

**PURE LIVING MEDIA INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012**

**These unaudited condensed consolidated interim financial statements of Pure Living Media Inc. for the nine months ended February 29, 2012 have been prepared by management and approved by the Board of Directors.**

**PURE LIVING MEDIA INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)  
(Expressed in Canadian Dollars)

	February 29, 2012	May 31, 2011 (Note 12)	June 1, 2010 (Note 12)
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 75,516	\$ 36,155	\$ 147,717
Receivables	9,859	18,884	14,607
Prepays	<u>-</u>	<u>-</u>	<u>45,541</u>
	85,375	55,039	207,865
<b>Restricted cash</b>	-	-	10,000
<b>Equipment</b>	-	-	1,112
<b>Domain name</b> (Note 4)	-	-	3,571
<b>Software license</b> (Note 4)	-	-	239,659
<b>Website development costs</b> (Note 4)	<u>-</u>	<u>-</u>	<u>905,695</u>
	<u>\$ 85,375</u>	<u>\$ 55,039</u>	<u>\$ 1,367,902</u>
<b>LIABILITIES AND EQUITY (DEFICIENCY)</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 29,232	\$ 75,425	\$ 70,100
Loans payable (Note 5)	11,250	-	-
Due to related parties (Note 9)	82,525	31,000	5,595
Convertible debenture (Note 6)	<u>-</u>	<u>-</u>	<u>89,845</u>
	<u>123,007</u>	<u>106,425</u>	<u>165,540</u>
<b>Equity (deficiency)</b>			
Capital stock (Note 7)	2,376,800	2,376,800	1,598,150
Subscriptions received in advance (Note 13)	175,000	-	-
Reserves (Note 7)	1,691,304	1,691,304	1,691,304
Deficit	(3,896,114)	(3,734,868)	(2,087,092)
Non-controlling interest	<u>(384,622)</u>	<u>(384,622)</u>	<u>-</u>
	<u>(37,632)</u>	<u>(51,386)</u>	<u>1,202,362</u>
	<u>\$ 85,375</u>	<u>\$ 55,039</u>	<u>\$ 1,367,902</u>

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 13)

**Approved and authorized on behalf of the Board on April 25, 2012:**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**PURE LIVING MEDIA INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
(Unaudited)  
(Expressed in Canadian Dollars)

	Three Months Ended February 29, 2012	Three Months Ended February 28, 2011 (Note 12)	Nine Months Ended February 29, 2012	Nine Months Ended February 28, 2011 (Note 12)
<b>EXPENSES</b>				
Administration fees	\$ 8,500	\$ -	\$ 18,500	\$ -
Contract labour	-	109,716	-	269,372
Consulting fees	5,000	-	5,000	-
Management fees (Note 9)	30,000	14,553	90,000	26,932
Marketing	-	846	-	92,645
Office and miscellaneous	4,665	7,583	7,025	15,807
Photography	-	1,886	-	2,917
Professional fees	8,677	83,494	48,060	110,464
Rent (Note 9)	8,396	2,750	18,368	3,750
Transfer agent and filing fees	6,301	5,348	13,505	13,909
Travel and related costs	-	10,168	-	16,338
Website	-	30,108	-	222,895
<b>Loss before other items</b>	<u>(71,539)</u>	<u>(266,452)</u>	<u>(200,458)</u>	<u>(775,029)</u>
<b>OTHER ITEMS</b>				
Foreign exchange loss	(34)	(5,438)	(102)	(12,937)
Gain on settlement of accounts payable	39,314	-	39,314	-
Other income	-	20,724	-	117,370
Interest expense	-	(2,049)	-	(8,196)
	<u>39,280</u>	<u>13,237</u>	<u>39,212</u>	<u>96,237</u>
<b>Loss and comprehensive loss for the period</b>	<u>\$ (32,259)</u>	<u>\$ (253,215)</u>	<u>\$ (161,246)</u>	<u>\$ (678,792)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>	<u>\$ (0.26)</u>
<b>Weighted average number of common shares outstanding</b>	<u>2,932,239</u>	<u>2,705,164</u>	<u>2,932,239</u>	<u>2,578,414</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**PURE LIVING MEDIA INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Expressed in Canadian Dollars)

	Nine Months Ended February 29, 2012	Nine Months Ended February 28, 2011
		(Note 12)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (161,246)	\$ (678,792)
Item not affecting cash:		
Gain on settlement of accounts payable	(39,314)	-
Accretion of convertible debenture	-	8,196
Changes in non-cash working capital items:		
(Increase) decrease in receivables	9,025	(75,169)
(Increase) decrease in prepaids	-	27,868
Increase (decrease) in accounts payable and accrued liabilities	(6,879)	84,693
Increase (decrease) in due to related parties	<u>51,525</u>	<u>212</u>
Net cash used in operating activities	<u>(146,889)</u>	<u>(632,992)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan proceeds	11,250	-
Share subscriptions received in advance	175,000	-
Capital stock issued	-	677,800
Share issuance costs	<u>-</u>	<u>(42,120)</u>
Net cash provided by financing activities	<u>186,250</u>	<u>635,680</u>
<b>Change in cash for the period</b>	39,361	2,688
<b>Cash, beginning of period</b>	<u>36,155</u>	<u>157,717</u>
<b>Cash, end of period</b>	<u>\$ 75,516</u>	<u>\$ 160,405</u>

**Supplemental disclosure with respect to cash flows** (Note 10)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**PURE LIVING MEDIA INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited)  
(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital Amount	Reserves	Deficit	Non- controlling interest	Total
<b>Balance, May 31, 2010</b>	2,324,589	\$ 1,598,150	\$ 1,691,304	\$ (2,087,092)	\$ -	\$ 1,202,362
Private placements	479,650	677,800	-	-	-	677,800
Share issuance costs	-	(42,120)	-	-	-	(42,120)
Shares issued to settle accounts payable	28,000	56,000	-	-	-	56,000
Loss for the period	-	-	-	(678,792)	-	(678,792)
<b>Balance, February 28, 2011</b>	2,832,239	2,289,830	1,691,304	(2,765,884)	-	1,215,250
Share issuance costs	-	(13,030)	-	-	-	(13,030)
Shares issued to settle convertible debenture	100,000	100,000	-	-	-	100,000
Non-controlling interest	-	-	-	-	(384,622)	(384,622)
Loss for the period	-	-	-	(968,984)	-	(968,984)
<b>Balance, May 31, 2011</b>	2,932,239	2,376,800	1,691,304	(3,734,868)	(384,622)	(51,386)
Subscriptions received in advance	-	175,000	-	-	-	175,000
Loss for the period	-	-	-	(161,246)	-	(161,246)
<b>Balance, February 29, 2012</b>	2,932,239	\$ 2,551,800	\$ 1,691,304	\$ (3,896,114)	\$ (384,622)	\$ (37,632)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**PURE LIVING MEDIA INC.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Pure Living Media Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on January 16, 2007. The Company began trading on the TSX Venture Exchange (“TSX-V”) as Patriotstar Ventures Inc. (“Patriotstar”). Prior to December 11<sup>th</sup> 2009 the Company was a Capital Pool Company as defined in the TSX-V Policy 2.4. Effective December 11<sup>th</sup> 2009, the Company completed its “Qualifying Transaction” whereby it acquired all of the issued and outstanding shares in TinyMassive Technologies Corp. (“TMTC”), a BC Limited Company. As a result of completing the Qualifying Transaction, the Company was no longer a CPC and control of the Company passed to the shareholders of TMTC. Accordingly, the Qualifying Transaction was a reverse takeover (“RTO”) acquisition of the Company by TMTC and was treated as a capital transaction by TMTC.

The Company’s head office, principal address and registered and records office is 509 – 207 West Hastings Street, Vancouver, British Columbia, Canada, V6B 1H7.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term.

During the year ended May 31, 2011, the Company discontinued its website development activities and all related assets were written off to operations. The Company’s continuing operations as intended are now dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

While management intends to pursue additional financings and the Company has been successful in obtaining its required financing in the past, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

**2. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF IFRS**

**Statement of compliance**

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s transition date to IFRS is June 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles (“GAAP”). Historical results and balances have been restated under IFRS. These interim consolidated financial statements should be read in conjunction with the Company’s May 31, 2011 GAAP annual consolidated financial statements, and in consideration of the disclosure regarding the

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**2. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF IFRS (cont'd...)**

**Statement of compliance (cont'd...)**

transition from Canadian GAAP to IFRS included in Note 12. Certain disclosures that are required to be included in annual consolidated financial statements prepared in accordance with IFRS are not included in these condensed interim consolidated financial statements nor in the Company's most current annual GAAP consolidated financial statements.

**Basis of consolidation and presentation**

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These condensed consolidated interim financial statements include the accounts of the Company and its 51% owned US subsidiary, TBwaP, Inc.. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These condensed interim consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

**Use of estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of receivables, the valuation and amortization of equipment, domain name, software license and website development costs, the valuation of share-based payments and the recognition of deferred income tax amounts.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and each of its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.



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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*: This category consists of liabilities carried at amortized cost using the effective interest method.

**Equipment**

Equipment, which was comprised of a computer, is recorded at cost, net of accumulated amortization. Amortization is calculated on an annual basis over the estimated useful life using the declining balance method at a rate of 30% per annum. During the year ended May 31, 2011, the net book value of \$778 was written off to operations.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Intangible assets**

Intangible assets, consisting of a website license and software, are recorded at acquisition cost.

**Website development costs**

Website development costs are stated at cost less accumulated amortization. Amortization commences once the website has been completed. Website hosting and maintenance costs are charged to operations.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Share-based payments**

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income taxes (cont'd...)**

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

**New standards not yet adopted**

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change, due to their own credit risk, out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact on the Company upon implementation of the issued standard.

**4. DOMAIN NAME, SOFTWARE LICENSE AND WEBSITE DEVELOPMENT COSTS**

During the year ended May 31, 2010, the Company entered into a software license agreement. The license granted the Company the rights to certain software in Canada, the U.S and Mexico. As consideration, the Company issued 59,915 common shares with a value of \$239,659. The Company also purchased a domain name for its website for \$3,571.

During the year ended May 31, 2009, the Company entered into a consulting agreement with Lightmaker Vancouver (Internet) Inc. ("Lightmaker") for the provision of website development services. On March 31, 2009 the Company's subsidiary entered into a settlement agreement for the termination of the consulting agreement with Lightmaker pursuant to which the Company acquired certain intellectual property rights relating to the development of the Company's website in consideration for the grant of an option, valued at \$96,875, to purchase the Company's common shares at an aggregate purchase price of \$1 and the issuance of a \$100,000 convertible debenture (Note 6).

During the year ended May 31, 2011, the Company wrote off all costs, totaling \$1,148,925, related to the domain name, software license and website development costs.

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**5. LOANS PAYABLE**

During the nine months ended February 29, 2012, the Company entered into loan agreements with a company controlled by an officer of the Company and an officer of the Company (the "Lenders"). The principal amount of the loans are \$11,250 and they bear interest at 5% per annum. The loans are to be repaid upon the completion of the Company's restructuring, in either cash or common shares, at the option of the Lenders.

**6. COVERTIBLE DEBENTURE**

On April 7, 2009, the Company issued a \$100,000 convertible debenture pursuant to the settlement agreement for the termination of the consulting agreement with Lightmaker Incorporated. The debenture was unsecured, non-interest bearing, and would become payable and convertible on the date the Company completed a liquidity event (receipt of a net financing of \$1,500,000 or more). Once convertible, the balance could be converted into the Company's common shares. Such a conversion would occur at the fair market value of the Company's stock, being the greater of the share price governing the liquidity event or the greater of the share price at the date of conversion or \$1.00 per share. Any amount of the debenture outstanding on April 7, 2011 would be converted into the Company's common shares at the share price prevailing on April 11, 2011. As the loan was non-interest bearing, the Company discounted the note by \$24,386 and recorded \$75,614 as website costs. During the year ended May 31, 2011, the Company accreted \$10,155 of the discount.

On May 17, 2011 the convertible debenture was converted into 100,000 common shares valued at \$100,000.

**7. CAPITAL STOCK AND RESERVES**

**Authorized capital stock**

As at February 29, 2012, the authorized share capital of the Company is an unlimited number of common shares without par value.

**Share consolidation**

During the nine months ended February 29, 2012, the Company consolidated its share capital on the basis of 20 old shares for one new share. All common share, per share, option, warrant and weighted average price amounts were restated to reflect this consolidation.

**Private placements**

On February 2, 2011, the Company completed a private placement by issuing 100,650 units at a price of \$2.00 per unit for gross proceeds of \$201,300. Each unit consisted of one common share and one warrant enabling the holder to acquire an additional common share at \$3.00 for one year. A commission of 10% of the proceeds from certain investors, totalling \$20,130, was paid.

On December 10, 2010, the Company completed a private placement by issuing 97,500 units at a price of \$2.00 per unit for gross proceeds of \$195,000. Each unit consisted of one common share and one warrant enabling the holder to acquire an additional common share at \$3.00 for one year. A commission of 10% of the proceeds from certain investors, totalling \$17,000, was paid.

On August 13, 2010, the Company completed a private placement by issuing 110,000 common shares at a price of \$1.00 per share for gross proceeds of \$110,000. A commission of 10% of the proceeds from certain investors, totalling \$1,000, was paid.

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**7. CAPITAL STOCK AND RESERVES (cont'd...)**

**Private placements (cont'd...)**

On July 30, 2010, the Company completed a private placement of 171,500 common shares at a price of \$1.00 per share for gross proceeds of \$171,500. A commission of 10% of the proceeds from certain investors, totalling \$14,150, was paid.

**Escrow shares**

As at February 29, 2012, 209,305 (May 31, 2011 – 418,614) common shares are held in escrow.

**8. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

As at February 29, 2012, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
25,000	\$ 5.20	January 18, 2015
<u>37,500</u>	2.40	May 20, 2015
<u>62,500</u>		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, May 31, 2010	220,220	\$ 3.60
Options cancelled/expired	<u>(157,720)</u>	3.75
Balance, February 29, 2012 and May 31, 2011	62,500	\$ 3.52
Number of options currently exercisable	62,500	\$ 3.52

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**8. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Warrants**

As at February 29, 2012, the Company had no outstanding share purchase warrants or broker warrants.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at May 31, 2010	413,578	\$ 6.20
Issued	226,150	3.00
Expired	<u>(244,000)</u>	6.00
As at May 31, 2011	395,728	4.60
Expired	<u>(395,728)</u>	4.60
As at February 29, 2012	-	\$ -

**Stock-based compensation**

For the nine months ended February 29, 2012, the Company recorded \$Nil (February 28, 2011 - \$Nil) as stock-based compensation expense as no options were granted during the period.

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**9. RELATED PARTY TRANSACTIONS**

During the nine months ended February 29, 2012 and February 28, 2011, the Company entered into the following transactions with related parties:

- (a) The Company paid or accrued management fees of \$45,000 (2011 - \$Nil) and rent of \$2,000 (2011 - \$3,750) to Brugas Holdings Inc., a company controlled by the Chief Financial Officer and director of the Company.
- (b) The Company paid or accrued management fees of \$45,000 (2011 - \$Nil) and rent of \$16,368 (2011 - \$Nil) to Raincoast Capital Inc., a company controlled by the President and director of the Company; and
- (c) The Company paid or accrued \$Nil (2011 - \$25,066) in commissions and administrative fees to a director and a former director of TbwaP, Inc.

As at February 29, 2012 \$82,525 (May 31, 2011 - \$31,000) is owed to companies controlled by directors of the Company.

Amounts due to related parties are due to companies controlled by directors and officers, are unsecured, are non-interest bearing and have no specific terms of repayment. These transactions were conducted in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2012	2011
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

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There were no significant non-cash investing and financing transactions during the nine months ended February 29, 2012.

The significant non-cash investing and financing transaction during the nine months ended February 28, 2011, was the issuance of 28,000 common shares to settle accounts payable totaling \$56,000.

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**11. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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 or indirectly;  
and

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

The fair value of the Company's receivables, accounts payable and accrued liabilities approximate their carrying values. The Company's other financial instruments, being cash and marketable securities, are measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at a large Canadian financial institution in interest bearing accounts.

The Company's receivables consist mainly of HST receivable due from the government of Canada.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable and accrued liabilities are due within one year.

The Company has a working capital deficiency as at February 29, 2012 of \$37,632.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value of cash is minimal.



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**11. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

b) Foreign currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States. The Company funds cash calls to its subsidiary outside of Canada in US dollars. The greatest risk is the exchange rate of the Canadian dollar relative to the US dollar and a significant change in this rate could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. At February 29, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	<u>US\$</u>
Cash	949
<u>Accounts payable and accrued liabilities</u>	<u>-</u>
<u>Net exposure</u>	<u>949</u>

Based on the above net exposure as at February 29, 2012, and assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the US dollar would not materially affect the loss from operations.

c) Price risk

The Company is not exposed to price risk.

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities. The Company relies mainly on equity issuances and loans from related parties to raise new capital. In the management of capital, the Company includes the components of shareholders' equity. The Company prepares annual estimates of operating expenditures and monitors actual expenditures compared to the estimates in effort to ensure that there is sufficient capital on hand to meet ongoing obligations. The Company's investment policy is to negotiate premium interest rates on savings accounts or to invest its cash in highly liquid short-term deposits with terms of one year or less and which can be liquidated at any time without interest penalty. The Company will require additional financing in order to provide working capital to fund costs for the current year. These financing activities may include issuances of additional debt or equity securities.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

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**12. FIRST TIME ADOPTION OF IFRS**

As stated in Note 2, these consolidated financial statements are for the period covered by the Company's first condensed consolidated interim financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the nine months ended February 29, 2012 and February 28, 2011, the consolidated financial statements for the year ended May 31, 2011 and the opening IFRS statement of financial position on June 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended February 29, 2012, the Company has not adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- a) to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;
- b) to apply the requirements of IFRS 2, Share-based payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- c) to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit at the Transition Date including those foreign currency differences which arose on adoption of IFRS.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of June 1, 2010 are consistent with its GAAP estimates for the same date.

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**12. FIRST TIME ADOPTION OF IFRS (cont'd...)**

The reconciliation between the Canadian generally accepted accounting principles ("GAAP") and IFRS equity as at June 1, 2010 (date of transition to IFRS), February 28, 2011 and May 31, 2011 is provided below:

	June 1, 2010	February 28, 2011	May 31, 2011
<b>Equity (deficiency) under Canadian GAAP</b>	\$ 1,202,362	\$ 1,215,250	\$ (51,386)
Adjustment	-	-	-
<b>Total IFRS adjustment to equity</b>	-	-	-
<b>Equity (deficiency) under IFRS</b>	\$ 1,202,362	\$ 1,215,250	\$ (51,386)

The reconciliation between the Canadian GAAP and IFRS total comprehensive income for the period ended February 28, 2011 and the year ended May 31, 2011 is provided below:

	Nine months ended February 28, 2011	Year ended May 31, 2011
<b>Comprehensive income under Canadian GAAP</b>	\$ (678,792)	\$ (2,037,707)
Adjustment	-	-
<b>Total IFRS adjustment to comprehensive income</b>	-	-
<b>Comprehensive income under IFRS</b>	\$ (678,792)	\$ (2,037,707)

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of cash flows for the period ended February 28, 2011 or the year ended May 31, 2011.

**13. SUBSEQUENT EVENTS**

Subsequent to February 29, 2012, the Company:

- a) issued 8,500,000 units for total proceeds of \$425,000 (of which \$175,000 was received prior to February 29, 2012) pursuant to a private placement. Each unit consists of one common share and one share purchase warrant enabling the holder to acquire one common share at \$0.10 for twenty four months; and
- a) sold its 51% interest in TBwaP, Inc. to an arms-length third party for \$10.