

**TORQ MEDIA CORPORATION**  
**(Formerly On-Track Learning Systems Ltd.)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**Unaudited – Management Prepared**

**AUGUST 31, 2004**

**NOTICE TO READER**

These financials statements have been compiled by management. They have not been audited or reviewed by the Company's auditor. Readers are cautioned that these statements may not be appropriate for their purposes.

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	\$ Aug-04	\$ May-04
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	72,843	138,903
Prepaid expenses and deposits	13,873	15,508
	86,716	154,411
Property, plant and equipment (Note 1)	63,207	69,220
	149,923	223,631
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness (Note 2)	(1,240)	24,848
Accounts payable and accrued liabilities	452,876	381,425
Loans and promissory notes payable (Note 3)	485,241	545,655
Current portion of obligation under capital leases (Note 4)	10,224	13,632
	947,101	965,560
Obligation under capital leases (Note 4)	40,907	40,907
	988,008	1,006,467
<b>SHAREHOLDERS' DEFICIT</b>		
<b>Shareholders' deficiency</b>		
Capital stock (Note 5)	2,204,143	2,054,143
Deficit	(3,042,229)	(2,836,979)
	(838,086)	(782,836)
	149,923	223,631

(see accompanying notes)

On behalf of the Board:

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"Russ Rossi" Director

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"Jim Rosevear" Director

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**1<sup>st</sup> QTR ENDED AUGUST 31**

	\$ 2004	\$ 2003
<b>REVENUES</b>		
Training	103,849	200,358
	103,849	200,358
<b>EXPENSES</b>		
Accounting and legal	29,914	9,173
Advertising and promotion	4,000	75
Amortization	6,529	12,933
Automobile	7,119	2,203
Bank charges and interest	9,855	17,053
Management fees	36,000	31,400
Office and miscellaneous	51,620	51,815
Marketing development	3,979	43,583
Rent	40,096	38,732
Sub-contractors	17,100	38,343
Telephone	5,168	5,250
Travel and entertainment	11,743	8,998
Wages and benefits	85,977	126,820
	309,100	386,378
<b>Loss before other items</b>	(205,251)	(186,020)
<b>OTHER ITEMS</b>		
Interest income	1	734
Foreign exchange loss	-	(3)
	1	731
<b>Loss for the quarter</b>	(205,250)	(185,289)
<b>Deficit, beginning of quarter</b>	(2,836,979)	(1,919,554)
<b>Deficit, end of quarter</b>	(3,042,229)	(2,104,843)

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**QUARTER ENDED AUGUST 31**

	\$ 2004	\$ 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the quarter	205,250	185,288
Items not affecting cash:		
Amortization	6,013	12,180
Changes in non-cash working capital items:		
Accounts receivable	66,060	28,060
Prepaid expenses and deposits	1,636	79,568
Accounts payable and accrued liabilities	71,451	14,477
Management fees payable	-	32,874
Advance payable	-	15,622
Net cash used in operating activities	(60,090)	(2,507)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Due from related parties	-	8,376
Bank indebtedness	(26,088)	2,936
Due to related parties	(60,414)	(6,532)
Capital lease obligations	(3,408)	(2,273)
Issuance of capital stock	150,000	-
Net cash provided by financing activities	60,090	2,507
<b>Change in cash during the quarter</b>		-
<b>Cash, beginning of quarter</b>	-	-
<b>Cash, end of quarter</b>		-

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2004**

**1. PROPERTY, PLANT AND EQUIPMENT**

	\$ 2004			\$ 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automobile	64,052	16,013	48,039	64,052		64,052
Computer Hardware	243,381	240,155	3,226	243,381	223,629	19,752
Furniture and fixtures	72,885	60,943	11,942	72,369	53,404	18,965
	380,318	317,111	63,207	379,802	277,033	102,769

On May 31, 2003, the Company entered into a capital lease to acquire an automobile primarily for the benefit of a significant shareholder who is a director and the president of the Company.

**2. BANK INDEBTEDNESS**

As at Aug 31, 2004, and 2003, the Company has a line of credit of \$5,000 bearing interest at prime plus five percent. The line of credit is guaranteed by the assets of the Company.

**3. PROMISSORY NOTES PAYABLE**

The Company has the following promissory notes payable.

	\$ 2004	\$ 2003
Promissory notes from third parties, unsecured And bearing interest at 10%	253,500	
Loan from a significant shareholder, unsecured and non- interest bearing		100,000
Promissory note from a significant shareholder, unsecured, bearing interest at 10% per annum		112,430
Promissory note from a significant shareholder, secured by the assets of the Company and bearing interest at 5% per annum.		45,257
Loan from a significant shareholder, fully secured by the assets of the Company and guaranteed by Torq and bearing interest at 12% per annum.	191,166	
Promissory note from Quest Ventures Ltd., unsecured and be interest at 6.34% per annum.	40,575	
	485,241	257,687

#### 4. OBLIGATIONS UNDER CAPITAL LEASES

	\$ 2004	\$ 2003
Payments of approximately \$1,136 per month including interest, due over lease terms expiring through May 2008	51,131	68,174
Less: current portion	(10,224)	(13,635)
	40,907	54,539

#### 5. CAPITAL STOCK

### Torq Media Corporation

#### Changes in Capital Stock

	<i># of shares</i>	<i>Amount</i>
<i>Authorized</i> <i>100,000,000 common shares, without par value</i>		
Balance at May 31, 2004	19,175,367	2,054,143
<b>Name Changed to Torq Media and 12:1 roll Back</b>	<b>Torq Shares:</b> 1,597,947	<b>2,054,143</b>
Common shares issued re financing June 19th, 2004 @ 23 cents	652,172	150,000
Common shares issued re financing at September 17, 2004: @ 14 cents	2,015,793	282,211
Common shares issued to shareholders at Sep 22, 2004 options exercised at 18 cents	55,556	10,000
Debt Settlement of \$85,000 @ 20 cents October 6th, 2004	425,000	85,000
Balance at October 15th, 2004	4,746,468	2,581,354

#### Outstanding Options and Warrants:

On May 31<sup>st</sup>, 2004 there were 137,900 options granted to staff and directors at 23 cents. 110,000 of these were exercised and issued in October 2004.

In October, 2004 there were 55,556 options granted to staff and directors at 18 cents. In October, 2004 they were exercised and issued..

**Current Outstanding warrants and Options at October 15<sup>th</sup>, 2004**

**Options**

<u>Number of Shares</u>	<u>Exercise price</u>	<u>Expiry Date</u>
19,583	\$ 1.20	October 15th, 2005
27,900	\$ 0.23	May 31, 2005
<hr/>		
<b>47,483</b>		

**Warrants**

<u>Number of Shares</u>	<u>Exercise price</u>	<u>Expiry Date</u>
116,666	\$ 1.20	December 29, 2005
652,174	\$ 0.30	June 31, 2005
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<b>768,840</b>		

**Form 51-102F1**  
**Management's Discussion & Analysis (MD & A)**

**Date of Information**

1.1 August 31, 2004

**Overall Performance**

1.2 There was a significant reduction in revenue over the same quarter the previous year. However, expenses were also reduced, namely in the areas of cost of financing (halved) and ratio of instructor's earnings to sales (16.5% 2004, 19.1% 2003).

**Selected Annual Information**

		<b>2004</b>	<b>2003</b>	<b>2004</b>
		<b>1<sup>st</sup> 1/4</b>	<b>1<sup>st</sup> 1/4</b>	<b>1<sup>st</sup> 1/4</b>
1.3	a) Net Sales	103,849	200,358	336,741
	b) Net Income (Loss)	(205,250)	(185,289)	(180,424)
	c) Net Income (Loss)	(205,250)	(185,289)	(180,424)
	d) Total Assets	149,923	223,631	699,275
	e) Long-Term Liabilities	495,465	559,287	632,034
	f) Cash Dividends	0	0	0

Significant reduction in receivables is reflected in better collections and/or lower sales.

Canadian G.A.A.P. has been employed in all accounting transactions.

**Results of Operations**

1.4 The company had a significant reduction in the revenue over the same quarter the previous year.

Three factors principally contributed to the reduction in revenue. Firstly On-Track has moved away from the barely profitable Oracle Partnership model. Secondly On-Track has refocused on client's business that produces at least a 56% gross margin. Finally management has spent significant time restructuring the debt and operations of the company.

## Summary of Quarterly Results

### 1.5 Summary of quarterly results (8 quarterly results required).

Description	3 Months ended Aug-31 2004	Year ended May-31 2004	9 Months ended Feb-29 2004	6 Months ended Nov-30 2003	3 Months ended Aug-31 2003	Year ended May-31 2003	9 Months ended Feb-28 2003	6 Months ended Nov-30 2002
Net Sales	103,849	690,554	530,172	366,821	200,358	1,729,305	1,300,579	908,666
Income or (loss) before other items	(205,251)	(909,185)	(656,804)	(407,784)	(186,019)	(552,226)	(456,829)	(151,532)
Net Income or (loss) for the period	(205,250)	(917,425)	(658,126)	(406,996)	(185,288)	(1,017,550)	(636,458)	(292,684)
Shares Issued	2,250,119	19,175,367	17,670,288	15,681,288	13,099,878	13,099,878	13,099,878	2,873,530
Per Share	(.09)	(0.05)	(.04)	(.03)	(.01)	(.08)	(.05)	(.10)

On June 8, 2004 the shares were rolled back at a ratio of 12:1.

## Liquidity

1.6 the company's liquidity (relationship between quick current assets and quick current liabilities) is negative and demonstrated as follows:

Quick current ratio	Aug 2004	May 2003
Accounts Receivable & Prepaid Expenses	86,716	154,411
Bank Indebtedness & Account Payable	461,860	419,905
Long Term Debt	485,241	545,655

The handling of this inequity will be born in the next quarter and greatly improve the debt situation shown above. In addition the sources of income will be expanding in the future (see section 1.11)

As at August 31<sup>st</sup>, the Company has a working capital deficiency. However since August 31<sup>st</sup>, 2004 the company has repaid over 250,000 of Notes payable and is currently working with creditors to reduce accounts payable by roughly another \$250,000. On October 18<sup>th</sup> the creditors accepted On-Track's proposal. This will result in more than a \$500,000 swing in working capital.

## Capital Resources

1.7 Interim management discussion moved towards plans for capital expenditures in training film and training DVD production. These would of course require the purchase or capital lease of equipment and will be discussed in more detail in section 1.11.

## Off-Balance Sheet Arrangements

1.8

- a) As mentioned in section 1.6 there will be a material change to the liability section where approximately \$329,260 of current accounts payable will be reduced and treated thus:

\$ 112,000 will be transferred to long term debt to be repaid over 40 months  
\$ 217,260 will be written off as a recapture of expenses

These changes will alleviate the pressure of repayment of said current liabilities and improve the ratios as outlined in section 1.6 above but will also improve the net loss (see attached financials and section 1.3 above).

- b) The following events occurred subsequent to August 31, 2004:

On September 17, 2004, by private placement, 2,015,793 post consolidation shares were issued at a price of \$0.14 per share. On September 21, 2004 the Company entered into a settlement agreement to end all litigation with which it was involved. The Settlement Agreement resolved all of the outstanding claims by and against it. In making the settlement the Company admitted no liability to any party but chose to resolve these disputes so that it could focus on its core business plan and devote all its resources to its corporate success. As part of the settlement, the Company agreed to pay Secureview (or its nominee) \$80,000 in cash and, subject to TSX approval, \$85,000 in stock at a deemed price of \$.20 (425,000 shares). The issued stock is subject to extra hold provisions. 20% of the stock, 85,000 shares, is subject to a 4 month hold period, 20% to a 5 month hold, 20% to a 6 month hold, 20% to a 7 month hold and 20% to a 8 month hold. The TSX has subsequently approved the settlement. In addition, the Company forgave a \$40,000 accounts receivable owing from Secureview.

On September 22, 2004, employee stock options were exercised to acquire 55,556 shares at a price of \$0.18 per share.

On October 18<sup>th</sup>, 2004 the attending creditors of Torq's subsidiary, On-Track Computer Training Ltd., voted yes to accept On-Track's proposal.

## Transactions with Related Parties

- 1.9 In addition to related party transactions disclosed elsewhere in these notes, the following transactions occurred:

- a) A company with a common shareholder was paid \$8,000 in accounting, brochure, marketing and consulting fees.
- b) Torq Media and On-Track outsource several services to the staff of a company owned by a significant shareholder. These services include management, accounting, TSX administration and filing fees, Press Releases, transportation, telephone, overseas business development and other office expenses. During this period a total of \$57,803.01 was paid for said services.

- c) Related party transactions saw a repayment of loans to principal parties of approximately \$ 63,822 during the intervening periods. The Long-term debt obligations are (see financials and note 3 attached) as follows:

Unsecured promissory note bearing 10% interest	\$253,500
Secured loan from significant shareholder bearing 12% interest	\$191,166
Unsecured Promissory note from Quest Ventures bearing 12% interest	\$ 40,575

### **Proposed Transactions**

- 1.11 Aforementioned write down of accounts payable to:

a) reduced expenses (recapture)	\$ 217,260
b) transfer to long-term debt	\$ 112,000

### **Changes in Accounting Policies including Initial Adoption**

- 1.13 Although no accounting policies will change to conflict with Canadian G.A.A.P. There are plans afoot to change the chart of accounts to provide management with better tools (ie. allocate expenses to a cost of services section to cater to a margin and provide an operating profit prior to fixed expenses).