



QUIZAM MEDIA CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2010 AND 2009



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7

Phone: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

AUDITORS' REPORT

To the Shareholders of
Quizam Media Corporation

We have audited the consolidated balance sheets of Quizam Media Corporation as at May 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

September 27, 2010

QUIZAM MEDIA CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31, 2010 AND 2009

| | 2010 \$ | 2009 \$ |
|--|-------------|-------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 46,010 | 208,602 |
| Accounts receivable | 38,770 | 7,768 |
| Prepaid expenses and deposits | 7,980 | 12,114 |
| Goods and services tax recoverable | 3,762 | 5,531 |
| Loans receivable (Note 6) | 14,227 | – |
| | 110,749 | 234,015 |
| Equipment (Note 5) | 16,042 | 19,131 |
| Deferred share issuance costs | – | 2,438 |
| | 126,791 | 255,584 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 127,079 | 57,350 |
| Deferred revenue | 6,196 | 7,507 |
| Due to a related party (Note 13) | 45,602 | 117,970 |
| | 178,877 | 182,827 |
| SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Share capital (Note 7) | 9,280,898 | 8,220,403 |
| Contributed Surplus (Note 10) | 574,732 | 353,153 |
| Share Subscriptions (Note 19) | 40,000 | 225,500 |
| Deficit | (9,947,716) | (8,726,299) |
| | (52,086) | 72,757 |
| | 126,791 | 255,584 |

Nature of Operations and Continuance of Business [Note 1]
Commitment [Note 18]
Subsequent Events [Note 19]

APPROVED ON BEHALF OF THE BOARD:

/s/ "Russ Rossi"

Russ Rossi, Director

/s/ "Jim Rosevear"

Jim Rosevear, Director

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

QUIZAM MEDIA CORPORATION**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT****FOR THE YEARS ENDED MAY 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|-------------|-------------|
| | \$ | \$ |
| REVENUES | | |
| Training services and software sales | 584,028 | 519,626 |
| U.K. software sales | 11,113 | — |
| | <hr/> | <hr/> |
| | 595,141 | 519,626 |
| EXPENSES | | |
| Accounting and legal | 170,024 | 153,229 |
| Advertising and promotion | 3,558 | 37,094 |
| Amortization | 14,667 | 20,272 |
| Automobile | 27,026 | 23,940 |
| Bank charges and interest | 3,342 | 3,802 |
| Interest on related party debt | 7,092 | 8,004 |
| Investor and finance development | 76,217 | 24,909 |
| Management fees | 72,000 | 72,000 |
| Office and miscellaneous | 54,501 | 60,909 |
| On-Track TV development costs (Note 12) | 287,632 | 218,518 |
| Regulatory fees | 23,009 | 24,709 |
| Rents | 178,391 | 186,215 |
| Software development costs (Note 12) | 170,366 | 269,855 |
| Stock based compensation (Note 8) | 256,667 | 70,821 |
| Subcontractors | 33,399 | 83,931 |
| Telephone | 19,668 | 24,484 |
| Trade shows | 3,468 | 34,329 |
| Travel and business development | 147,312 | 156,457 |
| Wages and benefits | 271,937 | 278,771 |
| | <hr/> | <hr/> |
| | 1,820,276 | 1,752,249 |
| LOSS BEFORE OTHER ITEMS | (1,225,135) | (1,232,623) |
| OTHER ITEMS | | |
| Interest income | 1,939 | 3,284 |
| Other income | 1,779 | — |
| Write-off of loan receivable (Note 6) | — | (10,176) |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | (1,221,417) | (1,239,515) |
| DEFICIT, BEGINNING OF YEAR | (8,726,299) | (7,486,784) |
| DEFICIT, END OF YEAR | (9,947,716) | (8,726,299) |
| WEIGHTED AVERAGE LOSS PER SHARE BASIC AND DILUTED | (0.05) | (0.09) |
| WEIGHTED AVERAGE NUMBER OF SHARES | 22,538,224 | 14,196,397 |

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

QUIZAM MEDIA CORPORATION**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED MAY 31, 2010 AND 2009**

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss for the year | (1,221,417) | (1,239,515) |
| Items not affecting cash: | | |
| Amortization | 14,667 | 20,272 |
| Stock based compensation | 256,667 | 70,821 |
| Write-off of loan receivable | – | 10,176 |
| | (950,083) | (1,138,246) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (31,002) | 46,406 |
| Prepaid expenses and deposits | 4,134 | (2,568) |
| Goods and services tax recoverable | 1,769 | 1,850 |
| Accounts payable and accrued liabilities | 69,729 | (32,068) |
| Deferred revenue | (1,311) | 940 |
| CASH USED IN OPERATING ACTIVITIES | (906,764) | (1,123,686) |
| FINANCING ACTIVITIES | | |
| Repayments to related parties | (72,368) | (5,241) |
| Issuance of share capital, net | 799,907 | 976,607 |
| Proceeds received from common shares subscribed | 40,000 | 225,500 |
| Deferred share issuance costs | 2,438 | (2,438) |
| CASH PROVIDED BY FINANCING ACTIVITIES | 769,977 | 1,194,428 |
| INVESTING ACTIVITIES | | |
| Issuance of loan | (14,227) | – |
| Redemption (purchase) of short term investments | – | 70,404 |
| Acquisition of equipment | (11,578) | (1,421) |
| CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | (25,805) | 68,983 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (162,592) | 139,725 |
| CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR | 208,602 | 68,877 |
| CASH AND CASH EQUIVALENTS – ENDING OF THE YEAR | 46,010 | 208,602 |
| NON-CASH FINANCING AND INVESTING ACTIVITIES | | |
| Issuance of shares for finders' fees | 52,360 | 82,432 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | 7,092 | 8,004 |
| Income tax paid | – | – |

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

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

1. NATURE AND CONTINUANCE OF OPERATIONS

Quizam Media Corporation (the "Company") was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business activity consists of providing computer training and consulting services and marketing of a computer based educational program.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, assuming 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 has had a history of significant losses, sizeable accumulated deficits and limited working capital. The Company's ability to continue as a going concern may therefore be dependent on completing equity financing, obtaining support from related parties or generating consistent profitable operations in the future.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective June 1, 2009, the Company adopted the following standards of the Canadian Institute of Chartered Accountants' ("CICA") Handbook:

(a) Goodwill and Intangible Assets (Section 3064)

Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard did not have any material impact on the Company's financial statements.

(b) Credit Risk and the Fair Value of Financial Assets and Liabilities (EIC 173)

The AcSB issued EIC-173, which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities of the Company.

(c) Financial Instruments - Disclosures (Section 3862)

In June 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. These amendments are reflected in Note 16.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles prepared on a consolidated basis and include the accounts of the Company and its wholly owned subsidiary, On-Track Computer Training Ltd. ("On-Track"). All inter-company transactions and balances have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to revenue recognition, the valuation allowance for future income tax assets and stock-based compensation.

(c) Foreign currency translation

Foreign currency denominated assets and liabilities of operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses are converted at the average exchange rate for the reporting period. Gains or losses on translation are included in operations.

(d) Cash and cash equivalents

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at the date of acquisition, that are readily convertible to known amounts of cash.

(e) Equipment

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

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

(f) Long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Deferred share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issuance costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred share issuance costs related to financing transactions that are not completed are charged to expenses.

(h) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(i) Revenue recognition

Training revenues are recorded when earned, which is the date students attend a course, and when collectibility is reasonably assured. On-Track TV revenues are recorded when access to the On-Track TV website has been granted and collection is reasonably assured.

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

License fees are recorded in the accounts when all conditions have been met under the license agreement, the licensee is satisfied with the operations of the software, and collection is reasonably assured.

(j) Stock-based compensation

The Company follows the recommendations in CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, which provides standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. In accordance with these recommendations, stock options granted are recorded at their fair value over the vesting period as a compensation cost with a corresponding increase in contributed surplus. Agents' warrants issued in connection with common share placements are recorded as share issuance costs with a corresponding increase in contributed surplus. When the options and warrants are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

(l) Earnings (loss) per share

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

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

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Development costs

Costs related to the enhancement of internally developed software are charged to operations as incurred until technological feasibility in the form of a working model has been established. The time period between the establishment of technological feasibility and completion of product development is expected to be short, therefore the Company has not capitalized any product development costs during the period.

(n) Financial instruments

The Company has classified its financial instruments as follows:

| | |
|---------------------------|-----------------------------|
| Cash and cash equivalents | held-for-trading |
| Accounts receivable | loans and receivables |
| Loans receivable | loans and receivables |
| Accounts payable | other financial liabilities |
| Due to related parties | other financial liabilities |

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments

The Company currently does not have derivative instruments and accordingly is not affected by CICA Handbook Section 3865, *Hedges*.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that have been announced but are not yet effective are as follows:

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements.

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replaces existing guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

5. EQUIPMENT

| | Cost | Accumulated Amortization | 2010 Net Book Value | 2009 Net Book Value |
|------------------------|---------|-----------------------------|---------------------------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Computer hardware | 329,252 | 314,821 | 14,431 | 17,803 |
| Furniture and fixtures | 69,241 | 69,058 | 183 | 240 |
| Library | 3,651 | 2,223 | 1,428 | 1,088 |
| | 402,144 | 386,102 | 16,042 | 19,131 |

6. LOANS RECEIVABLE

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

During fiscal 2008 the Company advanced £5,000 pounds (CDN \$10,176) to Electronic Catalogue, a UK Licensee. The loan bears an interest rate of 4% annually. In fiscal 2009, the loan was written off as the collectability of the loan was uncertain.

7. SHARE CAPITAL

| | Number of Shares | \$ |
|--|---------------------|-----------|
| Balance at May 31, 2008 | 12,716,362 | 7,218,221 |
| For cash - Issued by private placement | 4,979,999 | 940,000 |
| For cash - Exercise of options | 55,000 | 44,000 |
| Issued as finders' fees | 461,100 | 82,432 |
| Share issuance costs | — | (89,825) |
| Fair value of stock options exercised transferred from contributed surplus | — | 25,575 |
| Balance at May 31, 2009 | 18,212,461 | 8,220,403 |
| For cash - Issued by private placement | 5,590,913 | 765,000 |
| For cash - Exercise of options | 435,000 | 84,250 |
| For cash - Exercise of warrants | 626,955 | 185,814 |
| Issued as finders' fees | 378,381 | 52,360 |
| Share issuance costs | — | (62,017) |
| Fair value of stock options exercised transferred from contributed surplus | — | 35,088 |
| Balance at May 31, 2010 | 25,243,710 | 9,280,898 |

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

7. SHARE CAPITAL (continued)

For the year ended May 31, 2010:

- (a) In November 2009, the Company completed a non-brokered private placement consisting of 4,090,911 units at \$0.11 per unit for proceeds of \$450,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.25 for the first six months and \$0.45 for the second six-month period expiring on November 9, 2010. In connection with the private placement, the Company issued 271,000 shares as finders' fees with a fair value of \$29,810 and recorded as share issuance costs.
- (b) In June 2009, the Company completed a non-brokered private placement consisting of 1,500,000 units at \$0.21 per unit for proceeds of \$315,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.45 for the first six months and \$0.65 for the second six-month period expiring on June 5, 2010. In connection with the private placement, the Company issued 107,381 shares as finders' fees with a fair value of \$22,550 and recorded as share issuance costs.
- (c) In the current year, 581,500 warrants were exercised at \$0.30 for proceeds of \$174,450 and 45,455 warrants were exercised at \$0.25 for proceeds of \$11,364.
- (d) In the current year, 210,000 options were exercised at \$0.20, 140,000 options were exercised at \$0.15 and 85,000 options were exercised at \$0.25 for proceeds of \$84,250 in total. The fair value, when granted, of \$35,088 was transferred to share capital from contributed surplus to reflect the exercise of these options.

For the year ended May 31, 2009:

- (a) In August 2008, the Company completed a non-brokered private placement consisting of 480,000 units at \$0.75 per unit for proceeds of \$360,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$1.00 for the first six months and \$1.65 for the second six-month period expiring on August 18, 2009. In connection with the private placement, the Company issued 36,667 shares as finders' fees with a fair value of \$27,500 and incurred an additional \$2,718 in cash share issuance costs.
- (b) In February 2009, the Company completed a non-brokered private placement consisting of 2,499,999 units at \$0.12 per unit for proceeds of \$300,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.30 for the first year and \$0.50 for the second year expiring on January 26, 2011. In connection with the private placement, the Company issued 224,433 shares as finders' fees with a fair value of \$26,932 and incurred an additional \$2,385 in cash share issuance costs.
- (c) In May 2009, the Company completed a non-brokered private placement consisting of 2,000,000 units at 0.14 per unit for proceeds of \$280,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.45 for the first six months and \$0.65 for the second six-month period expiring on April 23, 2010. In connection with the private placement, the Company issued 200,000 shares as finders' fees with a fair value of \$28,000 and incurred an additional \$2,290 in cash share issuance costs.
- (d) In the current year, 55,000 options were exercised at \$0.80 for proceeds of \$44,000. The fair value, when granted, of \$25,575 was transferred to share capital from contributed surplus to reflect the exercise of these options.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

8. STOCK OPTIONS

Stock option plan and stock options issued

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Incentive Share Option Plan (the "Plan"). Under the Plan, the option price must not be less than the closing price of the common shares of the Company on the TSX Venture Exchange ("TSX") on the day immediately preceding the date of grant less the applicable discount if any. The Company is a "Tier 2" TSX company therefore any option granted under the Plan must be exercised within a period of two years from the date of granting. The number of options that may be issued under the plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date. Options vest immediately. Vesting restrictions may also be applied to certain other options grants, at the discretion of the directors.

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

| | Number of shares | Weighted Average Exercise Price \$ |
|---------------------------|---------------------|--|
| Outstanding, May 31, 2008 | 147,000 | 0.80 |
| Exercised | (55,000) | 0.80 |
| Cancelled/expired | (107,000) | 0.72 |
| Granted | 772,500 | 0.24 |
| Outstanding, May 31, 2009 | 757,500 | 0.25 |
| Cancelled/expired | (157,500) | 0.27 |
| Exercised | (435,000) | 0.18 |
| Granted | 1,797,500 | 0.26 |
| Outstanding, May 31, 2010 | 1,962,500 | 0.27 |

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

| | May 31, 2010 | May 31, 2009 |
|--------------------------|-----------------|-----------------|
| Risk free interest rate | 0.88% | 0.93% |
| Expected life (in years) | 1.03 | 1.51 |
| Expected volatility | 151% | 118% |
| Dividend yield | 0% | 0% |

Total stock-based compensation expense recognized for stock options granted during the year was \$256,667 (2009 - \$70,821) and was charged to operations for options granted to directors, officers and consultants of the Company.

The weighted average grant date fair value of options granted during the year was \$0.14 (2009 – \$0.09) per option.

The weighted average remaining contractual life of the stock options outstanding as at May 31, 2010 is 0.75 years.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

9. SHARE PURCHASE WARRANTS

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

| | Number of shares | Weighted Average Exercise Price \$ |
|--------------------------------|---------------------|--|
| Balance, May 31, 2008 | 500,000 | 0.30 |
| Issued with private placements | 4,979,999 | 0.43 |
| Balance, May 31, 2009 | 5,479,999 | 0.42 |
| Issued with private placements | 5,590,913 | 0.24 |
| Exercised | (626,955) | 0.30 |
| Expired | (2,980,000) | 0.75 |
| Balance, May 31, 2010 | 7,463,957 | 0.50 |

At May 31, 2010, the following share purchase warrants were outstanding:

| Number of Warrants | Exercise Price \$ | Expiry Date |
|--------------------|---|------------------|
| 1,500,002 | \$0.45 to Dec 4, 2009 or \$0.65 to Jun 5, 2010 | June 5, 2010 |
| 4,045,456 | \$0.25 to Apr 9, 2010 or 0.45 to Nov 9, 2010 | November 9, 2010 |
| 1,918,499 | \$0.30 to Jan 25, 2010 or \$0.50 to Jan 26, 2011 | January 26, 2011 |

10. CONTRIBUTED SURPLUS

The following table summarizes the continuity of the Company's contributed surplus:

| | Amount \$ |
|--|--------------|
| Balance, May 31, 2008 | 307,907 |
| Fair value of stock options exercised and transferred to share capital | (25,575) |
| Fair value of stock options granted | 70,821 |
| Balance, May 31, 2009 | 353,153 |
| Fair value of stock options exercised and transferred to share capital | (35,088) |
| Fair value of stock options granted | 256,667 |
| Balance, May 31, 2010 | 574,732 |

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

11. SEGMENTED INFORMATION

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

| | 2010 | 2009 |
|---------------|-------------|-------------|
| | \$ | \$ |
| Revenue | 595,054 | 517,531 |
| Expenses | (1,081,191) | (1,058,251) |
| Profit (loss) | (486,137) | (540,720) |

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

| | 2010 | 2009 |
|---------------|-----------|-----------|
| | \$ | \$ |
| Revenue | 87 | 2,095 |
| Expenses | (735,367) | (700,890) |
| Profit (loss) | (735,280) | (698,795) |

12. PRODUCT DEVELOPMENT COSTS

(a) On-Track TV

During the current period, the Company has finished a complete set of on-line curriculum for its training division called On-Track TV.

The costs associated with development of the On-Track TV, which are included in the statement of operations, and comprehensive loss and deficit, for the years ended May 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|--|---------|---------|
| | \$ | \$ |
| Salary, wages and fees (management, programming and marketing) | 220,572 | 169,297 |
| Materials | 572 | 2,721 |
| Marketing | 16,340 | 7,231 |
| Advertising and promotion | 50,148 | 39,269 |
| | 287,632 | 218,518 |

(b) Quizam software

During the current period, the Company continued to concentrate its efforts on the development and marketing of the Quizam educational software. This activity has resulted in a third version of the educational software, which has also been adapted for compatibility with the Mac platform format.

The costs associated with development of the Quizam educational software, which are included in the statement of operations, and comprehensive loss and deficit, for the years ended May 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|--|---------|---------|
| | \$ | \$ |
| Salary, wages and fees (management, programming and marketing) | 156,754 | 217,225 |
| Materials | 3,384 | 4,993 |
| Marketing | 1,500 | 2,712 |
| Advertising and promotion | 8,728 | 44,925 |
| | 170,366 | 269,855 |

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

13. RELATED PARTY TRANSACTIONS

The following are related party transactions incurred in the normal course of operations:

The Company owes \$45,602 (May 31, 2009 - \$117,970) to a significant shareholder, who is also a director and officer. The loan is secured by the assets of the Company, bears interest at 12% per annum and is due upon demand.

Related party transactions not otherwise disclosed elsewhere in these financial statements were:

- (a) Management, administration, accounting and software development are provided by a company owned by a significant shareholder. An amount of \$464,381 (2009 - \$447,905) was paid for these services during the year ending May 31.
- (b) Marketing and publicity fees totalling \$15,714 (2009 - \$23,476) were paid to a company owned by a relative of one of the directors.
- (c) Marketing and publicity fees totalling \$76,931 (2009 - \$63,474) were paid to relatives of one of the directors.
- (d) A significant shareholder was paid \$7,092 (2009 - \$8,004) in interest on loans to the Company. These fees were recorded at their exchange amount, which is the amount agreed upon by the transacting parties on terms and conditions similar to non-related entities.

14. INCOME TAXES

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

| | 2010 \$ | 2009 \$ |
|--|-------------|-------------|
| <u>Canadian statutory income tax rate</u> | 29.38% | 30.59% |
| Net loss before tax per financial statements | (1,221,417) | (1,239,515) |
| Income tax recoverable at statutory rates | 358,846 | 379,122 |
| Permanent differences | (57,365) | 1,274 |
| Change in enacted rates | (42,781) | (41,412) |
| Expiry of losses | (291,476) | (153,656) |
| Decrease (increase) in valuation allowance | 32,776 | (185,328) |
| <u>Income tax recoverable</u> | - | - |

The tax effects of temporary differences that give rise to significant portions of the future tax liability are as follows:

| | 2010 \$ | 2009 \$ |
|--|-------------|-------------|
| <u>Future effective tax rate</u> | 25.00% | 25.00% |
| Future income tax assets (liabilities) | | |
| Non-capital losses carried forward | 1,720,780 | 1,761,812 |
| Property and equipment | 22,892 | 19,226 |
| Share issuance costs | 31,126 | 26,536 |
| Valuation allowance | (1,774,798) | (1,807,574) |
| <u>Net future income tax assets</u> | - | - |

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

14. INCOME TAXES (continued)

The Company has approximately \$6,882,000 (2009 – \$7,047,000) of losses for tax purposes which may be used to reduce income taxes of future years and will expire as follows:

| | \$ |
|------|------------------|
| 2014 | 913,000 |
| 2015 | 662,000 |
| 2026 | 834,000 |
| 2027 | 1,066,000 |
| 2028 | 1,255,000 |
| 2029 | 1,159,000 |
| 2030 | 993,000 |
| | <u>6,882,000</u> |

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

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to have sufficient capital to be able to meet the Company's educational software development and internet training development, to ensure the growth of activities, to maintain creditworthiness and maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. The Company's principal source of funds is from the issuance of common shares. The Company includes the components of shareholders' equity in its management of capital.

As at May 31, 2010, the Company had capital resources consisting of cash. 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 or adjust the amount of cash. The Company's investment policy is to invest its cash in investment instruments with high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing due to the current difficult market conditions. The Company will require additional equity financing to carry its operations through its current operating period.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loans receivable, accounts payable and amounts due to related parties. The fair value of these financial instruments approximates their carrying values unless otherwise noted.

The Company classifies its cash and cash equivalents as "held for trading," its accounts receivable and loans receivable as "loans and receivables" and accounts payable and amounts due to related parties as "other financial liabilities."

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

| | 2010 \$ | 2009 \$ |
|-----------------------------------|------------|------------|
| Held for trading (i) | 46,010 | 208,602 |
| Loans and receivables (ii) | 52,977 | 7,768 |
| Other financial liabilities (iii) | 172,681 | 175,320 |

- (i) Cash and cash equivalents
- (ii) Accounts receivables and loans receivable
- (iii) Accounts payable and amounts due to related parties

Fair Value

The estimated fair value of cash, accounts receivable and loans receivable, accounts payable and amounts due to related parties approximate their respective carrying values due to the short periods to maturity. For fair value estimates, the Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in CICA Handbook section 3862 *Financial Instruments – Disclosures*:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

The fair values of the Company's financial assets measured at fair value by level within the fair value hierarchy:

| | Balance at May 31, 2010 \$ | Level 1 \$ | Level 2 \$ | Level 3 \$ |
|------|----------------------------------|---------------|---------------|---------------|
| Cash | 46,010 | 46,010 | - | - |

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. To minimize its credit risk, the Company maintains substantially all of its cash with high quality financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. Credit risk from accounts receivable encompasses the default risk of its customers. The Company manages its exposure to credit risk by only working with reputable companies and by performing on-going credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed appropriate. The maximum exposure to loss arising from accounts receivable is equal to their carrying amounts. Three of the Company's customer accounts (2009 - two) comprise 71% (2009 - 32%) of accounts receivable.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit Risk (continued)

The following table provides information regarding the ageing of financial assets that are past due but which are not impaired as at May 31, 2010.

| | Neither past due nor impaired | 31-60 days | 61-90 days | 91 days + | Carrying value on balance sheet \$ |
|------------------------------|----------------------------------|------------|------------|-----------|--|
| Trade accounts receivable | \$ 6,481 | \$ 4,991 | 7,601 | 19,697 | 38,770 |

Of the 61 days and over balance outstanding at May 31, 2010, 93% has been subsequently collected as at September 22, 2010. Management believes the remaining balance is fully collectible.

Currency Risk

As the Company operates on an international basis, currency risk exposures arise from transactions and balances denominated in foreign currencies. The Company's foreign exchange risk arises primarily with respect to the United States dollar and Great Britain pound. Financial instruments that subject the Company to foreign currency exchange risk include cash and accounts receivable. Approximately 100% of the Company's revenues are denominated in Canadian Dollars (2009 - 100%) while substantially all of the Company's expenses are denominated in Canadian dollars. At May 31, 2010, a fluctuation of 10% in the currency exchange rate could result in a fluctuation of approximately \$750 on our consolidated results of operations, based on US\$ and UK£ account balances. The Company does not engage in any hedging activity.

The Company has completed a sensitivity analysis to estimate the impact on net loss for the period which a change in foreign exchange rates during the year ended May 31, 2010 would have had.

This sensitivity analysis includes the following assumptions:

- Changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter

The results of the foreign exchange rate sensitivity analysis can be seen in the following table:

| | Impact on net loss |
|--|--------------------|
| Change of +/- 10% in US\$ and UK£ foreign exchange rate | +/- \$750 |

The above results arise primarily as a result of the Company having US\$ and UK£ denominated bank account balances.

The financial position of the Company may vary at the time that a change in the factor above occurs, causing the impact on the Company's results to differ from that shown above

Liquidity Risk

The Company's approach to managing liquidity risk is to provide reasonable assurance that it has sufficient capital to meet short-term financial obligations after taking into account its cash on hand. The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. 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. The Company does not have investments in any asset backed deposits. The Company will require additional equity financing to meet its administrative overhead costs and software development expenditures in fiscal 2011.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company's ability to raise capital to fund operations is subject to risks associated with fluctuations in equity prices. Management closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

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. As the Company's cash is currently held in an interest bearing bank account, management considers the interest rate risk to be minimal.

17. LINE OF CREDIT

As at May 31, 2010, the Company has a line of credit of \$5,000 bearing interest at the bank's prime rate plus five percent. The line of credit is guaranteed by the assets of the Company. There was no outstanding balance as of May 31, 2010.

18. COMMITMENT

The Company has an office lease through to October 2010 and is committed to the following minimum lease payments during the next fiscal year under the lease for its premises:

| | |
|------|--------|
| | \$ |
| 2011 | 46,267 |

19. SUBSEQUENT EVENTS

- (a) In June 2010, the Company completed a non-brokered private placement consisting of 7,777,777 units at \$0.09 per unit for proceeds of \$700,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.20 for the first six months and \$0.40 for the second six-month period expiring on June 23, 2011. In connection with the private placement, the Company issued 344,722 shares as finders' fees with a fair value of \$31,025. The Company had received \$40,000 in share subscriptions as at May 31, 2010.
- (b) On June 5, 2010, 1,500,002 warrants exercisable at \$0.65 per share expired unexercised.
- (c) On June 24, 2010, 50,000 options exercisable at \$0.20 per share expired unexercised. In addition, 100,000 options exercisable at prices between \$0.15 and \$0.35 per share were cancelled subsequent to the year.