

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**Unaudited**

**August 31, 2006**

**NOTICE TO READER**

These financial 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.

**QUIZAM MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED BALANCE SHEET**

	<b>Aug-06</b>	<b>May-06</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Bank	108,693	309,744
Accounts receivable (Note 5)	309,013	18,840
Prepaid expenses and deposits	5,919	6,509
Goods and Services tax recoverable	4,872	9,775
	428,497	344,868
Property, plant and equipment (Note 4)	52,434	47,071
	480,931	391,939
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	34,376	50,495
Current portion of obligation under capital leases (Note 6)	10,227	13,632
Current portion on debt settlement (Note 8)	25,200	33,600
	69,803	97,727
<b>Long Term Debt</b>		
Obligation under capital leases (Note 6)	13,633	13,633
Due to a related party (Note 7)	77,364	104,957
Proposal on debt settlement (Note 8)	28,000	28,000
	118,997	146,590
	188,800	244,317
<b>SHAREHOLDERS' DEFICIT</b>		
<b>Shareholders' deficiency</b>		
Capital stock (Note 9)	4,621,765	4,539,415
Deficit	(4,329,633)	(4,391,793)
	292,132	147,622
	480,931	391,939

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

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>		
Training services and software sales	55,536	50,704
Software Licensing (Note 5)	288,000	-
	<u>343,536</u>	<u>50,704</u>
<b>EXPENSES</b>		
Accounting and legal	23,795	14,900
Advertising and promotion	3,527	2,782
Amortization	6,189	4,554
Automobile	4,647	7,230
Bank charges and interest	3,497	8,770
Management fees	18,000	36,000
Office and miscellaneous	9,755	18,557
Regulatory fees	5,637	9,246
Rents	28,960	13,725
Subcontractors	5,313	5,725
Telephone	4,598	4,168
Travel and entertainment	4,298	17,140
Wages and benefits	37,413	32,490
	<u>155,628</u>	<u>175,287</u>
<b>Income (Loss) before other items</b>	187,908	(124,584)
<b>OTHER ITEMS</b>		
Interest income	(169)	(19)
Product development costs (Note 10)	125,914	71,824
	<u>125,745</u>	<u>71,805</u>
<b>Net Income (Loss) for the quarter</b>	62,163	(196,389)
<b>Deficit, beginning of quarter</b>	<u>4,391,793</u>	<u>3,503,419</u>
<b>Deficit, end of quarter</b>	4,329,630	3,699,808

**QUIZAM MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**1st QUARTER ENDED AUGUST 31**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>		
Net Income (loss) for quarter	62,163	(196,389)
Items not affecting cash:		
Amortization	6,189	4,554
Changes in non-cash working capital items:		
Decrease (Increase) in accounts receivable	(290,173)	33,412
Decrease (Increase) in prepaid expenses and deposits	590	1,838
Decrease (Increase) in goods and services tax recoverable	4,903	
(Decrease) Increase in accounts payable and accrued liabilities	(16,119)	(26,402)
<b>Net cash used in operating activities</b>	<b>(232,447)</b>	<b>(182,987)</b>
<b>FINANCING ACTIVITIES</b>		
Bank indebtedness	-	75,166
Due to related parties	(27,593)	(116,509)
Capital lease obligations	(3,408)	(3,408)
Issuance of capital stock	82,350	225,870
Private placement	-	20,000
Debt settlement	(8,400)	(8,400)
	<b>42,949</b>	<b>192,719</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(11,552)	(9,732)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(201,050)</b>	<b>-</b>

**QUIZAM MEDIA CORPORATION**  
**(formerly Torq Media Corporation)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**1<sup>ST</sup> QUARTER ENDED AUGUST 31, 2006**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Quizam Media Corporation (formerly Torq Media Corporation) (the “Company”) was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange (“TSX-V”). The Company was classified as a Capital Pool Company as defined under the policies of the TSX-V until it completed its Qualifying Transaction.

On January 9, 2003, the Company acquired all the issued and outstanding shares of ON-TRACK Computer Training Ltd. (“On-Track”), which served as the Company’s Qualifying Transaction pursuant to the policies of the TSX-V (Note 3). Following this transaction, the Company changed its name from Marquette Capital Corp. to On-Track Learning Systems Ltd. On April 19, 2004, the Company changed its name to Torq Media Corporation. On May 17, 2005, the Company’s name was changed to Quizam Media Corporation. The Company’s principal business activity consists of providing computer training and consulting services, and marketing of an educational programme, which is computer based.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s ability to continue as a going concern is dependent on completing equity financing, obtaining support from related parties or generating consistent profitable operations in the future.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements included the accounts of the Company and its wholly owned subsidiary, On-Track. All significant inter-company transactions and balances have been eliminated upon consolidation.

**Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure

of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates.

### **Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method:

Automobile	5 years
Computer hardware	3 years
Furniture and fixtures	5 years

### **Revenue recognition**

Training revenues are recorded when earned, which is the date students attend a course, and collectibility is reasonably assured. Support revenues are recorded when the related services have been provided and collection is reasonably assured.

### **Stock-based compensation**

Effective June 1, 2002, the Company adopted the new CICA handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”, which recommends the fair value-based methodology for measuring compensation costs. The new section also permits, and the Company has adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of loss and loss per share as if the fair value method had been adopted. Any consideration paid by the option holders to purchase shares is credited to capital stock.

### **Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. This calculation proved to be anti-dilutive for eth years presented. Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

### **Income taxes**

The Company records income taxes using the asset and liability method. Under the assets and liability method, future tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

### Comparative figures

Certain comparative figures have been reclassified to conform to the financial presentation used in the current year.

### 3. BUSINESS COMBINATION AND CONSOLIDATION

The consolidated financial statements of the Company include all of the accounts of Quizam Media Corporation and its wholly owned subsidiary, On-Track Computer Training Ltd., a company acquired through a “reverse takeover” share exchange on January 9<sup>th</sup>, 2003. The common shares of the Company, are held in escrow and will be issued over a six-year period to the year 2009.

### 4. PROPERTY, PLANT AND EQUIPMENT

	\$ Cost	\$ Accumulated Amortization	\$ 2006 NBV
Automobile	64,052	41,634	22,418
Computer Hardware	280,274	251,562	28,712
Furniture and fixtures	68,959	67,655	1,304
	413,285	360,851	52,434

On May 31, 2003, the Company acquired an automobile primarily for the benefit of a significant shareholder who is a director and the president of the Company.

### 5. SOFTWARE LICENSING

On August 31, 2005 the Company entered into an agreement with an African company to provide them with the rights to sell the Quizam software. The License fee was sold for USD \$250,000. In addition, Quizam Media Corp will receive 25% of the Revenue generated in South Africa.

### 6. OBLIGATIONS UNDER CAPITAL LEASES

	\$ 2006	\$ 2005
Payments of approximately \$1,136 per month including Interest, due over lease terms expiring through May 2008	13,633	37,496
Less: current portion	3,406	10,224
	10,227	27,272

## 7. DUE TO RELATED PARTIES

The Company is indebted to a significant shareholder, who is a director and officer in the amount of \$77,364. The advance is secured by the assets of the Company and bears interest at 12% per annum and is without fixed terms of repayment.

## 8. DEBT SETTLEMENT

During the year, the 100% owned subsidiary of the Company made a proposal to its creditors under Subsection 50.44(1) of the Bankruptcy and Insolvency Act, and which has received creditor and creditor approval. The proposal consisted of a restructuring of \$330,000 of current debt, by reversing \$225,000 of the debt as reclaimed expenses and converting \$112,000 of the current debt into a long-term debt to be repaid over 40 months.

## 9. CAPITAL STOCK

	Number of Shares	\$
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Authorized – 100,000,000 common shares without par value		
Issued –		
Balance at May 31, 2001	100	100
Subdivision of shares (6:5:1)	550	-
Subdivision of shares (1:585:1)	380	-
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Balance at May 31, 2002	1,030	100
Common shares of the Company at January 9, 2003	2,872,500	-
Common shares of On-Track at January 9, 2003	(1,030)	-
Pursuant to business combination	7,210,000	125,960
Settlement of shareholder loan	479,378	359,534
Private placement	770,000	385,000
Settlement of amounts in dispute	553,000	275,000
Settlement of loan payable	660,000	330,000
Finder's fee pursuant to business combination	350,000	-
Exercise of stock options	205,000	41,000
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## 9. CAPITAL STOCK (continued)...

Balance at May 31, 2003	13,099,878	1,516,594
Options exercised	1,244,000	124,400
Issued from debt settlement	3,431,489	343,149
Issued by private placement	1,400,000	70,000
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Balance at May 31, 2004	19,175,367	2,054,143
Balance, after Consolidation @ 12 to 1 at May 31, 2004	1,597,947	2,054,143
Issued by private placement	6,632,132	896,261
Issued by debt settlement	764,000	125,680
Returned to treasury	(33,333)	(40,000)
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Balance at May 31, 2005	8,960,746	3,036,084
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Balance post consolidation on May 31, 2005 @ 4 to 1	2,240,187	3,036,084
Issued by private placement	4,057,500	926,000
Exercise of warrants	1,672,912	535,361
Exercise of options	102,000	51,700
Issued as finders' fees	184,934	-
Finder's fee paid	-	(10,230)
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Balance at May 31, 2006	8,257,533	4,538,915
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Exercise of warrants	125,000	69,350
Exercise of options	24,000	13,000
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Balance at August 31, 2006	8,406,533	4,621,265
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### Consolidation

On May 31, 2005, the Company has undergone a consolidation of shares, exchanging four (4) old shares for one (1) new share.

### Escrow

As at May 31, 2006, 626,703 common shares of the Company are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon. The common shares held in escrow will be released over three and six years periods.

### Stock options

During the year ended May 31, 2006, the Company has granted stock options to employees, officers, directors and consultants of the Company. Stock options outstanding are summarized as follows:

	Number Of Options	Exercise Price \$
Expiring April 11, 2007	75,500	0.50
Expiring April 11, 2007	51,000	0.60
Expiring April 11, 2007	35,000	0.70
Expiring June 17, 2007	317,000	0.50
Expiring June 22, 2007	20,000	1.92
Expiring July 27, 2007	15,000	1.00
Balance August 31, 2006	513,500	n/a
Weighted average fair value of options granted	n/a	0.59

### Stock-based compensation

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair values as follows:

	\$ 2006	\$ 2005
Risk-free interest rate	5.00%	7.00%
Expected life of options	1 year	1/2 year
Expected volatility	40%	20%
Expected dividend yield	0.00%	0.00%

### Warrants

At August 31, 2006, warrants were outstanding enabling holders to acquire the following number of shares:

Number of shares	Exercise Price \$	Expiry Date
171,180	0.92	November 10, 2006
1,170,000	0.17	December 23, 2006
125,000	0.92	January 5, 2007
300,000	1.50 to November 16/06	May 16, 2007
	2.00 to May 16/07	May 16, 2007
1,106,060	0.22	June 24, 2007
312,000	0.50	October 7, 2007

## 10. PRODUCT DEVELOPMENT COSTS

The Company continues to concentrate its effort in the developing and marketing of the Quizam educational software. This activity has resulted in a second version of the educational software, and has also been adapted for compatibility with the Mac platform format. As well, the software has been actively promoted in the United Kingdom and various world markets.

The costs associated with product development are as follows:

	\$
Salary, wages and fees (programming and marketing)	69,719
Materials	28,450
Marketing	11,823
Advertising and promotion	15,922
	125,915

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

**Date of Information**

1.1 August 31, 2006

**Overall Performance**

1.2 Compared to the same period last year Revenue us up by roughly \$300,000. That's a 700% increase. There has been an increase in profitability of more than \$250,000.

**Selected Annual Information**

1.3	<b>2006</b>	<b>2005</b>	<b>2004</b>
Ended	<b>3 Months-Ended</b>	<b>3 Months-Ended</b>	<b>3 Months-</b>
August 31	<b>August 31</b>	<b>August 31</b>	
a) Net Sales	343,536	50,704	
103,849			
b) Net Income (Loss)	62,163	(196,389)	
(205,250)			
c) Net Income (Loss)	62,163	(196,389)	
(205,250)			
d) Total Assets	480,931	92,374	
149,923			
e) Long-Term Liability	118,997	326,058	
526,148			
f) Cash Dividends	0	0	
0			

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

**Results of Operations**

1.4 The company is starting to reap the benefits of its Quizam Software program. Management is seeing an accelerated increase in Web Hits, Software Sales and License

Sales. Revenues have increased significantly while operational expenses have decreased by roughly \$20,000.

## Summary of Quarterly Results

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

Description	3 Months Ended Aug 31 2006	Year Ended May 31 2006	9 Months Ended Feb 28 2006	6 Months Ended Nov 30 2005	3 Months Ended Aug 31 2005	Year Ended May 31 2005	9 Months Ended Feb 28 2005	6 Months Ended Nov 30 2004	3 Months Ended Aug 31 2004
Net Sales	343,536	251,552	182,400	99,429	50,704	687,173	350,493	220,767	103,849
Income or (loss) before other items	187,908	(407,288)	(368,954)	(222,685)	(124,584)	(228,988)	(550,755)	(380,194)	(205,251)
Net Income or (loss) for the period	62,163	(888,374)	(600,851)	(387,785)	(196,389)	(666,440)	(414,209)	(201,982)	(205,250)
Shares Issued	8,406,533	8,257,533	7,069,665	4,954,437	4,572,187	2,240,187	6,621,746	5,871,746	2,250,119
Per Share	.01	(.11)	(.08)	(.08)	(.04)	(.29)	(.06)	(.03)	(.09)

On May 18, 2005 the shares were rolled back at a ratio of 4:1.

## Liquidity

1.6 The company's liquidity (relationship between quick current assets and quick current liabilities) is continuing to improve impressively. As of August 31, 2006 the ratio is 12:1.

<b>Quick current ratio 2006</b>	<b>August 2006</b>	<b>May</b>
Cash in the Bank	108,693	
309,744		
Accounts Receivable & Prepaid Expenses	319,804	
35,124		
Account Payable & Accrued Liabilities	34,376	
50,495		
Long Term Debt	118,997	
146,590		

As at August 31<sup>st</sup>, 2006 the Company has working capital of \$394,121 increasing its ratio of Current Assets to Current liabilities from **7:1 in May to 12:1**. The company is continuing to reduce its Long Term Debt as well.

## Capital Resources

- 1.7 Interim management discussion moved towards plans for capital expenditures in Software Development and DVD production. These would of course require the purchase or capital lease of equipment.

## Off-Balance Sheet Arrangements

- 1.8 The following events occurred subsequent to August 31, 2006:

Several more schools have signed license agreements with Quizam to use the software.

## Transactions with Related Parties

- 1.9 In addition to related party transactions disclosed elsewhere in these notes, the following transactions occurred:
- a) Quizam 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, legal fees, filing fees, press releases, transportation, telephone, overseas business development and other office expenses. From June 2006 to August 2006, a total of \$92,882.74 was paid for said services.
  - b) Secured loan from significant shareholder bearing 12% had a balance owing as at August 31, 2006 of \$77,364

## Proposed Transactions

- 1.11 Continue to focus on growth and profitability. The main strategies in the process include:
- a) Maintain control of gross margins on the service side of the business and continue to push forward on development of Intellectual Property that is scalable.

- b) Expand the industrial arm of On-Track to produce industrial/promotional DVD's
- c) Continue to license Quizam Software Globally.

### **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).