VISUAL VAULT CORPORATION

Consolidated Financial Statements

For the Years Ended May 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Visual Vault Corporation:

We have audited the accompanying consolidated financial statements of Visual Vault Corporation which comprise the statements of financial position as at May 31, 2013 and 2012, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit 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 financial statements.

We believe that the audit evidence we have obtained 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 Visual Vault Corporation as at May 31, 2013 and 2012, and its operations and cash flows for the periods 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 financial statements which indicates that the Company has a working capital deficit of $1,110,873 (2012 - $119,470), a loss for the year of $10,349,605 (2012 - $711,392) and a deficit of $11,196,848 (2012 - $847,243). These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Buckley Dodds Parker LLP

Chartered Accountants
Vancouver, British Columbia
September 18, 2013

VISUAL VAULT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	May 31, 2013	May 31, 2012
ASSETS		
Current		
Cash	$ 3,623	$ 99,661
Receivables	11,377	9,323
Due from related parties (Note 15)	35,342	3,987
	50,342	112,971
Goodwill (Note 6)	-	4,222,190
Investment in software license and non-refundable deposit (Note 7)	1	4,946,251
	$ 50,343	$ 9,281,412
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 405,440	$ 159,113
Convertible debt (Note 11)	306,847	-
Short term loan (Note 12)	448,928	73,328
	1,161,215	232,441
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	9,559,101	9,450,281
Equity portion of convertible debt (Note 11)	80,942	-
Contributed surplus	445,933	445,933
Deficit	(11,196,848)	(847,243)
	(1,110,872)	9,048,971
	$ 50,343	$ 9,281,412

Nature of operations and going concern (Note 1)

These financial statements are authorized for issue by the Board of Directors on September 26, 2013

ON BEHALF OF THE BOARD:

"Brian Cameron"	Director	*"Van Potter"*	Director
Brian Cameron		Van Potter	

VISUAL VAULT CORPORATION

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

		May 31, 2013		May 31, 2012
EXPENSES				
Advertising and promotion	$	48	$	1,783
Business development		-		52,653
Consulting fees (Note 15)		292,018		356,125
Foreign exchange loss		8,105		2,477
General and administrative		40,682		15,531
Interest expense		77,148		20,869
Investor relations		117,677		-
Professional fees		144,195		68,925
Sales and marketing		156,597		-
Stock based compensation		-		156,076
Transfer agent and filing fees		26,557		23,388
Travel and promotion		118,138		13,565
LOSS BEFORE OTHER ITEMS		(981,165)		(711,392)
OTHER ITEMS				
Impairment of goodwill (Note 6)		(4,222,190)		-
Impairment of investment (Note 7)		(5,146,250)		-
		(9,368,440)		-
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$	(10,349,605)	$	(711,392)
Basic and diluted loss per common share	$	(0.37)	$	(0.03)
Weighted average number of common shares outstanding		28,317,354		28,133,354

VISUAL VAULT CORPORATION
CONSOLDIATED STATEMENTS OF CASH FLOWS

	May 31, 2013	May 31, 2012
CASH FLOWS USED IN OPERATING ACTIVITIES		
Loss for the year	$ (10,349,605)	$ (711,392)
Items not affecting cash:		
Stock based compensation	-	156,076
Unwinding of discount on convertible debt	42,839	-
Impairment of goodwill (Note 6)	4,222,190	-
Impairment of investment (Note 7)	5,146,250	-
Changes in non-cash working capital:		
Due from related party	(31,355)	25,913
Short term loan	375,600	73,128
Receivables	(2,054)	(5,316)
Accounts payable and accrued liabilities	246,327	145,936
Net cash used in operating activities	(349,808)	(315,655)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of licence	(200,000)	(300,000)
Net cash used in investing activities	(200,000)	(300,000)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Convertible debt	433,770	-
Issuance of common shares	20,000	688,581
Net cash used in financing activities	453,770	688,581
CHANGE IN CASH DURING THE YEAR	(96,038)	72,926
CASH, BEGINNING OF YEAR	99,661	26,735
CASH, END OF YEAR	$ 3,623	$ 99,661
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 34,309	$ 20,869
Cash paid for income taxes	-	-

VISUAL VAULT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of Shares	Share Capital	Contributed Surplus	Equity Portion of Convertible debt	Deficit	Total Equity
Balance, May 31, 2011	17,936,667	$ 341,160	$ 289,857	$ -	$ (135,851)	$ 495,166
7:1 share consolidation	(15,374,286)	-	-		-	-
Common shares issued for:						
Investment - $0.35	9,735,143	3,407,300	-	-	-	3,407,300
Investment - $0.35	13,275,000	4,646,425	-	-	-	4,646,425
Cash - $0.42	2,560,830	1,075,396	-	-	-	1,075,396
Stock based compensation	-	-	156,076	-	-	156,076
Subscription receivable	-	(20,000)	-	-	-	(20,000)
Loss and comprehensive loss	-	-	-	-	(711,392)	(711,392)
Balance, May 31, 2012	28,133,354	9,450,281	445,933	-	(847,243)	9,048,971
Equity portion of convertible debt	-	-	-	80,942	-	80,942
Common shares issued for:						
Bonus - $0.45	63,600	28,620	-	-	-	28,620
Bonus - $0.50	120,400	60,200	-	-	-	60,200
Subscription receivable	-	20,000	-	-	-	20,000
Loss and comprehensive loss	-	-	-	-	(10,349,605)	(10,349,605)
Balance, May 31, 2013	28,317,354	$ 9,559,101	$ 445,933	$ 80,942	$ (11,196,848)	$ (1,110,872)

1. NATURE OF OPERATIONS AND GOING CONCERN

Visual Vault Corporation ("the Company") was incorporated under the Laws of British Columbia. The Company is traded on the Canadian National Stock Exchange ("CNSX").

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company, unless otherwise indicated.

The consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. The Company has minimal capital resources presently available to meet obligations which normally can be expected to be incurred by similar companies and has a working capital deficit of $1,110,873 (2012 - $119,470), a loss for the year of $10,349,605 (2012 - $711,392) and a deficit of $11,196,848 (2012 - $847,243).

Management of the Company does not expect that cash flows for the Company's operations will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its operations.

2. BASIS OF PRESENTATION

Statement of compliance to International Financial Reporting Standards

These consolidated financial statements, including comparatives have been prepared in accordance with International Accounting Standards ("IAS") 1, "Presentation of Consolidated financial statements" 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 consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

These consolidated financial statements were authorized by the audit committee and board of directors of the Company on September 26, 2013.

Comparative periods

Prior period comparative figures have been amended to conform to the current period's presentation. Previously, the Company's due from and due to related parties were reported separately on the statement financial position. They are now reported as a net figure under due from related party.

2. BASIS OF PRESENTATION (cont'd…)

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting year, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) Depreciation

The Company's management exercises its judgment in estimating the useful lives of the depreciable assets. The estimated useful lives reflect the management's estimate of the periods the Company intends to derive future economic benefits from the use of these assets. The Company depreciates its license in accordance with the accounting policies stated in Note 3. The carrying amount of the license is disclosed in Note 7.

ii) Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

iii) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Determination of functional currency

The functional currency is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency for the Company is the Canadian dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Advantive Information Management Inc.	Vancouver, BC	100%	Information Technology
VisualVault Technologies Inc.	Scottsdale, Arizona	100%	Information Technology

Foreign exchange

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, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date 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 recognized through profit or loss.

Cash

Cash includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

License

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. At the end of each reporting period, the License is reviewed to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. See Note 7 for details.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through 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 cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

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 directly in equity. 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 equity and recognized through profit or loss.

The Company has not classified any financial assets as held-to-maturity or available for sale.

All financial assets except for those 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 any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash as fair value through profit or loss. The Company's receivables and due from related parties are classified as loans and receivables.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial liabilities (cont'd…)

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

Other financial liabilities: This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost. The Company's accounts payables and other liabilities, due to related parties, short term loans and convertible debt are classified as other financial liabilities.

Impairment

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 the profit or loss for the period. 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.

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.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the 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 based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or 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 statement of financial position date.

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.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Future accounting pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at May 31, 2013, and have not been applied in preparing this consolidated financial statement. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Future accounting pronouncements (cont'd…)

Accounting standards issued and effective for years beginning January 1, 2013

Consolidated financial statements

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements.

ii) defines the principle of control, and establishes control as the basis for consolidation

iii) sets out how to apply the principle of control to identify whether an investor controls and investee and therefore must consolidate the investee

iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities.

Joint Ventures

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

Disclosure of involvement with other entities

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows.

Separate financial statements

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

Investment in associates and joint ventures

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Interest-bearing loans and other borrowings

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of borrowings on an effective interest basis.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

Revenue recognition

Contract revenue is recognized when goods are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

4. MANAGEMENT OF CAPITAL

The Company manages its common shares, stock options and share purchase warrants as capital. 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 development of its assets and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company is not subject to any externally imposed capital requirements.

4. MANAGEMENT OF CAPITAL (cont'd…)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in demand certificates of deposit with major financial institutions.

There have been no changes to the Company's approach to capital management during the year ended May 31, 2013.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of receivables, due from related parties, accounts payable and accrued liabilities, convertible debt, due to related parties and short term loan.

The fair value of cash is measured on the statement of financial position using level 1 of the fair value hierarchy. The fair value of convertible debt is measured on the statement of financial position using level 2 of the fair value hierarchy.
The fair values of receivables, due from related parties, accounts payable and accrued liabilities, due to related parties and short term loan approximate their book values because of the short-term nature of these instruments.

Financial instrument risk exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its payment obligations. The Company has no material counterparties to its financial instruments with the exception of the financial institutions which hold its cash. The Company manages this credit risk by ensuring that these financial assets are placed with a major financial institution with strong investment grade ratings by a primary ratings agency. The Company's receivables consist primarily of harmonized sales tax due from the Canada Revenue Agency. The Company does not believe it has a material exposure to credit risk.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

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 the management of its capital structure as described in Note 4. There is a risk that the Company may not be able to meet its financial obligation when they are due. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. As at May 31, 2013 the Company has no financial assets that are past due or impaired due to credit risk defaults.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar as the Company's head office and operations are in Canada. All of the Company's financial instruments are denominated in Canadian dollars. In management's opinion there is no significant foreign exchange risk to the Company.

Transaction Costs

Transaction costs attributable to the acquisition or issue of financial assets or financial liabilities, other than those classified as held-for-trading, are added to the initial fair value amount to match the costs with the related transactions. Purchases and sales of securities are accounted for on the settlement date basis.

6. GOODWILL

The goodwill arises as follows:

Acquisition of Advantive Information Management Inc.	
Balance, May 31, 2011	$ -
Purchase price - 9,735,143 shares	3,407,300
Book value of net liabilities acquired	366,990
10% of Advantive purchase	447,900
Balance, May 31, 2012	4,222,190
Impairment of Goodwill	(4,222,190)
Balance, May 31, 2013	$ -

6. GOODWILL (cont'd…)

During the year ended May 31, 2012, the Company issued 9,735,143 shares at $0.35 for the remaining 90% interest in Advantive Information Management Inc. There were no identifiable assets acquired upon acquisition, therefore the total balance was put to Goodwill.

During the year ended May 31, 2013, the Company assessed the carrying value of Goodwill for indications of impairment at year end. The Company believed that certain factors, such as recurring losses and a growing deficit have contributed to the decrease in the Company's value. This resulted in an impairment charge of $4,222,190 as it was determined that the carrying value of its Goodwill exceeded the expected net present value of its future cash flows.

7. INVESTMENT IN SOFTWARE LICENSE AND NON-REFUNDABLE DEPOSIT

Acquisition of VisualVault Technologies Inc.

Acquisition of VisualVault Technologies Inc.		
Balance, May 31, 2011	$	1
Purchase price - 13,275,500 shares at $0.35		4,646,250
Book value of net assets/liabilities acquired		-
Payment for license		300,000
Balance, May 31, 2012		4,946,251
Payment for licence		200,000
Impairment of Investment		(5,146,250)
Balance, May 31, 2013	$	1

The Company issued 13,275,500 shares at $0.35 for a 100% interest in VisualVault Technologies Inc. "VVT" and executed three material agreements as noted below.

Platform license and service agreement

VVT signed a Platform License and Services Agreement on May 1, 2012 with Auersoft LLC of Mesa Arizona, wherein VVT has been granted certain rights of use with respect to the VVT products and services developed by Auersoft LLC.

As at May 31, 2013, the Company retained the Platform License and service agreement as noted above.

7. INVESTMENT IN SOFTWARE LICENSE AND NON-REFUNDABLE DEPOSIT (cont'd…)

Acquisition of VisualVault Technologies Inc. (cont'd…)

Amended and restated purchase and sale agreement

In January 2013, VVT and Auersoft LLC reached terms of a second amendment to the Asset Purchase and Sale Agreement amended from the original agreement executed in October 2011. The terms of the amended purchase were follows:

ii) $300,000USD upon signing the amended agreement (paid)
iii) $200,000USD on or before June 30, 2012 (paid)
iiii) $4,500,000USD on or before May 31, 2013.
iiv) $586,250USD on or before December 14, 2014. The final payment was convertible into 5,862,500 common shares of the Company based upon an assumption of the obligation to pay this amount by the Company. The conversion could have taken effect at any time after December 31, 2013.
iv) The purchase price was increased by $800,000 to cover the taxation impact for Auersoft LLC based upon changes to the US taxation treatment of capital gains which took effect on January 1, 2013
ivi) The purchase price may be increased by up to $550,000USD, based upon Auersoft LLC delivering specified software upgrades on or before May 31, 2013.
ivii) The agreement was further amended on June 1, 2013, by increasing the cash consideration by a further $350,000 in consideration of Auersoft amending the closing date of the purchase to July 2, 2013. The extension payment was due on or before June 15, 2013.

Subsequent to May 31, 2013, the Company received a further extension on payment terms and elected to not make the payments on the then amended dates and voluntarily allowed the terms of the asset purchase to lapse.

Trademark license agreement

The Company, separate from its wholly-owned subsidiary, VVT, was granted a trademark license agreement to use the VVT trademarks on a worldwide, perpetual, royalty free basis. This enabled the Company to present itself corporately under the VisualVault brand.

In accordance with the license granted by Auersoft LLC to the Company, the Company was required to make monthly payments of $20,000 per month to maintain the license at such time as Auersoft LLC has delivered a version of the Software that will enable full internet sign up by customers. As at May 31, 2013, the Company had accrued $220,000 in respect of the licensing fee but had not made any payments for same.

On July 2, 2013, by mutual consent, the Company and Auersoft LLC agreed to allow the Restated and Amended Asset Sale and Purchase Agreement to lapse. The Platform License and the Trademark license also lapsed on July 2, 2013. It was management's conclusion that purchasing the Auersoft LLC assets was too costly in terms of capital resources and potential near and long term financial return and that the funds raised could be better spent developing business in the targeted health care vertical. The Company continues to use the VisualVault Platform to support its sales and marketing initiatives and will also utilize other platforms under license or develop its own proprietary platforms as determined by identified use cases.

7. INVESTMENT IN SOFTWARE LICENSE AND NON-REFUNDABLE DEPOSIT (cont'd…)

Impairment of Investment in Software Licence and Non-Refundable Deposit

During the year ended May 31, 2013, the Company assessed the carrying value of Investment in Software Licence and Non-Refundable Deposit for indications of impairment. The Company believed that certain factors, such as recurring losses and a growing deficit have contributed to the decrease in the Investment's value. This resulted in an impairment charge of $5,146,250 as it was determined that the carrying value of its Investment in Software Licence and Non-Refundable Deposit exceeded the expected net present value of its future cash flows.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Falling due within the next twelve months	May 31, 2013	May 31, 2012
Trades payable	$ 325,642	$ 144,113
Accrued liabilities	79,798	15,000
Total	$ 405,440	$ 159,113

9. SHARE CAPITAL

a) Common stock

Authorized

Unlimited common shares without par value
Unlimited Class A Preferred shares without par value, dividend at 12% of profits or surplus, redeemable at any time
Unlimited Class B Preferred shares without par value, dividend at 13% of profits or surplus, redeemable at any time.

Issued and outstanding

During the year ended May 31, 2013, the Company:

i) On June 18, 2012 the Company issued 15,600 shares with a value of $7,020 as part of a bonus on convertible debt.

ii) On June 20, 2012 the Company issued 24,400 shares with a value of $12,200 as part of a bonus on convertible debt.

iii) On June 28, 2012 the Company issued 96,000 shares with a value of $48,000 as part of a bonus on convertible debt.

9. SHARE CAPITAL (cont'd…)

a) Common stock (cont'd…)

iv) On August 22, 2012 the Company issued 20,000 shares with a value of $9,000 as part of a bonus on convertible debt.

v) On August 28, 2012 the Company issued 28,000 shares with a value of $12,600 as part of a bonus on convertible debt.

During the year ended May 31, 2012, the Company:

vi) On December 21, 2011, the Company consolidated its share capital on a 7:1 basis, consolidating its 17,796,667 shares to 2,542,381 shares following the consolidation.

vii) On May 29, 2012, the Company issued 9,735,143 shares with a value of $3,407,300 for the remaining 90% interest in Advantive Information Management Inc.

viii) On May 29, 2012, the Company issued 13,275,500 shares with a value of $4,646,425 for a 100% interest in VisualVault Technologies Inc.

ix) On May 29, 2012, the Company issued 2,560,830 shares with at $0.42 in the amount of $1,075,396. Each unit consisted of two share purchase warrants exercisable at $1.00 per shares expiring in two years.

During the year ended May 31, 2011, the Company:

i) On November 12, 2010, the Company issued 6,038,667 shares with a value of $15,000 pursuant to a plan of arrangement.

ii) On April 29, 2011, the Company issued 1,940,000 shares at $0.05 in the amount of $97,000. Each unit consisted of two share purchase warrants exercisable at $0.23 per share expiring in two years.

iii) On May 5, 2011, the Company issued 8,958,000 common shares at $0.02 for the purpose of acquiring a 10% interest in a related Company in the amount of $179,160.

iv) On May 26, 2011, the Company issued 1,000,000 common shares at $0.05 in the amount of $50,000. These shares were issued in relation to the exercise of stock options.

9. SHARE CAPITAL (cont'd…)

b) Stock options

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

	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding, June 11, 2010	-	$ -	-	$ -
Granted	1,000,000	0.05	-	-
Expired/cancelled	(1,000,000)	(0.05)	-	-
Outstanding, May 31, 2011				
Granted	400,000	0.60	-	-
Outstanding, May 31, 2013	400,000	$ 0.60	-	$ -

The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

c) Share purchase warrants

	May 31, 2013	May 31, 2012
Risk-free Interest rate	1.00%	1.00%
Expected life (in years)	2.00	2.00
Expected volatility	223.43	223.43

The weighted average fair value of the stock options granted during the year ended May 31, 2012 was $0.60 per option.

9. SHARE CAPITAL (cont'd…)

c) Share purchase warrants (cont'd…)

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 11, 2010	-	$ -
Granted	3,880,000	0.23
Expired/cancelled	-	-
Balance, May 31, 2011	3,880,000	0.23
Granted	2,556,069	0.54
Expired/cancelled	(3,880,000)	1.00
Balance, May 31, 2013	2,556,069	$ 0.54

As at May 31, 2012, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,556,069	$ 0.54	March 24, 2014

10. BASIC AND DILUTED EARNING (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the year ended May 31, 2013 was based on the net loss attributable to common shareholders of $10,349,605 (2012 – $711,392) and the weighted average number of common shares outstanding of 28,317,354 (2012 – 28,133,354) respectively.

The Company does not have any instruments that would give rise to a dilution effect.

11. CONVERTIBLE DEBT

The Company issued Convertible notes during the period in the amount of $460,000 less transaction fees of $88,053. The debt bears interest at 8% and is due in 5 years. Each $5,000 note can be converted into 10,000 units; each unit consists of one common share and one warrant exercisable at $0.55 per share for a period of 1 year. Furthermore, each note includes bonus shares to be issued in the amount of 2,000 common shares for every increment of one $5,000 promissory note which make up a portion of the transaction fees.

On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at the time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The difference is attributed to the equity component of the compound financial instrument.

Therefore, we have derecognized the liability component of $107,939 less transaction fees of $26,997 and recognized this as equity in accordance with IAS 32. The market rate for similar debt was determined to be 15%.

The initial recognition of the liability component of convertible debt is as follows:

	May 31, 2013
Convertible debt issued during the year	$ 460,000
Transaction costs	(88,053)
Equity portion of convertible debt	(107,939)
Present value of the liability component of convertible debt	$ 264,008

The initial recognition of the equity component of convertible debt is as follows:

	May 31, 2013
Equity portion of convertible debt	$ 107,939
Transaction costs	(26,997)
Total	$ 80,942

11. CONVERTIBLE DEBT (cont'd…)

A reconciliation of the liability component of convertible debt is as follows:

Balance, May 31, 2012	$	-
Present value of the liability component of convertible debt		264,008
Undwinding of discount		42,839
Balance, May 31, 2013	$	306,847

12. SHORT TERM LOANS

Short term loans have no terms of repayment, are non-interest bearing and are unsecured. The loan holders and the Company are currently in negotiations to extinguish the debt for shares.

13. INVESTMENT

On September 28, 2010, the Company entered into a non-binding letter of intent with Advantive Information Management, Inc, "Advantive" whereby the Company set out its intent to acquire, initially, 100,000 common shares of Advantive. In May 2011, the Company acquired 10% of the issued and outstanding share capital of Advantive from certain shareholders of Advantive in exchange for issuing 8,958,000 shares at $0.02 of the Company. The deemed fair value at the time of issuance was $0.05; therefore the difference was transferred to contributed surplus.

The Investment is valued at cost per IAS 39, as the equity instruments do not have a quoted market price in an active market and the fair value cannot be reasonably measured.

During the year the Investment was eliminated upon consolidation as the Company now owns 100% of Advantive Management, Inc.

14. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	May 31, 2013	May 31, 2012
Loss for the year	$ (10,349,605)	$ (711,392)
Expected income tax (recovery)	(2,587,401)	(242,727)
Change in statutory rates	64,879	-
Temporary differences	2,178,162	-
Net change in valuation allowance	344,360	242,727
Total income tax expense (recovery)	$ -	$ -

The significant components of the Company`s deferred tax assets are as follows:

	May 31, 2013	May 31, 2012
Deferred tax assets (liabilities)		
Non-capital losses available for future period	$ 2,026,743	$ 389,787
Unrecognized deferred tax assets	(2,026,743)	(389,787)
Net deferred tax assets	$ -	$ -

The deferred tax assets have not been recognized in these consolidated financial statements as it is not probable that they will be realized.

The significant components of the Company`s unrecognized temporary differences and tax losses are as follows:

	May 31, 2013	May 31, 2012	Expiry Date Range
Temporary differences			
Non-capital losses available for future period	$ 2,026,743	$ 389,787	2014-2034

Tax attributes are subject to review, and potential adjustment by tax authorities.

15. RELATED PARTY TRANSACTIONS

The Company's related parties consist of companies owned in whole or in part by executive officers and directors as follows:

Name	Position and nature of transactions
Canadian Data Preserve, Inc.	Company with Common Director - Brian Cameron
Advantive Information Management, Inc	Subsidiary
VisualVualt Technologies Inc.	Subsidiary
Brian Cameron	Director
Van Potter	Director
John Ragan	Director
Steve Hanson	Director
Brent Bollong	Director
Auersoft LLC	Company with Common Director - Brent Bollong

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses have been measured at the exchange amount which is determined based on actual cost.

	May 31, 2013	May 31, 2012
Canadian Data Preserve, Inc.	$ 146,808	$ 52,787
Brian Cameron	(40,055)	-
Van Potter	(71,411)	(48,800)
Total	$ 35,342	$ 3,987

The remuneration of directors and other members of key management personnel including share-based payments during the year ended May 31, 2013 and May 31, 2012 were as follows:

	May 31, 2013	May 31, 2012
Consulting fees	$ 280,718	$ 180,000
Total	$ 280,718	$ 180,000

16. SUBSEQUENT EVENTS

Subsequent to May 31, 2013 and in conjunction with the lapsing of the second amendment to the Amended Asset Purchase Agreement, the license to use the VisualVault trademark and Logos expired. The Company continues to use the name “VisualVault Corporation” with the express permission of Auersoft LLC. Refer to Note 7 for further details.

Subsequent to May 31, 2013 the Company announced a $9.6 MM private placement of Units in the Company’s capital stock of which 2,666,667 shares were issued for cash to an unrelated Company for proceeds of $800,000.