



QUIZAM MEDIA CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2011 AND 2010



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Quizam Media Corporation

We have audited the accompanying consolidated financial statements of Quizam Media Corporation which comprise the consolidated balance sheets as at May 31, 2011 and 2010, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audits 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 Quizam Media Corporation as at May 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Quizam Media Corporation to continue as a going concern.

Manning Elliott LLP

QUIZAM MEDIA CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31, 2011 AND 2010

	2011 \$	2010 \$
ASSETS		
Current		
Cash and cash equivalents	181,585	46,010
Accounts receivable	53,377	38,770
Prepaid expenses and deposits	10,412	7,980
HST tax recoverable	6,997	3,762
Loans receivable (Note 5)	12,837	14,227
	265,208	110,749
Equipment (Note 4)	19,706	16,042
	284,914	126,791
LIABILITIES		
Current		
Accounts payable and accrued liabilities	63,473	127,079
Deferred revenue	11,797	6,196
Due to a related party (Note 12)	309,677	45,602
	384,947	178,877
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 6)	10,303,807	9,280,898
Contributed Surplus (Note 9)	614,106	574,732
Share Subscriptions (Note 6)	-	40,000
Deficit	(11,017,946)	(9,947,716)
	(100,033)	(52,086)
	284,914	126,791

Nature of Operations and Continuance of Business (Note 1)
 Commitments (Note 17)
 Subsequent Events (Note 18)

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, 2011 AND 2010**

	2011 \$	2010 \$
REVENUES		
Training services and software sales	548,359	584,028
U.K. software sales	26,448	11,113
	<hr/> 574,806	<hr/> 595,141
EXPENSES		
Accounting and legal	168,255	170,024
Advertising and promotion	-	3,558
Amortization	11,799	14,667
Automobile	20,128	27,026
Bank charges and interest	2,964	3,342
Interest on related party debt	36,551	7,092
Investor and finance development	49,100	76,217
Management fees	72,000	72,000
Office and miscellaneous	78,637	54,501
On-Track TV development costs (Note 11)	354,599	287,632
Regulatory fees	16,335	23,009
Rents	183,097	178,391
Software development costs (Note 11)	168,513	170,366
Stock based compensation (Note 7)	39,374	256,667
Subcontractors	3,950	33,399
Telephone	18,842	19,668
Trade shows	3,240	3,468
Travel and business development	126,848	147,312
Wages and benefits	293,493	271,937
	<hr/> 1,647,725	<hr/> 1,820,276
LOSS BEFORE OTHER ITEMS	(1,072,919)	(1,225,135)
OTHER ITEMS		
Interest income	2,689	1,939
Other income	-	1,779
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,070,230)	(1,221,417)
DEFICIT, BEGINNING OF YEAR	(9,947,716)	(8,726,299)
DEFICIT, END OF YEAR	(11,017,946)	(9,947,716)
WEIGHTED AVERAGE LOSS PER SHARE BASIC AND DILUTED	(0.03)	(0.05)
WEIGHTED AVERAGE NUMBER OF SHARES	33,998,560	22,538,224

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, 2011 AND 2010

	2011 \$	2010 \$
OPERATING ACTIVITIES		
Net loss for the year	(1,070,230)	(1,221,417)
Items not affecting cash:		
Amortization	11,799	14,667
Stock based compensation	39,374	256,667
	(1,019,057)	(950,083)
Changes in non-cash working capital items:		
Accounts receivable	(14,607)	(31,002)
Prepaid expenses and deposits	(2,432)	4,134
HST tax recoverable	(3,235)	1,769
Accounts payable and accrued liabilities	(63,606)	69,729
Deferred revenue	5,601	(1,311)
CASH USED IN OPERATING ACTIVITIES	(1,097,336)	(906,764)
FINANCING ACTIVITIES		
Advances from (repayments to) related parties	264,075	(72,368)
Issuance of common shares, net	982,909	799,907
Collection of common share subscriptions receivable	–	40,000
Deferred share issuance costs	–	2,438
CASH PROVIDED BY FINANCING ACTIVITIES	1,246,984	769,977
INVESTING ACTIVITIES		
Payments on (issuance of) loans receivable	1,390	(14,227)
Acquisition of equipment	(15,463)	(11,578)
CASH USED IN INVESTING ACTIVITIES	(14,073)	(25,805)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	135,575	(162,592)
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	46,010	208,602
CASH AND CASH EQUIVALENTS – ENDING OF THE YEAR	181,585	46,010
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Issuance of shares for finders' fees	49,175	52,360
SUPPLEMENTAL INFORMATION		
Interest paid	36,551	7,092
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 ENDING MAY 31, 2011 AND 2010

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles 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

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 collectability 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 which is generally when direct payment is received.

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.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING MAY 31, 2011 AND 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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 per share amounts excludes all potential common shares if their effect is anti-dilutive.

(l) 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 year.

(m) 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*.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. 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 does not expect a significant impact from this standard on its 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 does not expect a significant impact from this standard on its 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 is currently evaluating and assessing the impact of IFRS and will adopt IFRS commencing with the fiscal quarter ending August 31, 2011.

In August 2009, the CICA issued Section 3251 *Equity* in response to issuing Section 1602 *Non-controlling Interests*. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The Company does not expect a significant impact from this standard on its financial statements.

In August 2009, the CICA issued Section 1625 *Comprehensive Revaluation of Assets and Liabilities* for consistency with new Section 1582 *Business Combinations*. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The Company does not expect a significant impact from this standard on its financial statements.

4. EQUIPMENT

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
	\$	\$	\$	\$
Computer hardware	344,716	325,834	18,882	14,431
Furniture and fixtures	69,241	69,114	127	183
Library	3,651	2,954	697	1,428
	417,608	397,902	19,706	16,042

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. 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 fiscal 2010, 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. At fiscal year end of 2011, the balance is CDN \$12,837 including interest.

6. SHARE CAPITAL

Authorized: Unlimited common shares

Issued:

	Number of Common Shares	\$
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
For cash - Issued by private placement	13,527,777	1,045,000
Issued as finders' fees	647,222	49,175
Share issuance costs	-	(71,266)
Balance at May 31, 2011	39,418,709	10,303,807

For the year ended May 31, 2011:

- (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 common 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) In March 2011, the Company completed a non-brokered private placement consisting of 5,750,000 units at \$0.06 per unit for proceeds of \$345,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.15 for the first six months and \$0.30 for the second six-month period expiring on March 18, 2012. In connection with the private placement, the Company issued 302,500 common shares as finders' fees with a fair value of \$18,150.
- (c) During the 2011 fiscal year there were no warrants exercised and 7,463,955 warrants expired.
- (d) During the 2011 fiscal year there were no options exercised, 1,757,500 options expired and 155,000 options were cancelled.

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING MAY 31, 2011 AND 2010

6. 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 common shares as finders' fees with a fair value of \$29,810.
- (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 common shares as finders' fees with a fair value of \$22,550.
- (c) During the 2010 fiscal year there were 581,500 warrants exercised at \$0.30 for proceeds of \$174,450 and 45,455 warrants were exercised at \$0.25 for proceeds of \$11,364.
- (d) During the 2010 year there were 210,000 options 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.
- (e) During the 2010 year 135,000 options expired and 22,500 options were cancelled.

7. 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, 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
Cancelled/expired	(1,912,500)	0.27
Granted	915,000	0.12
Outstanding, May 31, 2011	965,000	0.13

QUIZAM MEDIA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. STOCK OPTIONS (continued)

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

	2011	2010
Risk free interest rate	1.54%	0.88%
Expected life (in years)	1.30	1.03
Expected volatility	116%	151%
Dividend yield	0%	0%

Total stock-based compensation expense recognized for stock options granted during the year was \$39,374 (2010 - \$256,667) 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 \$0.04 (2010- \$0.14) per option.

The weighted average remaining contractual life of the stock options outstanding as at May 31, 2011 is 0.37 years (2010- 0.75 years).

8. 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, 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
Issued with private placements	13,527,777	0.18
Expired	(7,463,957)	0.50
Balance, May 31, 2011	13,527,777	0.18

At May 31, 2011, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price \$	Expiry Date
7,777,777	\$0.20 to Dec 22, 2010 or 0.40 to Jun 23, 2011	June 23, 2011
5,750,000	\$0.15 to Sep 17, 2011 or 0.30 to Mar 18, 2011	March 18, 2012

QUIZAM MEDIA CORPORATION
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9. CONTRIBUTED SURPLUS

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

	Amount \$
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
Fair value of stock options exercised and transferred to share capital	-
Fair value of stock options granted	39,374
Balance, May 31, 2011	614,106

10. SEGMENTED INFORMATION

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

	2011 \$	2010 \$
Revenue	574,806	595,054
Expenses	(1,142,854)	(1,081,191)
Profit (loss)	(568,048)	(486,137)

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

	2011 \$	2010 \$
Revenue	-	87
Expenses	(502,181)	(735,367)
Profit (loss)	(502,181)	(735,280)

11. PRODUCT DEVELOPMENT COSTS

(a) On-Track TV

During the 2011 fiscal year, the Company 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, 2011 and 2010 are as follows:

	2011 \$	2010 \$
Salary, wages and fees (management, programming and marketing)	312,964	220,572
Materials	766	572
Marketing	10,276	16,340
Advertising and promotion	30,593	50,148
	354,599	287,632

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11. PRODUCT DEVELOPMENT COSTS (continued)

(b) Quizam software

During the 2011 fiscal year, 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, 2011 and 2010 are as follows:

	2011	2010
	\$	\$
Salary, wages and fees (management, programming and marketing)	165,818	156,754
Materials	521	3,384
Marketing	-	1,500
Advertising and promotion	2,174	8,728
	<u>168,513</u>	<u>170,366</u>

12. RELATED PARTY TRANSACTIONS

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

The Company owes \$309,677 (May 31, 2010 - \$45,602) 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 \$548,040 (2010 - \$464,381) was paid for these services during the years ending May 31, 2011.
- (b) Marketing and publicity fees totalling \$18,259 (2010 - \$15,714) were paid to a company owned by a relative of one of the directors.
- (c) Marketing and publicity fees totalling \$73,365 (2010 - \$76,931) were paid to relatives of one of the directors.
- (d) A significant shareholder was paid \$36,551 (2010 - \$7,092) 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.

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13. INCOME TAXES

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

	2011 \$	2010 \$
Canadian statutory income tax rate	27.6%	29.38%
Net loss before tax per financial statements	(1,070,229)	(1,221,417)
Income tax recoverable at statutory rates	295,383	358,846
Permanent differences	6,984	(57,365)
Change in enacted rates	(28,499)	(42,781)
Expiry of losses	–	(291,476)
Decrease (increase) in valuation allowance	(273,868)	32,776
Income tax recoverable	–	–

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

	2011 \$	2010 \$
Future effective tax rate	25.0%	25.00%
Future income tax assets (liabilities)		
Non-capital losses carried forward	1,988,359	1,720,780
Property and equipment	25,843	22,892
Share issuance costs	34,464	31,126
Valuation allowance	(2,048,666)	(1,774,798)
Net future income tax assets	–	–

The Company has approximately \$7,953,435 (2010 – \$6,882,000) of losses for tax purposes which may be used to reduce income taxes of future years and will expire as follows:

	\$
2014	912,812
2015	662,409
2026	834,329
2027	1,065,796
2028	1,255,435
2029	1,159,204
2030	993,138
2031	1,070,312
	<u>7,953,435</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.

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14. 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, 2011, 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.

15. 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."

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

	2011	2010
	\$	\$
Held for trading (i)	181,585	46,010
Loans and receivables (ii)	66,214	52,977
Other financial liabilities (iii)	373,150	172,681

- (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).

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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, 2011	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Cash	181,585	181,585	-	-

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. Two of the Company's customer accounts (2010 - three) comprise 45% (2010 - 71%) of accounts receivable.

The following table provides information regarding the ageing of financial assets that are past due but which are not impaired as at May 31, 2011.

	Neither past due nor impaired	31-60 days	61-90 days	91 days +	Carrying value on balance sheet \$
Trade accounts receivable	\$ 30,787	\$ 15,111	2,293	5,186	53,377

Of the 61 days and over balance outstanding at May 31, 2011, 95% has been subsequently collected as at September 27, 2011. 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 (2010 - 100%) while substantially all of the Company's expenses are denominated in Canadian dollars. At May 31, 2011, a fluctuation of 10% in the currency exchange rate could result in a fluctuation of approximately \$1,219 on our consolidated results of operations, based on US\$ and UK£ account balances. The Company does not engage in any hedging activity.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Currency Risk (continued)

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, 2011 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	+/- \$1,219

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 2012.

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.

16. LINE OF CREDIT

As at May 31, 2011, 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, 2011.

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17. COMMITMENTS

The Company has extended an office lease through October 31, 2013 and is committed to the following lease payments during the next three fiscal years under the lease for its premises:

	<u>\$</u>
2012	99,554
2013	101,788
2014	<u>43,076</u>

The Company has also signed a new office lease from March 1, 2011 to October 31, 2013 and is committed to the following lease payments during the next three fiscal years under the lease for its premises. This new space is for its online training division, ontrackTV.

	<u>\$</u>
2012	23,790
2013	24,324
2014	<u>10,294</u>

18. SUBSEQUENT EVENTS

- (a) On August 15, 2011, the Company's Australian online training division, ontrackTV.com.au has signed a contract with Avalanche Technology Group. Under the terms of the agreement, the parties will share revenue from online subscribers while offering their customers and resellers a discounted learning service.
- (b) On June 23, 2011, 7,777,777 warrants exercisable at \$0.40 per share expired unexercised.