development and design, and desktop support. The Advertising/Marketing Services division is made up of the sale of online third party website advertising, consulting fees, and other new car or car business related marketing activities.

Revenues earned by divisions are as follows:

| | 3 months ended | | | |
|-------------------------------|-------------------|-----|-------------------|-----|
| | November 30, 2010 | | November 30, 2009 | |
| | \$ | % | \$ | % |
| Insurance Services | 271,205 | 38 | 299,895 | 40 |
| Retail Services | 168,387 | 24 | 212,316 | 28 |
| Dealer Services | 223,211 | 32 | 197,887 | 26 |
| Auto Marketing Group Services | 897 | - | 1,196 | 1 |
| Internet Technology | 31,827 | 4 | - | - |
| Advertising/Marketing | 15,993 | 2 | 39,334 | 5 |
| Total Revenue | 711,520 | 100 | 750,628 | 100 |

Segmented Information

Cash, prepaids, property, plant, equipment together with intangible assets are used commonly by the six divisions. The Company does not record or measure the usage of these assets that relate to their underlying value by segment.

The accounts receivable can be broken down by segment and are indicated below:

| | November 30, 2010 | | November 30, 2009 | |
|-------------------------------|-------------------|--|-------------------|--|
| | \$ | | \$ | |
| Insurance Services | 280,200 | | 296,467 | |
| Retail Services | - | | - | |
| Dealer Services | 133,832 | | 174,440 | |
| Auto Marketing Group Services | 5,047 | | 15,283 | |
| Internet Technology | 34,721 | | - | |
| Advertising/Marketing | 101,894 | | 116,463 | |
| Total accounts receivable | 555,694 | | 602,653 | |

ARMADA DATA CORPORATION

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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11. CONTRIBUTED SURPLUS

| | | |
|----------------------------------|----|----------------|
| Balance as at May 31, 2010 | \$ | 171,555 |
| Stock based compensation expense | | <u>3,950</u> |
| Balance as at November 30, 2010 | \$ | <u>175,505</u> |

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

All significant financial assets, financial liabilities, and equity instruments of the Company are either recognized or disclosed in the consolidated interim financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. The company is also subject to the risk generally associated with the operation of income-producing websites and normal course business risk.

These risks include fluctuations in site traffic, sales, operating expenses, and other risk of unavailability of further equity financing and/or funding. Other associated risks may include competition, technical constraints in further business development, and possible service interruptions.

Fair Value

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate carrying value due to the relatively short term maturities of these instruments.

The fair value of short-term investments is recorded at its fair value being its face value plus accrued interest.

Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below.

Capital Risk

The Company manages its capital with the objective of providing adequate capital resources for the Company to maintain and develop its websites and other business activities. The capital structure of the Company consists of shareholder's equity and depends on the ability of the Company to raise ongoing capital and on the future profitability of the Company's operations.

Credit Risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks, Harmonized Sales Tax payable to the Federal Government of Canada which taxes are included in amounts payable

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)**

Market Risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks. The ability of the Company to develop or market its services and the future profitability of the Company is related to these market risks.

Interest Rate Risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to deposit excess cash in interest bearing accounts at its banking institutions.

Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchase, which consist primarily of expenses are transacted in Canadian dollars. The Company operations are in Canada, and it does not engage in hedging activities.

Price Risk

The Company is not exposed to price risk.

Sensitivity Analysis

The Company's cash is measured at fair value. Financial instruments included in accounts receivable are classified as accounts receivable, which are measured at cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at cost. As at November 30, 2010, the carrying and fair value amounts of the Company's financial instruments are the same.

Base on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

The Company does not hold material reserves of foreign currencies to give rise to exposure to foreign exchange risk. Therefore a percentage change in certain foreign exchange rates will not have a significant impact on the Company.

13. **CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, and development of additional business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company will continue to assess new business opportunities and seek to acquire an interest in additional interests if it feels there is sufficient economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended November 30, 2010