

# **BLUERUSH MEDIA GROUP CORP.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**JANUARY 31, 2016**  
**(Presented in Canadian Dollars)**  
**(Unaudited)**

# **BLUERUSH MEDIA GROUP CORP.**

## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**JANUARY 31, 2016**

### **CONTENTS**

**(Unaudited)**

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	Page
<b>NOTICE TO READER</b>	1
<b>CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b>	
Condensed Consolidated Interim Statements of Financial Position	2
Condensed Consolidated Interim Statements of Comprehensive Income	3
Condensed Consolidated Interim Statements of Changes in Equity	5
Condensed Consolidated Interim Statements of Cash Flows	6
Notes to the Condensed Consolidated Interim Financial Statements	7 - 16

# **BLUERUSH MEDIA GROUP CORP.**

## **NOTICE TO READER**

### **Responsibility for Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements ("the financial statements") of BlueRush Media Group Corp. (the "Company") as at and for the three and six months ended January 31, 2016 and 2015 have been prepared by the Company's management in accordance with International Financial Reporting Standards applicable to the financial statements (see note 2 to the financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

### **Auditors' Involvement**

Collins Barrow Toronto LLP, the external auditors of the Company, have not audited or performed review procedures applicable to auditor review of these financial statements as at and for the three and six months ended January 31, 2016 and 2015 nor have they conducted any procedures with respect to the supplementary financial schedules herein.

# BLUERUSH MEDIA GROUP CORP.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION AS OF (Presented in Canadian Dollars)

	Note	January 31, 2016 (Unaudited)	July 31, 2015 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 2,516,636	\$ 2,121,550
Accounts receivable		893,077	860,105
Prepays and other assets		21,483	22,823
Income taxes and investment tax credits recoverable		285,829	417,538
Unbilled revenue	3	8,534	2,069
Work in process	3	169	-
<b>Total Current Assets</b>		<b>3,725,728</b>	<b>3,424,085</b>
<b>Long Term Assets</b>			
Income taxes and investment tax credits recoverable		467,502	467,502
Equipment	4	33,675	36,839
Intangibles	5	516,890	393,161
<b>Total Long Term Assets</b>		<b>1,018,067</b>	<b>897,502</b>
<b>Total Assets</b>		<b>\$ 4,743,795</b>	<b>\$ 4,321,587</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	6	\$ 356,837	\$ 305,364
Deferred revenue	3	554,851	347,575
Term loans - current portion	8	21,225	21,225
<b>Total Current Liabilities</b>		<b>932,913</b>	<b>674,164</b>
<b>Long Term Liabilities</b>			
Term loans	8	1,198,977	1,195,666
Deferred taxes		101,534	75,977
<b>Total Long Term Liabilities</b>		<b>1,300,511</b>	<b>1,271,643</b>
<b>Commitments</b>	9		
<b>Equity</b>			
Share capital	10	774,883	774,883
Contributed surplus	10	336,551	336,551
Retained earnings		1,398,937	1,264,346
<b>Total Equity</b>		<b>2,510,371</b>	<b>2,375,780</b>
<b>Total Liabilities and Equity</b>		<b>\$ 4,743,795</b>	<b>\$ 4,321,587</b>

### Approved on Behalf of the Board

(Signed) - "Larry Lubin", Director

(Signed) - "Jim Moriarty", Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## BLUERUSH MEDIA GROUP CORP.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED JANUARY 31 (Presented in Canadian Dollars) (Unaudited)

	Note	2016	2015
<b>REVENUE</b>		\$ 988,339	\$ 1,003,460
<b>EXPENSES</b>			
Salaries and benefits		427,458	510,816
Consulting fees		238,907	198,201
General and administrative		112,099	83,726
Production costs		77,939	45,964
Professional fees		22,635	21,946
Interest and bank charges		23,274	8,752
Amortization of intangible assets		7,891	-
Amortization of equipment		2,351	2,953
<b>Total Expenses</b>		912,554	872,358
<b>EARNINGS BEFORE TAXES</b>		75,785	131,102
Current income taxes		-	(558)
Deferred income taxes (recovery)		(11,218)	10,639
<b>Total Income Taxes</b>		(11,218)	10,081
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>		\$ 87,003	\$ 121,021
<b>EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - BASIC</b>		\$ 0.003	\$ 0.004
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC</b>		32,593,000	32,593,000
<b>EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - DILUTED</b>		\$ 0.003	\$ 0.004
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED</b>		32,593,000	32,593,000

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## BLUERUSH MEDIA GROUP CORP.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JANUARY 31 (Presented in Canadian Dollars) (Unaudited)

	Note	2016	2015
<b>REVENUE</b>		\$ 1,977,643	\$ 2,188,860
<b>EXPENSES</b>			
Salaries and benefits		877,381	1,091,119
Consulting fees		387,786	386,425
General and administrative	11	261,719	198,243
Production costs	11	155,791	102,219
Professional fees		66,733	65,372
Interest and bank charges		47,341	19,674
Amortization of intangible assets		15,781	-
Amortization of equipment		4,963	6,150
<b>Total Expenses</b>		1,817,495	1,869,202
<b>EARNINGS BEFORE TAXES</b>		160,148	319,658
Current income taxes		-	(558)
Deferred income taxes		25,557	46,261
<b>Total Income Taxes</b>		25,557	45,703
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>		\$ 134,591	\$ 273,955
<b>EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - BASIC</b>		\$ 0.004	\$ 0.008
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC</b>		32,593,000	32,593,000
<b>EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - DILUTED</b>		\$ 0.004	\$ 0.008
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED</b>		32,593,000	32,593,000

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## BLUERUSH MEDIA GROUP CORP.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JANUARY 31, 2016 and 2015

(Presented in Canadian Dollars)

(Unaudited)

	<b>Common Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
<b>Balance - August 1, 2014</b>	32,593,000 \$	774,883 \$	336,551 \$	759,045 \$	1,870,479
Net earnings	-	-	-	273,955	273,955
<b>Balance - January 31, 2015</b>	32,593,000 \$	774,883 \$	336,551 \$	1,033,000 \$	2,144,434
<b>Balance - August 1, 2015</b>	32,593,000	774,883	336,551	1,264,346	2,375,780
Net earnings	-	-	-	134,591	134,591
<b>Balance - January 31, 2016</b>	32,593,000 \$	774,883 \$	336,551 \$	1,398,937 \$	2,510,371

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# BLUERUSH MEDIA GROUP CORP.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JANUARY 31 (Presented in Canadian Dollars) (Unaudited)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 134,591	\$ 121,021
<b>Items not requiring an outlay of cash:</b>		
Amortization of equipment	4,963	3,197
Amortization of intangibles	15,781	-
Unrealized gain on foreign exchange	(56,959)	(19,231)
Interest accretion on term loans	3,311	-
Deferred income taxes	25,557	35,622
<b>Changes in non-cash working capital:</b>		
Accounts receivable	(33,702)	118,694
Prepays and other assets	1,340	4,481
Work in process	(169)	(15,654)
Unbilled revenue	(6,465)	(54,382)
Income taxes and investment tax credits recoverable	131,709	51,390
Accounts payable and accrued liabilities	51,166	(49,377)
Deferred revenue	207,276	(144,959)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
	478,399	50,802
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from term loan	-	200,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures to develop internally generated intangible assets	(379,120)	(37,248)
Expenditures recovered to develop internally generated intangible assets	239,610	35,400
Purchase of equipment	(1,799)	(1,189)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
	(141,309)	(3,037)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>		
	57,996	18,179
<b>NET INCREASE IN CASH</b>		
	395,086	265,944
<b>CASH, BEGINNING OF YEAR</b>		
	2,121,550	1,624,107
<b>CASH, END OF YEAR</b>		
	\$ 2,516,636	\$ 1,890,051
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 44,030	\$ 10,922
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these condensed consolidated interim financial statements.



# **BLUERUSH MEDIA GROUP CORP.**

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015**

**(Presented in Canadian Dollars)**

**(Unaudited)**

### **I. NATURE OF BUSINESS**

BlueRush Media Group Corp. ("BlueRush" or the "Company") is a digital marketing company which combines leading edge technology with award winning creative television production. The Company was incorporated on April 6, 2004 in the Province of Ontario. BlueRush is listed on the TSX Venture Exchange under the symbol "BTV" and is headquartered at 75 Sherbourne Street in Toronto, Canada.

### **2. BASIS OF PREPARATION**

#### **Statement of Compliance**

These condensed consolidated interim financial statements ("financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These financial statements should be read in conjunction with the Company's 2015 annual financial statements.

These financial statements were authorized by the Board of Directors on March 31, 2016.

#### **Basis of Measurement**

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at fair value.

#### **Functional and Presentation Currency**

The functional and presentation currency of the Company and its subsidiary is the Canadian dollar.

#### **Basis of Consolidation**

These consolidated financial statements include the accounts of BlueRush and its wholly-owned subsidiary, BlueRush Digital Media Corp. All intercompany accounts and transactions have been eliminated on consolidation.

## BLUERUSH MEDIA GROUP CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

#### 3. CONTRACT COSTS AND REVENUES

	Six months ended January 31, 2016	Six months ended January 31, 2015
Costs incurred on contracts in progress	\$ 371,721	\$ 479,570
Profits recognized on contracts in progress	515,205	1,006,806
Progress billings	(1,433,074)	(1,800,325)
	(546,148)	(313,949)
Work in process	169	5,048
Unbilled revenue	8,534	30,053
Deferred revenue	\$ (554,851)	\$ (349,050)

#### 4. EQUIPMENT

The components of equipment are as follows as of January 31, 2016:

Cost	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2015	\$ 69,681	\$ 100,053	\$ 169,734
Additions	-	1,799	1,799
Disposals	-	-	-
Closing balance - January 31, 2016	\$ 69,681	\$ 101,852	\$ 171,533

Accumulated Amortization	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2015	\$ 54,904	\$ 77,991	\$ 132,895
Amortization	1,440	3,523	4,963
Closing balance - January 31, 2016	\$ 56,344	\$ 81,514	\$ 137,858

## BLUERUSH MEDIA GROUP CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

#### 4. EQUIPMENT (Continued)

<b>Carrying Value</b>	<b>Furniture and Fixtures</b>	<b>Computer Equipment</b>	<b>Total</b>
Balance - August 1, 2015	\$ 14,777	\$ 22,062	\$ 36,839
Balance - January 31, 2016	\$ 13,337	\$ 20,338	\$ 33,675

#### 5. INTANGIBLES

The components of internally generated intangible assets are as follows as of January 31, 2016:

<b>Cost</b>	<b>Available for Use</b>	<b>Under Development</b>	<b>Total</b>
Opening balance - August 1, 2015	\$ 157,810	\$ 252,658	\$ 410,468
Additions	-	379,120	379,120
Recoveries of expenditures	-	(239,610)	(239,610)
Disposals	-	-	-
Closing balance - January 31, 2016	\$ 157,810	\$ 631,778	\$ 549,978

  

<b>Accumulated Amortization</b>			
Opening balance - August 1, 2015	\$ 17,307	\$ -	\$ 17,307
Amortization	15,781	-	15,781
Closing balance - January 31, 2016	\$ 33,088	\$ -	\$ 33,088

  

<b>Carrying Value</b>			
Balance - August 1, 2015	\$ 140,503	\$ 252,658	\$ 393,161
Balance - January 31, 2016	\$ 124,722	\$ 631,778	\$ 516,890

## BLUERUSH MEDIA GROUP CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

#### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	January 31, 2016	July 31, 2015
Trade accounts payable	\$ 110,464	\$ 12,579
Accrued liabilities	79,365	160,526
Accrued vacation pay and other employee benefits	94,874	68,848
Government remittances payable	72,135	63,411
	<b>\$ 356,838</b>	<b>\$ 305,364</b>

#### 7. CREDIT FACILITY

In order to meet daily cash flow requirements, the Company utilizes a revolving line of credit in the form of an overdraft on its chequing account at the Canadian Imperial Bank of Commerce ("CIBC") to a maximum of \$1,000,000 or the aggregate of 75% of accounts receivable under 90 days and 40% of work in process and unbilled disbursements (to a maximum of \$500,000). The credit facility is interest-bearing at the CIBC prime rate plus 1.50% per annum. The line of credit is repayable on demand and secured by a general security agreement covering all the assets of the Company and its subsidiary. As of January 31, 2016, the Company has \$Nil (July 31, 2015 - \$Nil) in use and \$1,000,000 (July 31, 2015 - \$951,714) available under the line of credit.

#### 8. TERM LOANS

	January 31, 2016	July 31, 2015
Investissement Quebec (i)	\$ 1,000,000	\$ 1,000,000
Business Development Bank of Canada (ii)	250,000	250,000
Transaction costs	(29,798)	(33,109)
	1,220,202	1,216,891
Current portion	(21,225)	(21,225)
	<b>\$ 1,198,977</b>	<b>\$ 1,195,666</b>

# BLUERUSH MEDIA GROUP CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

### 8. TERM LOANS (Continued)

- (i) In June and July 2015 the Company received a term loan from Investissement Quebec ("IQ") in the amount of \$1,000,000 to fund working capital needs. The term loan is interest-bearing at prime rate plus 3.15% per annum. Interest only payments are required until June 2016 (12 months), thereafter monthly principal payments of \$16,665 plus interest are due until May 2021 (59 months), with the final payment of \$16,765 due June 2021. The loan is secured by a universal mortgage on all present and future assets, including a first ranking on tax credits. Two current directors / officers of the Company have personally guaranteed \$100,000 of the loan.
- (ii) In July 2015, the Company received a term loan from the Business Development Bank of Canada ("BDC") in the amount of \$250,000 to fund working capital needs. The term loan is interest-bearing at BDC's Floating Base Rate plus 2.5% per annum. The first monthly principal payment of \$4,560 plus interest is due July 2016, thereafter monthly principal payments of \$4,160 plus interest are due until June 2021 (59 months). Two current directors / officers of the Company have personally guaranteed 64% of the outstanding balance of the loan, and the Company has guaranteed the full amount of the outstanding commitment of the loan.

Principal scheduled repayments under the term loans are due as follows:

2016 (Six months)	\$	21,225
2017		249,900
2018		249,900
2019		249,900
2020		249,900
Thereafter		229,175
	\$	1,250,000

### 9. COMMITMENTS

The Company has the following lease commitments for premises:

Less than one year	\$	97,032
Two to five years		326,367
More than five years		-
	\$	423,399

## BLUERUSH MEDIA GROUP CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

#### 10.SHARE CAPITAL

The Company has authorized an unlimited number of common shares and has 32,593,000 common shares issued and outstanding as at January 31, 2016 and July 31, 2015.

##### Stock Option Plan

A summary of the status of the Company's stock options as at January 31, 2016 and changes during the six months then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of period	2,050,000	\$ 0.15
Granted	-	-
Exercised	-	-
Forfeited/cancelled/expired	-	-
Outstanding - end of period	2,050,000	\$ 0.15
Exercisable - end of period	2,050,000	\$ 0.15

The weighted average remaining contractual life of stock options as of January 31, 2016 is 6.28 years (July 31, 2015 - 6.78 years).

The Company had the following stock options outstanding as of January 31, 2016:

Number of Options Outstanding	Exercise Price \$	Expiry Date
2,050,000	0.15	May 10, 2022

##### Share Purchase Warrants

The Company issues share purchase warrants as compensation for consulting contracts. No warrants were issued during the six months ended January 31, 2016.

## BLUERUSH MEDIA GROUP CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

#### 10.SHARE CAPITAL (Continued)

A summary of the status of the Company's warrants as at January 31, 2016 and changes during the six months then ended is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding - beginning of period	250,000	\$ 0.10
Granted	-	-
Exercised	-	-
Expired	(250,000)	0.10
Outstanding - end of period	-	\$ -

#### 11.EXPENSES BY NATURE

##### General and Administrative Expenses

The components of general and administrative expenses for the six months ended January 31 are as follows:

	2016	2015
Rent and occupancy costs	\$ 100,091	\$ 103,453
Travel	52,966	41,840
Advertising and promotion	43,980	40,335
Telecommunications	18,490	17,659
Other expenses	46,192	66,977
	\$ 261,719	\$ 270,264

# BLUERUSH MEDIA GROUP CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015

(Presented in Canadian Dollars)

(Unaudited)

### 11. EXPENSES BY NATURE (Continued)

#### Production Costs

The components of production costs for the six months ended January 31 are as follows:

	2016	2015
Hosting	\$ 89,864	\$ 55,825
Camera and teleprompter	24,416	10,156
Talent	3,214	6,089
Other production costs	38,297	30,149
	<u>\$ 155,791</u>	<u>\$ 102,219</u>

### 12. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Company's related party transactions for the six months ended January 31, 2016 were only compensation to key management personnel.

Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company. Included in salaries and benefits expense for the three and six months ended January 31, 2016 is \$109,289 and \$216,500, respectively (three and six months ended January 31, 2015 - \$103,905 and \$207,808, respectively) for compensation paid to key management personnel.

### 13. FINANCIAL INSTRUMENTS

#### Credit Risk

BlueRush is exposed to credit risk on its trade accounts receivable. Credit risk is minimized by ensuring the credit worthiness of the entities with which it carries on business. The Company's clients predominantly consist of financial institutions and large public companies, many of whom are repeat clients and have long term relationships with the Company. Management regularly reviews the credit terms and collectability of accounts.



## BLUERUSH MEDIA GROUP CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)

#### 13. FINANCIAL INSTRUMENTS (Continued)

##### Credit Risk (Continued)

An analysis of the credit quality of the Company's trade receivables is as follows:

	January 31, 2016	July 31, 2015
Current	\$ 615,585	\$ 514,041
Past due less than 90 days	124,018	140,410
Past due greater than 90 days	153,474	205,654
Less: Allowance for doubtful accounts	-	-
	<u>\$ 893,077</u>	<u>\$ 860,105</u>

##### Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company is exposed to liquidity risk on accounts payable to its suppliers, which arise in the normal course of operations and are due in less than one year, on its bank overdraft which is due on demand and its term loans which are repayable in 60 monthly instalments of approximately \$16,665 and \$4,160 beginning in July 2016. The Company manages liquidity risk by continuously monitoring actual and forecasted cash flows and budgets on all contracts, while maintaining adequate working capital on hand to meet its future obligations. As of January 31, 2016, the Company had cash on hand of \$2,516,636, accounts receivable of \$893,077 and \$1,000,000 available on its line of credit to meet working capital requirements.

Management expects that its capital resources will be sufficient to fund its ongoing liabilities as they come due.

##### Market Risk

The Company is exposed to risks from changes in foreign exchange rates and interest rates that affect its financial liabilities, financial assets and future transactions.

# **BLUERUSH MEDIA GROUP CORP.**

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JANUARY 31, 2016 AND 2015 (Presented in Canadian Dollars) (Unaudited)**

### **13. FINANCIAL INSTRUMENTS (Continued)**

#### **Currency Risk**

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Consequently, some assets, liabilities, revenues and purchases are exposed to foreign exchange fluctuations. As at January 31, 2016, cash, accounts receivable and accounts payable of \$619,261, \$44,600 and \$3,667 (July 31, 2015 - \$539,314, \$46,535 and \$Nil), respectively, are shown in US dollars and converted into Canadian dollars at the period end exchange rate of 1.4 (July 31, 2015 - 1.3). For the six months ended January 31, 2016, the Company recognized a gain on foreign exchange of \$61,272 (2015 - \$19,231) as a result of the appreciation of the US dollar. The potential effect of a 5% increase or decrease in US currency held by the Company would result in an increase or decrease in net earnings of approximately \$33,000.

#### **Interest Rate Risk**

Interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates on its credit facility and term loans.

#### **Sensitivity Analysis**

As at January 31, 2016, the carrying value and fair value amounts of the Company's financial instruments are approximately the same. The Company does not believe there would be any material movements as a result of changes in interest rates or foreign exchange rates.

#### **Fair Value Hierarchy**

Financial instruments measured at fair value on the statement of financial position are categorized into levels of the fair value hierarchy. The Company only has one financial instrument measured at fair value, cash, which is categorized into Level 1. The fair value of Level 1 financial instruments is based on quoted market prices.