

**QUIZAM MEDIA CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MAY 2006**

# GORDON K. W. GEE

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## AUDIT REPORT

To the Shareholders of Quizam Media Corporationon

I have audited the consolidate statement of financial position of Quizam Media Corporationon as at 31 May 2006 and 2005 and the consolidated statements of operations and deficit and cash flow for the periods then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibilty is to express an opinion on these consolidated financial statements based on my audit

I have conducted my audit in accordance with Canadian generally accepted standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at 31 May 2006 and 2005 and the results of the operations and cash flow of the Company for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Business Corporations Act (Ontario) , I report that in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Vancouver, B.C.  
27 September 2005

CHARTERED ACCOUNTANT

**QUIZAM MEDIA CORPORATION****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 MAY**

	<u>2006</u>	<u>2005</u>
	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Bank	309,744	71,134
Accounts receivable	18,840	62,460
Prepaid expenses and deposits	6,509	13,180
Goods and Services tax recoverable	<u>9,775</u>	<u>-</u>
	344,868	146,774
<b>PROPERTY, PLANT AND EQUIPMENT</b> ( Note 4)	<u>47,071</u>	<u>46,807</u>
	<u><u>391,939</u></u>	<u><u>193,581</u></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	50,495	69,416
Current portion of obligation under capital leases (Note 6)	13,632	13,632
Current portion on debt settlement (Note 8)	<u>33,600</u>	<u>33,600</u>
	<u>97,727</u>	<u>116,648</u>
<b>LONG-TERM DEBT</b>		
Obligation under capital leases (Note 6)	13,633	27,272
Due to a related party (Note 7)	104,957	328,496
Proposal on debt settlement (Note 8)	<u>28,000</u>	<u>61,600</u>
	<u>146,590</u>	<u>417,368</u>
	<u>244,317</u>	<u>534,016</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 9)	4,539,415	3,162,984
<b>DEFICIT</b>	<u>(4,391,793)</u>	<u>(3,503,419)</u>
	<u>147,622</u>	<u>(340,435)</u>
	<u><u>391,939</u></u>	<u><u>193,581</u></u>

**APPROVED ON BEHALF OF THE BOARD:**

" Russell Rossi " \_\_\_\_\_  
Russell Rossi

Director " Jim Rosevear " \_\_\_\_\_  
Jim Rosevear

Director

(See accompanying notes)

**QUIZAM MEDIA CORPORATION****STATEMENT OF OPERATIONS AND DEFICIT****FOR THE YEAR ENDED 31 MAY 2006**

	<u>2006</u>	<u>2005</u>
	<u>\$</u>	<u>\$</u>
<b>REVENUE</b>		
Training	251,552	631,125
Film	<u>-</u>	<u>56,048</u>
	<u>251,552</u>	<u>687,173</u>
<b>EXPENSES</b>		
Wages and benefits	170,005	210,300
Rent	89,382	114,470
Accounting and legal	75,731	109,723
Management fees	72,000	72,002
Office and miscellaneous	61,195	101,249
Travel and entertainment	38,880	37,398
Bank charges and interest	38,813	55,156
Regulatory fees	35,838	38,179
Automobile	21,377	20,200
Telephone and telecommunications	17,612	49,832
Sub-contractors	16,654	72,620
Amortization	15,729	23,269
Advertising and promotion	<u>5,624</u>	<u>11,763</u>
	<u>658,840</u>	<u>916,161</u>
<b>LOSS BEFORE OTHER ITEMS</b>	407,288	228,988
Interest income	(1,525)	1,148
Loss on settlement of advances payable (Note 8)	-	(165,000)
Product development costs ( Note 10)	<u>482,611</u>	<u>(271,304)</u>
<b>LOSS</b>	888,374	666,440
<b>DEFICIT, beginning of year</b>	<u>3,503,419</u>	<u>2,836,979</u>
<b>DEFICIT, end of year</b>	<u><u>4,391,793</u></u>	<u><u>3,503,419</u></u>

(See accompanying notes)

**QUIZAM MEDIA CORPORATION****STATEMENT OF CASH FLOW****FOR THE YEAR ENDED 31 MAY 2006**

	<u>2006</u>	<u>2005</u>
	<u>\$</u>	<u>\$</u>
<b>OPERATING ACTIVITIES</b>		
Net income (loss) from operations	(888,374)	(666,440)
Item not involving cash-amortization	<u>15,729</u>	<u>23,269</u>
	(872,645)	(643,171)
Cash provided by changes in non-cash working capital items		
Decrease in accounts receivable	43,620	76,443
Decrease in prepaid expenses and deposits	6,671	2,328
Increase in goods and services tax recoverable	(9,775)	-
Decrease in accounts payable and accrued liabilities	<u>(18,921)</u>	<u>(312,009)</u>
Cash used by non-cash working capital items	<u>(851,050)</u>	<u>(876,409)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of bank indebtedness	-	(24,848)
Repayment of advances payable	-	(248,321)
Repayments to related party	(223,539)	31,162
Payment of capital lease obligations	(13,639)	(13,635)
Issuance of capital stock	1,376,431	1,108,841
Payment towards debt settlement	<u>(33,600)</u>	<u>95,200</u>
Cash provided by financing activities	<u>1,105,653</u>	<u>948,399</u>
<b>INVESTING ACTIVITIES</b>		
Cash used by acquisition of property, plant and equipment	<u>(15,993)</u>	<u>(856)</u>
<b>INCREASE IN CASH</b>	238,610	71,134
<b>CASH, beginning</b>	<u>71,134</u>	<u>-</u>
<b>CASH, ending</b>	<u><u>309,744</u></u>	<u><u>71,134</u></u>

(See accompanying notes)

# QUIZAM MEDIA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2006 and 2005

### 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 developing and marketing of a computer based educational software programme.

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. These consolidated financial do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as going concern.

	\$ 2006	\$ 2005
Working capital	247,141	30,126
Deficit	(4,391,793)	3,503,419

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Principles of consolidation

These consolidated financial statements include 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.

#### Foreign currency translations

The monetary assets and liabilities of the Company dominated in foreign currencies are translated at the rate of exchange at the statement of financial position date and non-monetary items are translated at historical rates. Revenues and expenses are translated at exchange rates that approximate those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the results of operations.

# QUIZAM MEDIA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2006 and 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued) . . .

#### 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
Furniture and fixtures	5 years
Computer hardware	3 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 the 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 asset 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 9th 2003. The common shares, of the Company, are held in escrow and will be issued over a six-year period to the year 2009.

**QUIZAM MEDIA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2006 and 2005**

**4. PROPERTY, PLANT AND EQUIPMENT**

	\$ Cost	\$ Accumulated Amortization	\$ 2006 NBV	\$ 2005 NBV
Automobile	64,052	38,431	25,621	38,431
Computer Hardware	268,722	248,820	19,902	1,207
Furniture and fixtures	68,959	67,410	1,549	7,169
	401,733	354,661	47,072	69,220

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. LINE OF CREDIT**

As at May 31, 2006 the Company has a line of credit in place of \$5,000 bearing interest at prime plus five percent. The line of credit is guaranteed by the assets of the Company, and as at the year end the amount of the line of credit used is \$NIL.

**6. OBLIGATIONS UNDER CAPITAL LEASES**

	\$ 2006	\$ 2005
Payments of approximately \$1,136 per month including interest, due over lease terms expiring through May 2008	27,269	40,904
Less: current portion	13,632	13,632
	13 637	40,907

**7. DUE TO RELATED PARTY**

The company is indebted to a significant shareholder, who is a director and officer, in the amount of \$104,957. 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**

In the previous 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.

**QUIZAM MEDIA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2006 and 2005**

**9. CAPITAL STOCK**

	<b>Number of Shares</b>	<b>\$</b>
<hr/>		
<b>Authorized</b> - 100,000,000 common shares without par value		
<b>Issued</b> -		
Balance at May 31, 2001	100	100
Subdivision of shares ( 6:5:1)	550	-
Subdivision of shares (1:585:1)	380	-
<hr/>		
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
<hr/>		
Balance at May 31, 2003	13,099,878	1,516,594
Options exercised	1,244,000	1,244,000
Issued from debt settlement	3,431,489	343,149
Issued by private placement	1,400,000	70,000
<hr/>		
Balance at May 31, 2004	19,175,367	2,054,143
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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)
<hr/>		
Balance at May 31, 2005	8,960,746	3,036,084
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<b>Balance, post consolidation, on May 31, 2005 after 4 to 1 consolidation</b>	2,240,187	3,036,084
Issued by private placement	4,057,500	926,000
Exercise of warrants	1,652,912	535,361
Exercise of options	102,000	51,700
Issued as finders' fees	184,934	-
Finders' fee paid		(10,230)
<hr/>		
Balance at May 31, 2006	8,237,533	4,538,915
<hr/>		

**QUIZAM MEDIA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2006 and 2005**

**9. CAPITAL STOCK (continued) . . .**

**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 year periods.

**Stock options**

As at 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:

	<b>Number Of Options</b>	<b>Exercise Price \$</b>
- Expiring June 30, 2006	10,000	0.60
- Expiring April 11, 2007	85,500	0.50
- Expiring April 11, 2007	51,000	0.60
- Expiring April 11, 2007	35,000	0.70
- Expiring April 15, 2007	20,000	0.50
- Expiring June 17, 2007	317,000	0.50
- Expiring June 22, 2007	20,000	1.92
Balance, May 31, 2006	538,500	n/a
Weighted average fair value of options granted	n/a	0.61

**Stock-based compensation**

The compensation expense relating to the options granted been accounted for under the Black-Scholes pricing model representing fair value, instead of the intrinsic value based method, the loss and loss per share would have been adjusted as follows:

	<b>\$ 2006</b>	<b>\$ 2005</b>
<b>Loss for the year</b>		
As reported	888,374	(666,440)
Pro-forma	(1,225,965)	(689,940)
 <b>Basic and diluted loss per share</b>		
As reported	0.11	0.30
Pro-forma	0.07	0.11

**QUIZAM MEDIA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2006 and 2005**

**9. CAPITAL STOCK (continued) . . .**

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 are as follows:

	\$ 2006	\$ 2005
Risk-free interest rate	5.00%	5.00%
Expected life of options	1 year	1/2 year
Expected volatility	40%	20%
Expected dividend yield	0.0%	0.0%

**Warrants**

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

Number of Shares	Exercise Price \$	Expiry Date
18,750	1.00	August 8, 2006
171,182	0.92	November 9, 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**

In the current year, the Company has concentrated 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, as well as various world markets.

The costs associated with product development are as follows:

	\$
Salary, wages and fees (programming and marketing)	220,087
Materials	108,712
Marketing	89,131
Advertising and promotion	64,681
	482,611

**QUIZAM MEDIA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2006 and 2005**

**11. RELATED PARTY TRANSACTIONS**

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

The consolidated entity outsources 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 services. For the year a total of \$ 424,413 was paid for said services.

In addition, \$ 39,000 was paid to a company owned by a relative to one of the directors for marketing and publicity.

Significant shareholders were paid \$ 26,128 in interest on loans to the Company.

During the year, the net advances to and from a significant shareholder resulted in a decrease in the loan from the shareholder of \$ 223,539.

**12. INCOME TAXES**

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

	\$ 2006	\$ 2005
Loss for the year	(888,374)	(666,440)
Expected income tax recovery	302,900	270,127
Non-deductible expenses and items for tax purposes	(10,692)	(8,700)
Unrecognized benefit of non-capital losses	(292,208)	(261,427)
Total income taxes	-	-

The significant components of the Company's future income taxes assets are as follows:

	\$ 2006	\$ 2005
Future income tax assets		
Property, plant and equipment	119,246	103,517
Non-capital loss carry forwards	2,230,750	1,353,068
	2,349,996	1,456,585
Valuation allowance	(2,349,996)	(1,456,585)
Net future income tax assets	-	-

The Company has non-capital losses of approximately \$3,900,000 available for deduction against future taxable income. These losses, if not utilized, will expire commencing in 2006. Future tax benefits, which may arise as a result of these non-capital losses, have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

**QUIZAM MEDIA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2006 and 2005**

**13. COMMITMENTS**

The Company is committed to future annual operating lease payments for its office premises as follows:

	\$
2007	112,336
2008	47,790

**14. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, advances payable, due to related party and obligations under capital lease. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectibility of accounts receivable. The Company mitigated credit risk through standard credit and reference checks.

**15. SEGMENTED INFORMATION**

The Company operates in two reportable segments, providing computer training and consulting services, and the development and marketing of educational software. No segmented financial information has been provided for the current year, as the educational software component is currently under development.

**16. SUBSEQUENT EVENTS**

In addition to other subsequent events disclosed previously in these notes to the financial statements, the Company, on August 31, 2006 entered into an agreement with a African company to provide them with the rights to sell the Quizam software. The Licence fee was sold for USD\$250,000, along with a royalty of 25% on gross revenue.

**17 COMPARATIVES**

Some of the comparative amounts have been reclassified to conform with the financial presentation used in the current year.

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

**Date of Information**

1.1 May 31, 2006

**Overall Performance**

1.2 Compared to last Year's End financials (ending May 2005) there has been a dramatic improvement in costs. Revenues have reduced by \$435,621 due to refocusing on profitable areas of delivery and Quizam software sales. We have streamlined almost every area of the operation thereby reducing operating expenses by roughly \$257,000 (28%). Our biggest areas of reduction are in Sub-Contractors (77%), Telephone and communications (65%), Advertising (52%), Miscellaneous Office (40%) and legal/accounting (31%).

Our Quizam product development costs have increased from \$271,304 to \$482,611. We feel this cost is acceptable since it has permitted the company to achieve all of its goals including Licensing to 30,000 students in over 50 schools in 5 countries, Release of a Mac and Linux version, Quality Collateral Material and the authoring of over 250 quizzes on the Quizam website for Grades 2 – 12. In future quarters we will see the thrust of development being replaced with the thrust of marketing and sales.

**Selected Annual Information**

1.3	<b>2006</b> <b>Year-Ended</b> <b>May 31</b>	<b>2005</b> <b>Year-Ended</b> <b>May 31</b>	<b>2004</b> <b>Year-Ended</b> <b>May 31</b>
a) Net Sales	251,552	687,173	690,554
b) Net Income (Loss)	(888,374)	(666,440)	(917,425)
c) Net Income (Loss)	(888,374)	(666,440)	(917,425)
d) Total Assets	391,939	193,581	223,631
e) Long-Term Liability	146,590	417,368	586,562
f) Cash Dividends	0	0	0

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

## Results of Operations

- 1.4 As stated above the Revenue's have been reduced as the company shifts it's focus to more profitable training and software sales. As well the management has substantially reduced expenses and is now perched for increased profitability and revenue.

## Summary of Quarterly Results

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

Description	Year ended May-31 2006	9 Months ended Feb-28 2006	6 Months ended Nov-30 2006	3 Months ended Aug-31 2006	Year ended May-31 2005	9 Months ended Feb-28 2005	6 Months ended Nov-30 2005	3 Months ended Aug-31 2005
Net Sales	251,552	182,400	99,429	50,704	687,173	350,493	220,767	103,849
Income or (loss) before other items	(407,288)	(368,954)	(222,685)	(124,584)	(228,988)	(550,755)	(380,194)	(205,251)
Net Income or (loss) for the period	(888,374)	(600,851)	(387,785)	(196,389)	(666,440)	(414,209)	(201,982)	(205,250)
Shares Issued	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	(.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 Cash position of the company is good for a second year in a row. Furthermore the Liquidity of the company has improved dramatically. When you consider the total decrease of debt and the total increase of Cash this is a positive swing of \$487,494 compared to last year. Last year had strong Cash improvements but this year's Cash improvements are even stronger.

Quick current ratio	May 2006	May 2005
Cash in the Bank	309,744	71,134
Accounts Receivable & Prepaid Expenses	35,124	75,640
Account Payable & Accrued Liabilities	97,727	116,648
Long Term Debt	146,590	417,368

### Summary Comparison of Improvements in May 2005 compared to May 2004

- Working Capital has **improved** by an increase of \$198,095
- Liquidity ratio has **improved** from approximately **1:1** in 2004 to **+4:1** in 2005
- Current payables have been **reduced** by \$18,921 to 97,727

- Cash in Bank has **increased** by \$238,610 from \$71,134 to \$309,744
- Long Term Debt **decreased** by almost \$270,778

As at May 31st, 2006, the Company has working capital of approximately \$ 247,141 compared to working capital of approximately \$30,126 at the beginning of the year. This is more than a \$ 217,015 improvement in 12 months. As well the liquidity ratio's have dramatically improved from Negative 1:1 to 3:1.

## Capital Resources

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

## Off-Balance Sheet Arrangements

- 1.8 There are no Off-Balance sheet arrangements subsequent to the Year end.

## 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 2005 to May 2006, a total of \$424,413 was paid for said services.
  - b) Secured loan from significant shareholder bearing 12% interest had a balance owing as at May 31, 2006 of \$104,957.

## Fourth Quarter

- 1.10 The 4<sup>th</sup> Quarter was fairly consistent with the preceding 3<sup>rd</sup> Quarter except training revenue was down but software sales were up. In all Revenues for the quarter were down about \$13,800. Included in costs is about \$15,000 in audit fees that weren't in the preceding quarter. We spent about \$4,000 less on advertising and promotion and \$14,000 less on travel and entertainment.

## **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 develop and market learning software called Quizam.
  - d) Increase Revenues on both the Software License Sales and DVD training.

## **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).