QUIZAM MEDIA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

MAY 31, 2015 AND 2014

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Quizam Media Corporation

We have audited the accompanying consolidated financial statements of Quizam Media Corporation which comprise the consolidated statements of financial position as at May 31, 2015 and 2014 and the consolidated statements of operations and comprehensive loss, cash flows and changes in equity (deficiency) for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quizam Media Corporation as at May 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Emphasis of Matter**
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Quizam Media Corporation to continue as a going concern.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
September 28, 2015

**QUIZAM MEDIA CORPORATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian dollars)

| | As at May 31, 2015 $ | As at May 31, 2014 $ |
|---|---|---|
| ASSETS | | |
| Current | | |
| Accounts receivable | 12,287 | 21,303 |
| Prepaid expenses and deposits | 31,912 | 18,091 |
| Sales taxes recoverable | 19,580 | 14,954 |
| Loans receivable (Note 5) | – | 3,425 |
| | 63,779 | 57,773 |
| Property and equipment (Note 3) | 47,559 | 33,832 |
| Investment in film production (Note 4) | 55,000 | – |
| | 166,338 | 91,605 |
| LIABILITIES | | |
| Current | | |
| Cheques written in excess of funds on deposit | 11,367 | 11,181 |
| Accounts payable and accrued liabilities | 126,022 | 149,227 |
| Deferred revenue | 24,809 | 36,230 |
| Due to a related parties (Note 12) | 177,904 | 76,896 |
| Promissory notes payable (Note 6) | 131,817 | 23,093 |
| | 471,919 | 296,627 |
| EQUITY (DEFICIENCY) | | |
| Share capital (Note 7) | 13,600,229 | 12,754,706 |
| Contributed surplus | 980,446 | 962,235 |
| Share subscriptions received (Note 7) | 23,806 | – |
| Deficit | (14,910,062) | (13,921,963) |
| | (305,581) | (205,022) |
| | 166,338 | 91,605 |

Nature and continuance of operations (Note 1)
Commitments (Note 16)
Subsequent events (Note 18)

APPROVED ON BEHALF OF THE BOARD ON SEPTEMBER 25, 2015:

/s/ "Russ Rossi"
Russ Rossi, Director

/s/ "Jim Rosevear"
Jim Rosevear, Director

**QUIZAM MEDIA CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

**FOR THE YEARS ENDED MAY 31, 2015 AND 2014**

(Expressed in Canadian dollars)

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| REVENUES | | |
| Training services and software sales | 480,650 | 604,788 |
| On-Track TV sales | 68,891 | 67,167 |
| | 549,541 | 671,955 |
| EXPENSES | | |
| Accounting and legal (Note 12) | 228,320 | 198,600 |
| Automobile | 21,841 | 14,862 |
| Bank charges and finance fees | 7,728 | 6,678 |
| Depreciation | 12,779 | 9,523 |
| Interest on related party debt (Note 6 and 12) | 8,968 | 15,095 |
| Investor and finance development (Note 12) | 95,262 | 182,623 |
| Management fees (Note 12) | 144,000 | 144,000 |
| Office and miscellaneous | 61,618 | 156,875 |
| On-Track TV development costs (Note 11 and 12) | 181,957 | 209,929 |
| Regulatory fees | 19,677 | 10,376 |
| Rent | 158,884 | 158,808 |
| Software development costs (Note 11 and 12) | 44,478 | 61,883 |
| Share-based compensation (Note 8) | 42,211 | 209,300 |
| Subcontractors | 61,511 | 60,745 |
| Telephone and internet | 57,021 | 23,563 |
| Travel and business development | 206,651 | 63,972 |
| Wages and benefits (Note 12) | 185,174 | 240,385 |
| | 1,538,080 | 1,767,217 |
| LOSS BEFORE OTHER ITEMS | (988,539) | (1,095,262) |
| OTHER ITEMS | | |
| Interest income | 440 | 1,686 |
| Expense recovery | – | 3,083 |
| NET LOSS AND COMPREHENSIVE LOSS | (988,099) | (1,090,493) |
| LOSS PER SHARE BASIC AND DILUTED | (0.03) | (0.07) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 30,864,430 | 16,110,098 |

**QUIZAM MEDIA CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED MAY 31, 2015 AND 2014**

(Expressed in Canadian dollars)

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | (988,099) | (1,090,493) |
| Add back non-cash items: | | |
| Depreciation | 12,779 | 9,523 |
| Share-based compensation | 42,211 | 209,300 |
| | (933,109) | (871,670) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | 9,016 | 5,454 |
| Prepaid expenses and deposits | (13,821) | (7,351) |
| Sales taxes recoverable | (4,626) | (14,263) |
| Accounts payable and accrued liabilities | (23,205) | 25,842 |
| Due to related parties | 101,008 | 76,896 |
| Deferred revenue | (11,421) | 17,940 |
| CASH USED IN OPERATING ACTIVITIES | (876,158) | (767,152) |
| FINANCING ACTIVITIES | | |
| Amounts due to related party repaid | – | (105,787) |
| Issuance of promissory notes payable, net | 108,724 | 5,475 |
| Share subscriptions received | 23,806 | – |
| Issuance of common shares, net | 821,523 | 840,479 |
| CASH PROVIDED BY FINANCING ACTIVITIES | 954,053 | 740,167 |
| INVESTING ACTIVITIES | | |
| Payments received on loans receivable | 3,425 | 7,485 |
| Investment in film production | (55,000) | – |
| Acquisition of property and equipment | (26,506) | (29,212) |
| CASH USED IN INVESTING ACTIVITIES | (78,081) | (21,727) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (186) | (48,712) |
| CASH AND CASH EQUIVALENTS (CHEQUES ISSUED IN EXCESS OF FUNDS ON DEPOSIT) – BEGINNING OF THE YEAR | (11,181) | 37,531 |
| CHEQUES ISSUED IN EXCESS OF FUNDS ON DEPOSIT – END OF THE YEAR | (11,367) | (11,181) |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | – | 5,475 |
| Income tax paid | – | – |
| NON-CASH FINANCING ACTIVITIES | | |
| Issuance of shares for finders' fees | 19,430 | 55,484 |

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**QUIZAM MEDIA CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

**FOR THE YEARS ENDED MAY 31, 2015 AND 2014**

(Expressed in Canadian dollars)

| | Number of Common Shares | Amount $ | Contributed Surplus $ | Share Subscriptions Received $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| As at May 31, 2013 | 36,988,252 | 11,783,166 | 755,335 | – | (12,831,470) | (292,969) |
| Share consolidation (Note 7) | (24,658,835) | – | – | – | – | – |
| Common shares issued | 10,330,475 | 961,000 | – | – | – | 961,000 |
| Issued as finder's fees | 590,770 | 55,484 | – | – | – | 55,484 |
| Share issuance costs | – | (57,344) | – | – | – | (57,344) |
| Warrants exercised | 16,667 | 6,000 | – | – | – | 6,000 |
| Options exercised | 13,333 | 6,400 | (2,400) | – | – | 4,000 |
| Share-based compensation | – | – | 209,300 | – | – | 209,300 |
| Net loss for the year | – | – | – | – | (1,090,493) | (1,090,493) |
| As at May 31, 2014 | 23,280,662 | 12,754,706 | 962,235 | – | (13,921,963) | (205,022) |
| Common shares issued | 17,757,142 | 627,000 | – | – | – | 627,000 |
| Issued as finder's fees | 630,642 | 19,430 | – | – | – | 19,430 |
| Share issuance costs | – | (32,507) | – | – | – | (32,507) |
| Warrants exercised | 1,284,000 | 177,600 | – | – | – | 177,600 |
| Stock option*s exercised | 200,000 | 54,000 | (24,000) | – | – | 30,000 |
| Share subscriptions received | – | – | – | 23,806 | – | 23,806 |
| Share-based compensation | – | – | 42,211 | – | – | 42,211 |
| Net loss for the year | – | – | – | – | (988,099) | (988,099) |
| As at May 31, 2015 | 43,152,446 | 13,600,229 | 980,446 | 23,806 | (14,910,062) | (305,581) |

## 1. CORPORATE INFORMATION, NATURE AND CONTINUANCE OF OPERATIONS

Quizam Media Corporation (the "Company") was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business activity consists of providing computer training and consulting services and marketing of a computer based educational program. The address of the Company's corporate office and its principal place of business is 4th Floor, 885 West Georgia Street, Vancouver, BC, V6C 3E8.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has a history of significant losses, sizeable accumulated deficits and working capital deficits. These factors form a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on completing equity financings, obtaining support from related parties or generating consistent profitable operations in the future.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement and presentation

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Significant areas requiring the use of management estimates relate to estimation of an allowance for doubtful accounts, the measurement of share-based compensation, expected lives of long-lived assets, and the recognition of deferred income tax assets. Actual results could differ from those estimates. Significant judgements are applied by management to determine whether sales have met the Company's revenue recognition criteria, whether investments in film production are recoverable, and to asses the probability of realizing deferring income tax assets based on the likelihood of generating taxable income in the future. Different judgement could yield different results. These consolidated financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 2 (p). All amounts are expressed in Canadian dollars unless otherwise stated.

c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and On-Track Computer Training Ltd. ("On-Track"). On-Track was incorporated in Canada and is 100% owned by Quizam Media Corporation. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

d) Foreign currency translation

Foreign currency denominated assets and liabilities of operations are translated into Canadian dollars at exchange rates prevailing at the consolidated statement of financial position date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses are converted at the average exchange rate for the reporting period. Gains or losses on translation are included in operations. The Company's functional and presentation currency is the Canadian dollar.

e) Cash and cash equivalents

The Company considers deposits with banks or highly liquid short-term interest bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents.

f) Property and Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

| | |
|---|---|
| Computer hardware | 3 years |
| Furniture and fixtures | 5 years |
| Library | 5 years |

Leasehold improvements are depreciated using the straight-line method over the estimated term of the related lease.

g) Investment in film productions

Investment in film productions represents the unamortized cost of film projects which are in development and in progress. Such costs are capitalized and upon commencement of production are reclassified to production costs in the consolidated statement of financial position. Projects in development are written off at the earlier of the date they are determined not to be recoverable or when abandoned, or three years from the date of initial investment.

Costs of producing film programs are capitalized and amortized using the individual film forecast method, whereby capitalized costs are amortized, and ultimate participation costs are accrued, in the proportion that current revenue bears to management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition or licensing of the film. For film programs produced by the Company, capitalized costs include all direct production, an allocation of directly attributable overhead and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until the film or television program is complete.

h) Long-lived assets and impairment

The Company evaluates, on an ongoing basis, the carrying value of property and equipment, for indications of impairment at each statement of financial position date or if an indication of impairment occurs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

i) Loans receivable and notes payable

Loans receivable and notes payable are carried at amortised cost using the effective interest method. Finance charges are deferred and recognized over the life of the loan.

j) Share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issuance costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred.

Share issue costs are charged to share capital when the related shares are issued. Deferred share issuance costs related to financing transactions that are not completed are charged to expenses.

k) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which deductions and tax losses can be utilized.

l) Revenue recognition

i. Training revenue

Training revenues are recorded when a customer attends a course, this is the date at which the stage of completion and costs of the transaction can be reliably measured, the amount of revenue can be measured reliably and it is probable that the economic benefits of the transaction will flow to the Company.

ii. On-Track TV revenue

On-Track TV revenues are those whereby customers sign up and pay for access to a video library. The revenues are recorded when access to the On-Track TV website has been granted and collection is probable.

iii. Software revenue

The Company records revenue from the sale of software when the customers download the software from the Company's website and collection is reasonably assured which is generally when direct payment is received.

iv. License fee revenue

License fees are recorded in the accounts when all conditions have been met under the license agreement, the licensee is satisfied with the operations of the software, and collection is probable, which is generally when payment is received.

m) Share-based payments

The Company records all share-based payments at their fair value. The share-based compensation costs are charged to operations over the stock option vesting period and agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based compensation.

n) Earnings (Loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted income (loss) per share.

The existence of warrants and options affects the calculation of earnings (loss) per share on a fully diluted basis. As the effect of this dilution is to increase the reported earnings per share and reduce the reported loss per share and diluted per share amounts excludes all potential common shares if their effect is anti-dilutive.

o) Development costs

Development costs are expensed as incurred, except in cases where development costs meet certain identifiable criteria for deferral. The Company has not capitalized any product development costs during the year.

p) Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise of cheques written in excess of funds on deposit, accounts receivable, loans receivable, accounts payable, due to related parties and promissory notes payable. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

At initial recognition management has classified financial assets and liabilities as follows:

i. Financial assets

The Company has no assets recognized at FVTPL. The Company has classified accounts receivable and loans receivable as loans and receivables. The Company has not classified any financial assets held to maturity or available for sale.

ii. Financial liabilities

The Company has recognized its accounts payable, due to related parties and promissory notes payable as other financial liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

q) New accounting standards adopted effective June 1, 2014

The mandatory adoption of the following new and revised accounting standards and interpretations on June 1, 2014 had no significant impact on the Company's consolidated financial statements for the years presented:

***IAS 36 – Impairment of Assets***

In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a CGU for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when an asset's or a CGU's recoverable amount is based on fair value less costs of disposal. The adoption of this standard had no significant impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

r) New accounting standards not yet adopted

***IFRS 15 – Revenue from Contracts with Customers***

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017.

***IFRS 9 – Financial Instruments***

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018.

Management is currently evaluating any impact that the above standards may have on the Company's consolidated financial statements and this assessment has not yet been finished.

## 3. PROPERTY AND EQUIPMENT

| **Cost** | **Computer Hardware** | **Furniture and Fixtures** | **Leasehold Improvements** | **Library** | **Total** |
|---|---|---|---|---|---|
| As at May 31, 2013 | $ 352,988 | $ 76,560 | $ – | $ 4,280 | $ 433,828 |
| Additions | 4,593 | – | 24,617 | – | 29,210 |
| As at May 31, 2014 | $ 357,581 | $ 76,560 | $ 24,617 | $ 4,280 | $ 463,038 |
| Additions | 26,031 | – | – | 475 | 26,506 |
| As at May 31, 2015 | $ 383,612 | $ 76,560 | $ 24,617 | $ 4,755 | $ 489,544 |
| **Accumulated Depreciation** | | | | | |
| As at May 31, 2013 | $ 344,313 | $ 71,820 | $ – | $ 3,552 | $ 419,685 |
| Depreciation | 5,862 | 1,471 | 1,799 | 389 | 9,521 |
| As at May 31, 2014 | $ 350,175 | $ 73,291 | $ 1,799 | $ 3,941 | $ 429,206 |
| Depreciation | 7,044 | 1,465 | 3,931 | 339 | 12,779 |
| As at May 31, 2015 | $ 357,219 | $ 74,756 | $ 5,730 | $ 4,280 | $ 441,985 |
| **Carrying Amounts** | | | | | |
| Balance, May 31, 2014 | $ 7,406 | $ 3,269 | $ 22,818 | $ 339 | $ 33,832 |
| Balance, May 31, 2015 | $ 26,393 | $ 1,804 | $ 18,887 | $ 475 | $ 47,559 |

## 4. INVESTMENT IN FILM PRODUCTION

During the year ended May 31, 2015, the Company invested $55,000 in a film production project. These costs have been capitalized as an intangible asset under development at May 31, 2015. No depreciation has been recorded in 2015 since the production is still progress and has not been completed yet. The Company committed pay another $55,000 upon completion of the project scheduled for November 2015.

## 5. LOANS RECEIVABLE

The Company has developed a program where it shares marketing and sales expenses with its licensees. Any monies advanced to licensees will take the form of an interest bearing loan and must be paid back to the Company. In fiscal 2010, the Company advanced £7,600 pounds (repayable at CDN $14,227 including interest) to Central Media Services Limited, a UK Licensee. The loan bears a fixed interest rate of 5% per annum calculated monthly. There are no fixed terms of repayment. At May 31, 2015, the balance due including interest is $nil (May 31, 2014 - $3,425).

## 6. PROMISSORY NOTES PAYABLE

At May 31, 2015, the promissory notes payable balance is $131,817 (May 31, 2014 - $23,093) including interest and finance fees. The promissory notes are unsecured, due on demand, bear interest at 15% and are payable to a significant shareholder of the Company.

## 7. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common voting shares without par value. Disclosures on any common shares issued are also provided in the consolidated statements of changes in equity (deficiency).

On February 5, 2014, the Company enacted a three-to-one common share consolidation. All comparative references to the number of shares, warrants, options, weighted average number of shares and loss per share have been restated to give effect to the three-to-one share consolidation.

*Transactions for the year ended May 31, 2015:*

In September 2014, the Company completed a private placement consisting of 4,233,333 common shares at $0.03 per share for proceeds of $127,000. In connection with the private placement, the Company issued 256,667 common shares as finders' fees with a fair value of $7,700.

In November 2014, the Company completed a private placement consisting of 4,000,000 units at a price of $0.05 per unit for proceeds of $200,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant is exercisable for 18 months at $0.10 per share.

In February 2015, the Company completed a private placement consisting of 6,666,667 units at a price of $0.03 per unit for proceeds of $200,000. Each unit consisted of one common share and one share purchase warrant. Each whole warrant is exercisable for 18 months at $0.10 per share. The Company issued 271,833 common shares as finders' fees with a fair value of $8,155.

In April 2015, the Company completed a private placement consisting of 2,857,142 units at a price of $0.035 per unit for proceeds of $100,000. Each unit consisted of one common share and one share purchase warrant. Each whole warrant is exercisable for 18 months at $0.10 per share. The Company issued 102,142 common shares as finders' fees with a fair value of $3,575.

During the year ended May 31, 2015, the Company issued 1,284,000 common shares upon exercise of warrants for total proceeds of $177,600.

During the year ended May 31, 2015, the Company issued 200,000 common shares upon exercise of stock options for total proceeds of $54,000.

In May 2015, the Company received $23,806 in proceeds towards the private placement closed in July 2015 (see Note 18). This amount was included in share subscriptions received at May 31, 2015.

*Transactions for the year ended May 31, 2014:*

In September 2013, the Company completed a non-brokered private placement consisting of 2,933,333 units at $0.15 per unit for proceeds of $440,000. Each unit consisted of one common share and one half of a share purchase warrant exercisable at a price of $0.36 for one year expiring on September 11, 2014. In connection with the private placement, the Company issued 184,333 common shares as finders' fees with a fair value of $27,650.

In November 2013, the Company completed a non-brokered private placement consisting of 540,000 units at $0.15 per unit for proceeds of $81,000. Each unit consisted of one common share and one half of a share purchase warrant exercisable at a price of $0.36 for one year expiring on November 21, 2014. In connection with the private placement, the Company issued 8,000 common shares as finders' fees with a fair value of $1,200.

In March 2014, the Company completed a non-brokered private placement consisting of 4,857,142 units at $0.07 per unit for proceeds of $340,000. Each unit consisted of one common share and one half of a share purchase warrant exercisable at a price of $0.25 for 18 months expiring on September 4, 2015. In connection with the private placement, the Company issued 335,492 common shares as finders' fees with a fair value of $23,485.

In May 2014, the Company completed a non-brokered private placement consisting of 2,000,000 units at $0.05 per unit for proceeds of $100,000. Each unit consisted of one common share and one share purchase warrant exercisable at a price of $0.15 for 18 months expiring on September 4, 2015. In connection with the private placement, the Company issued 63,000 common shares as finders' fees with a fair value of $3,150.

During the year ended May 31, 2014, the Company issued 16,667 common shares upon exercise of warrants for total proceeds of $6,000.

During the year ended May 31, 2014, the Company issued 13,333 common shares upon exercise of stock options for total proceeds of $6,400.

(Expressed in Canadian dollars)

## 8. STOCK OPTIONS

Stock option plan and stock options issued:

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Incentive Share Option Plan (the "Plan"). Under the Plan, the option price must not be less than the closing price of the common shares of the Company on the TSX-V on the day immediately preceding the date of grant less the applicable discount if any. The number of options that may be issued under the plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date. Options vest immediately. Vesting restrictions may also be applied to certain other options grants, at the discretion of the directors.

The following table summarizes the continuity of the Company's stock options:

| | Number of Underlying Shares | Weighted Average Exercise Price $ |
|---|---|---|
| Outstanding, May 31, 2013 | 594,167 | 0.45 |
| Granted | 1,700,000 | 0.15 |
| Exercised | (13,333) | 0.30 |
| Cancelled/Expired | (297,500) | 0.32 |
| Outstanding, May 31, 2014 | 1,983,333 | 0.21 |
| Granted | 1,330,000 | 0.13 |
| Exercised | (200,000) | 0.15 |
| Cancelled/Expired | (793,333) | 0.30 |
| Outstanding, May 31, 2015 | 2,320,000 | 0.14 |

All of the options outstanding at May 31, 2015 and 2014 were fully vested.

The fair value for stock options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

| | 2015 | 2014 |
|---|---|---|
| Risk-free interest rate | 1.07% | 1.06% |
| Expected life (in years) | 2.00 | 2.00 |
| Expected volatility | 179% | 166% |
| Expected forfeitures | 0% | 0% |
| Dividend yield | 0% | 0% |

Total share-based compensation expense recognized for stock options granted during the year was $42,211 (2014 - $209,300) and was charged to operations for options granted to directors, officers and consultants of the Company.

The weighted average grant date fair value of stock options granted during the year was $0.03 (2014 - $0.12) per option.

The weighted average remaining contractual life of the stock options outstanding as at May 31, 2015 was 1.17 years (2014 - 1.61 years).

(Expressed in Canadian dollars)

## 9. SHARE PURCHASE WARRANTS

The following table summarizes the continuity of the Company's share purchase warrants:

| | Number of Underlying Shares | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, May 31, 2013 | 2,583,333 | 0.81 |
| Issued in unit private placements | 6,165,238 | 0.25 |
| Exercised | (16,667) | 0.36 |
| Expired | (2,066,666) | 0.84 |
| Balance, May 31, 2014 | 6,665,238 | 0.31 |
| Issued in unit private placements | 11,523,809 | 0.10 |
| Exercised | (1,284,000) | 0.14 |
| Expired | (2,236,667) | 0.51 |
| Balance, May 31, 2015 | 14,668,380 | 0.13 |

At May 31, 2015, the following share purchase warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| 2,428,571 | $ 0.25 | September 4, 2015 |
| 1,016,000 | $ 0.15 | November 27, 2015 |
| 1,700,000 | $ 0.10 | May 27, 2016 |
| 6,666,667 | $ 0.10 | September 3, 2016 |
| 2,857,142 | $ 0.10 | October 22, 2016 |
| 14,668,380 | | |

The weighted average remaining contractual life of the warrants outstanding as at May 31, 2015 was 1.04 years (2014 – 0.83 years).

(Expressed in Canadian dollars)

## 10. SEGMENTED INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operation decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company derives sales from training services and software sales.

(a) Training Services and UK On-Track TV Sales for the years ended May 31:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Revenue | 549,541 | 671,955 |
| Expenses | (935,113) | (1,008,620) |
| Profit (loss) | (385,572) | (336,665) |

(b) Software Sales and Licensing for the years ended May 31:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Revenue | – | – |
| Expenses | (602,527) | (753,828) |
| Profit (loss) | (602,527) | (753,828) |

The Company's operations are centralized whereby the Company's head office is responsible for the operational results. All of the Company's assets are in Canada. The Company's revenues include sales generated in Canada and in the U.K. as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Canada | 486,739 | 636,169 |
| U.K. | 62,802 | 35,786 |

## 11. PRODUCT DEVELOPMENT COSTS

(a) On-Track TV

During fiscal 2015 and 2014, the Company finished a complete set of on-line curriculum for its training division called On-Track TV. The costs associated with development of the On-Track TV, which are included in expenses for the year ended May 31, 2015 and 2014 are as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Salary, wages and fees (management, programming and marketing) | 111,951 | 186,411 |
| Materials | 3,095 | 2,118 |
| Marketing, advertising and promotion | 66,911 | 21,400 |
| | 181,957 | 209,929 |

(Expressed in Canadian dollars)

(b) Quizam software

The costs associated with development of the Quizam educational software, which are included in the consolidated statement of operations, and comprehensive loss for the year ended May 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Salary, wages and fees (management, programming and marketing) | 44,478 | 61,483 |
| Advertising and promotion | – | 400 |
| | 44,478 | 61,883 |

## 12. RELATED PARTY TRANSACTIONS

### *(a) Key management compensation*

The Company has identified its Directors, President and Chief Executive Officer, and Chief Financial Officer as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties as follows:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Wages and benefits, and fees | 276,060 | 212,950 |
| Share-based payments | – | 98,473 |
| | 276,040 | 311,423 |

For the years ended May 31, 2015 and 2014, key management personnel were not paid any post-employment benefits, termination benefits or any other long-term benefits.

### *(b) Amounts due to related parties*

At May 31, 2015, the Company owed $177,904 (2014 - $76,896) to a significant shareholder and companies owned by a significant shareholder, who is also a director and officer, and to a company owned by his relative. Additionally, a promissory note is payable to a related party as disclosed in Note 6.

### *(c) Related party transactions*

Accounting, investor and finance development, product development, moving, office and other miscellaneous expenses are provided by a company owned by a significant shareholder who is also a director and officer. An amount of $385,077 (2014 - $310,845) was included in expenses for these services during the year ended May 31, 2015.

During the year ended May 31, 2015, marketing and publicity, investor and finance development, product development fees, and moving expenses totalling $50,968 (2014 - $88,461) were included in expenses to a company owned by a relative of one of the directors.

During the year ended May 31, 2015, product development fees and office expenses totalling $nil (2014 - $54,360) were included in expenses to relatives of one of the directors.

(Expressed in Canadian dollars)

## 13. CAPITAL MANAGEMENT

The Company's capital currently consists of common shares, share subscriptions, options and warrants for a total amount of $14,604,481 (2014 – $13,716,941). The Company's principal source of capital is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to meet the Company's educational software development, internet training development and film production to ensure the growth of activities.

## 14. LINE OF CREDIT

As at May 31, 2015, the Company has a line of credit of $5,000 bearing interest at the bank's prime rate plus five percent. The line of credit is guaranteed by the assets of the Company. There was no outstanding balance as of May 31, 2015 and 2014.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cheques written in excess of funds on deposit, accounts receivable, loans receivable, accounts payable, due to related parties and promissory notes payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

The following table summarizes information regarding the carrying values of the Company's financial instruments:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| FVTPL | – | – |
| Loans and receivables (i) | 12,287 | 24,728 |
| Other financial liabilities (ii) | (422,110) | (231,197) |

(i) Accounts receivable and loans receivable
(ii) Cheques written in excess of funds on deposit, accounts payable, amounts due to a related party and promissory notes payable

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data.

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy:

| | Level | 2015 | 2014 |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | 1 | – | – |

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

*Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable. Credit risk from accounts receivable encompasses the default risk of its customers. The Company manages its exposure to credit risk by only working with reputable companies and by performing on-going credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed appropriate. The maximum exposure to loss arising from accounts receivable is equal to their carrying amounts.

The following table provides information regarding the ageing of financial assets that are past due but which are not impaired as at May 31, 2015:

| | Neither past due nor impaired | 31-60 days | 61-90 days | 91 days and over | Carrying value |
|---|---|---|---|---|---|
| Trade accounts receivable | $ 3,613 | 3,859 | 450 | 4,365 | 12,287 |

All of the 61 days and over balance outstanding at May 31, 2015 has been collected subsequent to May 31, 2015.

*Liquidity Risk*

The Company manages its ability to meet its short-term obligations through the capital management described in Note 13. The Company has a working capital deficit and requires additional financing to fund operations.

*Foreign Exchange Risk*

As the Company generates a portion of its revenues in the U.K., the Company's foreign exchange risk arises primarily with respect to the U.K. pound sterling. Financial instruments that subject the Company to foreign currency exchange risk include cash and accounts receivable. Approximately 5% of the Company's revenues are denominated in the U.K. pound sterling (2014 – 5%), while a significant amount of the Company's expenses are denominated in Canadian dollars. In management's opinion the Company is not exposed to significant foreign exchange rate risk.

*Interest Rate Risk*

In management's opinion the Company is not exposed to significant interest rate risk.

(Expressed in Canadian dollars)

## 16. COMMITMENTS

The Company has signed rental agreement effective until June 29, 2017 and has committed to rental payments of the total of $295,957 payable as follows:

| | $ |
|---|---|
| May 31, 2016 | 142,059 |
| May 31, 2017 | 142,059 |
| May 31, 2018 | 11,839 |
| Total | 295,957 |

## 17. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Canadian statutory income tax rate | 26.0% | 26.0% |
| Net loss before tax per financial statements | (988,099) | (1,090,493) |
| Income tax recoverable at statutory rates | 256,906 | 283,528 |
| Permanent differences and other | (5,967) | (55,953) |
| Change in enacted rates | – | 101,298 |
| Expiry of losses | (172,226) | (238,856) |
| Unrecognized tax assets | (78,713) | (90,017) |
| Income tax recoverable | – | – |

The tax effects of temporary differences that give rise to significant portions of the potential deferred tax assets are as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Future effective tax rate | 26.0% | 26.0% |
| Deferred income tax assets | | |
| Non-capital losses carried forward | 2,580,536 | 2,507,345 |
| Capital assets and other | 41,478 | 38,156 |
| Share issuance costs | 8,038 | 5,838 |
| Unrecognized deferred tax assets | (2,630,052) | (2,551,339) |
| Net deferred income tax assets | – | – |

(Expressed in Canadian dollars)

## 17. INCOME TAXES

The Company has approximately $9,925,140 (2014 – $9,643,633) of losses for tax purposes which may be used to reduce income taxes of future years and will expire as follows:

| | $ |
|---|---|
| 2026 | 834,329 |
| 2027 | 1,065,796 |
| 2028 | 1,255,435 |
| 2029 | 1,159,201 |
| 2030 | 980,292 |
| 2031 | 1,069,816 |
| 2032 | 1,039,129 |
| 2033 | 680,374 |
| 2034 | 885,536 |
| 2035 | 955,232 |
| | 9,925,140 |

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

## 18. SUBSEQUENT EVENTS

(a) In June 2015, the Company entered into an agreement to acquire a 10% equity interest in William Sadleir's new motion picture distribution company, headquartered in Beverly Hills, California. The Company will issue 15,000,000 shares to acquire 10% of the units of the new company. Four milestones are required to be achieved by the new company by October 16, 2015 in order for the shares to be issued. The four milestones are as follows:

   (i) An executed Financing Agreement for a minimum of US$30,000,000 in long-term capital financing from an institutional investment company.

   (ii) An executed Home Entertainment Distribution Services Agreement with a major film studio for the release of not fewer than 15 feature-length motion pictures in the United States and Canada, each with marketing budgets not less than US$15,000,000.

   (iii) An executed Theatrical Distribution Agreement for a 2015 release of a feature-length motion picture with a production budget of at least US$24,000,000.

   (iv) An executed Theatrical Distribution Agreement for a 2015 release of a feature-length motion picture with a production budget of at least US$8,000,000.

## 18. SUBSEQUENT EVENTS

In return for the above, the Company will receive (i) US$50,000 per year, paid quarterly (ii) right to a dividend or other payment of US$1,000,000 to be paid within five years (iii) a continuing 10% net profits interest in the new company (iv) a non-dilution clause in which the Company's 10% equity interest can never be diluted. This agreement has not closed and is subject to regulatory and shareholder approval.

(b) In July 2015, the Company completed a private placement consisting of 3,000,000 units at a price of $0.05 per unit for proceeds of $150,000. Each unit consisted of one common share and one share purchase warrant. Each whole warrant is exercisable for 18 months at $0.12 per share. A portion of proceeds totaling $23,806 was collected prior to May 31, 2015 and included in subscriptions received at May 31, 2015 (see Note 7).The Company issued 104,000 common shares as finders' fees in connection with this private placement.

(c) In August 2015 the Company issued 300,000 stock options to employees with an exercise price of $0.10.

(d) In September 2015, the Company completed a private placement consisting of 4,000,000 units at $0.03 per unit for proceeds of $120,000. Each unit consisted of one common share and one share purchase warrant. Each whole warrant is exercisable for 18 months at $0.12 per share. The Company paid $66,667 in finders' fees.

(e) Subsequent to May 31, 2015, the Company issued 935,150 shares upon exercise of warrants for gross proceeds of $93,515, and 200,000 shares upon exercise of stock options for gross proceeds of $30,000.