BLUERUSH MEDIA GROUP CORP.

CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2012 AND 2011
(Presented in Canadian Dollars)

BLUERUSH MEDIA GROUP CORP.

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2012

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
BlueRush Media Group Corp.

We have audited the accompanying consolidated financial statements of BlueRush Media Group Corp. and its subsidiary, which comprise the consolidated statements of financial position at July 31, 2012, July 31, 2011 and August 1, 2010 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2012 and July 31, 2011 and 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 International Financial Reporting Standards, 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.

Auditor's 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 the auditor's 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, the auditor considers 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, these consolidated financial statements present fairly, in all material respects, the financial position of BlueRush Media Group Corp., and its subsidiary, as at July 31, 2012, July 31, 2011 and August 1, 2010 and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
November 23, 2012
Toronto, Ontario

BLUERUSH MEDIA GROUP CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF
(Presented in Canadian Dollars)

	Note	July 31, 2012	July 31, 2011	August 1, 2010
ASSETS			(Note 15)	(Note 15)
Current Assets				
Cash		$ 674,571	$ 697,394	$ 284,752
Accounts receivable		1,413,876	1,489,953	1,195,419
Prepaid expenses		21,250	14,671	13,658
Income taxes and investment tax credits recoverable		75,386	105,651	173,608
Advances to related party	3	-	2,783	-
Unbilled revenue		29,850	58,865	128,400
Work in process		42,363	33,152	13,079
Total Current Assets		2,257,296	2,402,469	1,808,916
Long Term Assets				
Equipment	4	67,073	55,122	59,099
Deferred tax asset		74,449	-	-
Total Long Term Assets		141,522	55,122	59,099
Total Assets		$ 2,398,818	$ 2,457,591	$ 1,868,015
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 248,889	$ 360,595	$ 407,010
Deferred revenue		555,185	155,020	149,870
Advances from related party	3	-	-	2,228
Total Current Liabilities		804,074	515,615	559,108
Commitments	6			
Equity				
Share capital	7	742,633	735,683	735,683
Contributed surplus	7	260,675	133,423	78,195
Retained earnings		591,436	1,072,870	495,029
Total Equity		1,594,744	1,941,976	1,308,907
Total Liabilities and Equity		$ 2,398,818	$ 2,457,591	$ 1,868,015
Subsequent Event	17			

Approved on Behalf of the Board

(Signed) - "*Larry Lubin*", Director

(Signed) - "*Jim Moriarty*", Director

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

BLUERUSH MEDIA GROUP CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED JULY 31, 2012 AND 2011
(Presented in Canadian Dollars)

	Note		2012		2011
					(Note 15)
REVENUE		$	4,576,397	$	4,868,733
EXPENSES					
Salaries and benefits			2,620,325		2,037,150
Consulting fees			1,329,922		1,032,151
General and administrative	10		630,043		573,762
Production costs	10		421,604		346,314
Professional fees			106,826		89,183
Amortization			15,996		15,630
Total Expenses			5,124,716		4,094,190
(LOSS) EARNINGS BEFORE TAXES			(548,319)		774,543
Current income taxes	9		7,564		196,702
Deferred income tax recovery	9		(74,449)		-
Total Income Taxes			(66,885)		196,702
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME			(481,434)		577,841
(LOSS) EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - BASIC	7	$	(0.015)	$	0.018
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	7		32,319,918		32,318,000
(LOSS) EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - DILUTED	7	$	(0.015)	$	0.017
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	7		32,319,918		33,205,585

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

BLUERUSH MEDIA GROUP CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED JULY 31, 2012 AND 2011
(Presented in Canadian Dollars)

	Note	Common Shares	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance - August 1, 2010	15	32,318,000	$ 735,683	$ 78,195	$ 495,029	$ 1,308,907
Net earnings		-	-	-	577,841	577,841
Stock-based compensation		-	-	55,228	-	55,228
Balance - July 31, 2011	15	32,318,000	$ 735,683	$ 133,423	$ 1,072,870	$ 1,941,976
Shares issued on options exercised		50,000	6,950	(1,950)	-	5,000
Net loss		-	-	-	(481,434)	(481,434)
Stock-based compensation		-	-	129,202	-	129,202
Balance - July 31, 2012		32,368,000	$ 742,633	$ 260,675	$ 591,436	$ 1,594,744

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

BLUERUSH MEDIA GROUP CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2012 AND 2011
(Presented in Canadian Dollars)

		2012		2011 (Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) earnings	$	(481,434)	$	577,841
Items not requiring an outlay of cash:				
Amortization		15,996		15,630
Stock-based compensation		129,202		55,228
Deferred income tax recovery		(74,449)		-
Changes in non-cash working capital:				
Accounts receivable		76,077		(294,534)
Prepaid expenses		(6,579)		(1,013)
Work in process		(9,211)		(20,073)
Unbilled revenue		29,015		69,535
Income taxes and investment tax credits recoverable		30,265		67,957
Accounts payable and accrued liabilities		(111,706)		(46,415)
Deferred revenue		400,165		5,150
		(2,659)		429,306
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (repayment of) advances from related party		2,783		(5,011)
Proceeds from shares issued on options exercised		5,000		-
		7,783		(5,011)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of equipment		(27,947)		(11,653)
NET (DECREASE) INCREASE IN CASH		(22,823)		412,642
CASH, BEGINNING OF YEAR		697,394		284,752
CASH, END OF YEAR	$	674,571	$	697,394
SUPPLEMENTAL CASH FLOW INFORMATION				
INTEREST PAID	$	8,220	$	114
INCOME TAXES PAID	$	20,312	$	35,420

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

1. 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. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These are the Company’s first annual consolidated financial statements prepared under IFRS and as such have been prepared in accordance with IFRS 1: *First-time Adoption of International Financial Reporting Standards* ("IFRS 1").

Prior to the adoption of IFRS, the Company’s consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). An explanation of how the transition from Canadian GAAP to IFRS as has affected the reported financial position and financial performance of the Company is provided in note 15.

The Company has adopted IFRS with a transition date of August 1, 2010. In accordance with IFRS 1, the Company has applied these accounting standards retrospectively at the transition date except for certain exemptions taken by the Company at the transition to IFRS, which are described in note 15. The Company applied the same accounting policies throughout all periods presented.

These consolidated financial statements were approved for issue by the Board of Directors on November 23, 2012.

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 Company's functional and presentation currency 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

The Company operates a stock option plan as part of its compensation of directors, officers, employees, or consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase in stock-based compensation expense and contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase in capital stock. In the event that the vested stock options expire, previously recognized stock-based compensation is not reversed. In the event that stock options are forfeited, previously recognized stock-based compensation associated with the unvested portion of the stock options forfeited is reversed.

The fair value of share-based payment transactions to non-employees and other share-based payments are based on the fair value of the goods or services received. If the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the good or services.

Revenue Recognition

The Company generates revenue from the creation of rich media marketing solutions. The Company's solutions are quite robust in nature as each project requires a technological, graphical and consultative component. The Company recognizes revenue related to these projects based on the percentage of completion of certain milestones during the project. These milestones are mutually set by the Company and its customers.

Due to percentage of completion of certain milestones, there could be differences between the timing of billings and the amount of work completed at a point in time. Work performed on contracts where the contract milestones have not been met are recognized as work in process or unbilled revenue. Billings which exceed the amount of work performed at a point in time are recognized as deferred revenue.

The Company also generates hosting revenue for providing web and rich media hosting to clients. Hosting revenue is subject to a fixed contract rate, with the exception of fees charged for excess bandwidth usage. Revenue is recognized once the service has been completed and when collection is reasonably assured.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share

Basic earnings (loss) per common share is determined by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting the the weighted average number of shares outstanding, adjusted for any of its own shares held, for the effects of all dilutive potential common shares, which are comprised of outstanding warrants and vested stock options. Diluted earnings (loss) per common share assumes that any proceeds received from in-the-money options and warrants would be used to buy common shares at the average market price for the period.

Equipment

Equipment is recorded at cost and is amortized over its estimated useful lives, at the following annual rates and methods:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

Impairment of Long-Lived Assets

At the end of each reporting date, the carrying amounts of the Company's long-lived assets, which are comprised of equipment, are reviewed to determine whether there is any indication that those assets may be impaired. If such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case the individual assets are grouped together into cash generating units ("CGUs") for impairment purposes. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in net income (loss) for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying value if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in net income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and Development Costs

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless a development project meets generally accepted criteria for deferral and amortization. Research and development costs are comprised of wages and benefits. No development costs have been deferred as of July 31, 2012 and 2011.

Investment Tax Credits

As estimate of the refundable investment tax credit on scientific research and development expenditures is recorded in the year the expenditures are incurred provided there is reasonable assurance that the credits will be realized. The expenditures are reduced by the amount of the estimated investment tax credit.

Income Taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in net income (loss) except to the extent that it relates to items in equity, in which case it is recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize that excess.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurements in subsequent periods depends upon the financial instrument classification.

The Company has classified its financial instruments as follows:

Instruments	Classification	Measurement Basis
Cash	Fair value through profit or loss ("FVTPL")	Fair value
Accounts receivable, advances to related party	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities, advances from related party	Other liabilities	Amortized cost

Financial assets and liabilities classified as FVTPL are measured at their fair value at each reporting date with unrealized gains and losses recognized in net income (loss).

Financial assets classified as loans and receivables and liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method.

Transaction costs in respect of financial assets and liabilities which are FVTPL are recognized in net income (loss) immediately. Transaction costs in respect of loans and receivables and other liabilities are included in the initial fair value measurement of the financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments - Fair Value Hierarchy

The Company has a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's investments. The hierarchy of inputs is summarized below:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis (the Company has included cash under this category);

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Critical Accounting Estimates

Preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the period. Although these estimates and assumptions are based on management's best knowledge of current events, actual results may be different.

Certain estimates depend on subjective or complex judgmental about matters that may be uncertain and changes in these estimates could materially impact the financial statements.

The key sources of estimation uncertainty at statement of financial position date, which have a significant risk of causing a material adjustment to the carrying amounts of assets within the next fiscal year, are discussed below:

Revenue Recognition

Revenue is recognized based on contract milestones, whereby there could be differences between the timing of billings and the amount of work completed at a point in time. Management is required to make judgmental estimates on the percentage of completion of a contract milestone based on the amount of work performed at a point in time, and the value of the work performed by its staff up to that date. These judgments will affect the amount of revenue recognized as well as the reported amounts of work in process, unbilled accounts receivable, and deferred revenue.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates (Continued)

Allowance for Doubtful Accounts

Accounts receivable are reviewed for collectability on a monthly basis. Management is required to estimate whether a receivable balance is collectable based on their relationship with the client and knowledge of the client's financial position. These estimates will affect the reported amounts of accounts receivable and bad debts expense.

Investment Tax Credits Recoverable

Investment tax credits are claimed on the Company's research and development activities and are based on a percentage of employee wages. Management is required to make judgment of the amount of investment tax credits that the Company will be able to claim. In order to make this estimate, management utilizes a specialist consultant to prepare the appropriate claim forms. These judgments will affect the reported amounts of investment tax credits recoverable and salaries and wages expense.

Stock-Based Compensation

Stock-based compensation is calculated utilizing the Black-Scholes option pricing model to determine the value of options as of their grant date. Management is required to estimate the volatility of the price of its shares, the amount of future dividends that will be paid, the market's risk-free interest rate, the expected life of the options, and the expected forfeiture rate. These estimates will affect the reported amount of stock-based compensation expense and contributed surplus.

Recent Accounting Pronouncements

The following are IFRS changes that have been issued by the International Accounting Standards Board, which may affect the Company, but are not yet effective:

(a) IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9, Financial Instruments was issued in November 2009 as the first step in its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

(b) IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") 12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"). This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, provided that IFRS 11, IFRS 12, and related amendments to IAS 27 and IAS 28 are adopted at the same time.

(c) IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted provided that IFRS 10, IFRS 12, and the related amendments to IAS 27 and IAS 28 are adopted at the same time.

(d) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(e) IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

(f) Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities, and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 11. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted provided that IFRS 10, IFRS 11, and IFRS 12 are adopted at the same time.

(g) Implication of New and Amended Standards to the Company

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

3. ADVANCES TO (FROM) RELATED PARTY

Amount due to an officer and director of the Company is non-interest bearing, unsecured, and due on demand.

(Presented in Canadian Dollars)

4. EQUIPMENT

The components of equipment are as follows as of July 31, 2012:

Cost	**Furniture and Fixtures**	**Computer Equipment**	**Total**
Opening balance - August 1, 2011	$ 69,681	$ 56,065	$ 125,746
Additions	-	27,947	27,947
Disposals	-	-	-
Closing balance - July 31, 2012	$ 69,681	$ 84,012	$ 153,693

Accumulated Amortization	**Furniture and Fixtures**	**Computer Equipment**	**Total**
Opening balance - August 1, 2011	$ 35,499	$ 35,125	$ 70,624
Amortization	6,341	9,655	15,996
Closing balance - July 31, 2012	$ 41,840	$ 44,780	$ 86,620

Carrying Value	**Furniture and Fixtures**	**Computer Equipment**	**Total**
Balance - August 1, 2011	$ 34,182	$ 20,940	$ 55,122
Balance - July 31, 2012	$ 27,841	$ 39,232	$ 67,073

(Presented in Canadian Dollars)

4. EQUIPMENT (Continued)

As of July 31, 2011:

Cost		**Furniture and Fixtures**		**Computer Equipment**		**Total**
Opening balance - August 1, 2010	$	62,883	$	51,210	$	114,093
Additions		6,798		4,855		11,653
Disposals		-		-		-
Closing balance - July 31, 2011	$	69,681	$	56,065	$	125,746

Accumulated Amortization		**Furniture and Fixtures**		**Computer Equipment**		**Total**
Opening balance - August 1, 2010	$	27,804	$	27,190	$	54,994
Amortization		7,695		7,935		15,630
Closing balance - July 31, 2011	$	35,499	$	35,125	$	70,624

Carrying Value		**Furniture and Fixtures**		**Computer Equipment**		**Total**
Balance - August 1, 2010	$	35,079	$	24,020	$	59,099
Balance - July 31, 2011	$	34,182	$	20,940	$	55,122

5. BANK INDEBTEDNESS

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"). The line of credit is available up to 75% of accounts receivable that are outstanding under 90 days, and to a maximum of $500,000. In addition, the line of credit is repayable on demand, secured by a general security agreement covering all the assets of the parent and subsidiary corporations, and is interest-bearing at the CIBC prime rate plus 1.50%. As of July 31, 2012, the Company has $442,494 available under the line of credit.

(Presented in Canadian Dollars)

6. COMMITMENTS

The Company has the following lease commitments for premises:

Less than 1 year	$	182,259
1 to 3 years		168,831
More than 5 years		-
	$	351,090

7. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued and Outstanding

	Number of Common Shares		Amount
Balance - August 1, 2010 and July 31, 2011	32,318,000	$	735,683
Options exercised (i)	50,000		6,950
Balance - July 31, 2012	32,368,000	$	742,633

(i) On July 17, 2012, the Company received cash proceeds of $5,000 and issued 50,000 shares upon the exercise of options at $0.10 per share. The estimated fair value of these options granted on November 20, 2007 in the amount of $1,950 was removed from contributed surplus and allocated to share capital.

Stock Option Plan

The Company grants stock options to eligible directors, officers, key employees and consultants under its stock option plan to enable them to purchase common shares of the Company. Under the terms of the plan, the number of common shares which may be issued pursuant to the exercise of options granted under the plan may not exceed 10% of the number of common shares outstanding at the time of grant.

The exercise price of an option granted under the plan cannot be less than the closing price of the common shares on the last day on which the common shares trade prior to the grant date of the option. An individual can receive grants of no more than 5% of the outstanding shares of the Company on a yearly basis and options are exercisable over a period not exceeding ten years. Options vest according to the contract terms which range over a period of two to three years.

(Presented in Canadian Dollars)

7. SHARE CAPITAL (Continued)

Stock Option Plan (Continued)

A summary of the status of the Company's stock options as at July 31, 2012 and 2011 and changes during the years then ended is presented below:

	2012			2011		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding - beginning of year	1,475,000	$	0.10	1,690,000	$	0.10
Granted	2,200,000		0.15	-		-
Exercised (ii)	(50,000)		0.10	-		-
Forfeited/cancelled/expired	(445,000)		0.10	(215,000)		0.10
Outstanding - end of year	3,180,000	$	0.13	1,475,000	$	0.10
Exercisable - end of year	2,067,499	$	0.13	1,241,667	$	0.10

(ii) The share price on the date of exercise was $0.11.

The weighted average remaining contractual life of stock options as of July 31, 2012 is 6.78 years (2011 - 2.43 years).

(Presented in Canadian Dollars)

7. SHARE CAPITAL (Continued)

Stock Option Plan (Continued)

The Company had the following stock options outstanding as of July 31, 2012:

Number of Options Outstanding	Exercise Price $	Expiry Date
150,000 (iii)	0.10	October 14, 2012
175,000	0.10	November 20, 2012
175,000	0.13	June 10, 2013
450,000	0.10	May 8, 2014
180,000	0.10	March 5, 2015
2,050,000 (iv)	0.15	May 10, 2022
3,180,000		

(iii) On October 13, 2011, the Company granted 150,000 stock options to a director for past services rendered. The options vested immediately, have a life of one year, and have an exercise price of $0.10. The fair value of each stock option was determined to be $0.04.

(iv) On May 10, 2012, the Company granted 2,050,000 stock options to directors, employees, and consultants for past and future services. For the options granted to directors and employees, half vest immediately and the second half vest on the first anniversary date of the grant. For the options granted to consultants, one-third vest immediately, one-third vest on the first anniversary and the final one-third vest on the second anniversary of the grant date. These options have an exercise price of $0.15 and have a life of ten years. The fair value of each stock option was determined to be $0.10.

In the absence of a reliable measurement of the services received from consultants, the related transactions have been measured at the fair value of the stock options granted.

(Presented in Canadian Dollars)

7. SHARE CAPITAL (Continued)

Share Purchase Warrants

The Company issues share purchase warrants as compensation for consulting contracts. In the absence of a reliable measurement of the services received from consultants, the transaction has been measured at the fair value of the warrants issued. Upon exercise, each warrant is exchangeable for one common share of the Company. A summary of the status of the Company's warrants as at July 31, 2012 and 2011 and changes during the years then ended is presented below:

	2012		2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding - beginning of year	500,000	$ 0.10	250,000	$ 0.10
Granted	-	-	250,000	0.10
Exercised	-	-	-	-
Forfeited/cancelled/expired	-	-	-	-
Outstanding - end of year	500,000	$ 0.10	500,000	$ 0.10

The Company had the following warrants outstanding as at July 31, 2012:

Number of Warrants Outstanding	Exercise Price $	Expiry Date
250,000	0.10	May 23, 2015
250,000	0.10	August 23, 2015
500,000		

(Presented in Canadian Dollars)

7. SHARE CAPITAL (Continued)

(Loss) Earnings Per Share

Basic and diluted (loss) earnings per common share are calculated as follows:

Numerator:	**2012**	**2011**
Net (loss) earnings	$ (481,434)	$ 577,841

Denominator:	**2012**	**2011**
Weighted average number of common shares outstanding - basic	32,319,918	32,318,000
Weighted average effect of diluted stock options and warrants	-	887,585
Weighted average number of common shares outstanding - diluted	32,319,918	33,205,585

(Loss) earnings per share:	**2012**	**2011**
Basic	$ (0.015)	$ 0.018
Diluted	$ (0.015)	$ 0.017

As the Company incurred a net loss for the year ended July 31, 2012, stock options and warrants are anti-dilutive and have not been included above in the calculation of diluted loss per share.

In the computation of diluted earnings per share during the year ended July 31, 2011, the effect of stock options and warrants were only included during the year where the exercise price was less than the average market value of the shares.

Maximum Share Dilution

The following table presents the maximum number of shares that would be outstanding if all outstanding stock options and warrants were exercised and outstanding as at July 31:

	2012	**2011**
Common shares outstanding	32,368,000	32,318,000
Vested stock options to purchase common shares	2,067,499	1,241,667
Warrants to purchase common shares	500,000	500,000
Fully diluted common shares outstanding	34,935,499	34,059,667

(Presented in Canadian Dollars)

8. STOCK-BASED COMPENSATION

During the year ended July 31, 2012, stock-based compensation for all warrants and vested options was $129,202 (2011 - $55,228), which was credited to contributed surplus. On the statement of comprehensive loss, stock-based compensation expense was recorded as $105,140 (2011 - $55,228) in salaries and benefits and $24,062 (2011 - $Nil) in consulting fees.

During the year ended July 31, 2012, the Company granted 2,200,000 options (2011 -Nil options granted) and did not issue any warrants (2011 - issued 250,000 warrants). The weighted average fair value of the options granted in the year ended July 31, 2012 was estimated at $0.10 (2011 - $0.06) by using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	**2011**
Share price	$0.15	$0.08
Risk-free interest rate	1.15%	2.14%
Dividend yield	0%	0%
Volatility (based on historical volatility)	117%	154%
Expected life	3 years	5 years
Forfeiture rate	0%	0%

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

(Presented in Canadian Dollars)

9. INCOME TAXES

Current Income Taxes

The following table reconciles income taxes calculated at the combined statutory tax rates of 27.17% (2011 - 30.01%) with the income tax expense in the consolidated financial statements:

		2012		2011
Income taxes on accounting income	$	(148,978)	$	230,178
Tax effect of expenses that are not deductible for income tax purposes		41,519		23,510
Provision underestimated in prior years		-		9,750
Benefit of ITCs and other		35,684		1,132
Change in tax rates		8,348		514
Change in deferred taxes not recognized		(3,458)		(40,473)
Utilization of non-capital tax losses		-		(27,909)
Income taxes	$	(66,885)	$	196,702

The Company claims research and development deductions and related investment tax credits for tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to audit by Canada Revenue Agency and any adjustments that results could affect investment tax credits recorded in the financial statements. In the opinion of management, the treatment of research and development for income tax purposes is appropriate. During the year, the Company recognized approximately $Nil (2011 - $197,000) of investment tax credits which has been presented as a reduction of the salaries and benefits expense.

Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and liabilities are presented below at the expected future tax rate of 25.38% (2011 - 30.14%):

		2012		2011
Non-capital losses available for carry-forward	$	74,449	$	-
Property and equipment		(4,295)		(3,954)
Share issue costs and other		4,295		4,822
Federal ITCs recoverable		-		2,590
Deferred taxes not recognized		-		(3,458)
	$	74,449	$	-

(Presented in Canadian Dollars)

10. EXPENSES

General and Administrative Expenses

The components of general and administrative expenses are as follows:

	2012	2011
Rent and occupancy costs	$ 231,544	$ 159,278
Travel	95,300	85,345
Advertising and promotion	74,281	77,756
Telecommunications	53,745	47,484
Other expenses	175,173	203,899
	$ 630,043	$ 573,762

Production Costs

The components of production costs are as follows:

	2012	2011
Hosting	$ 107,807	$ 74,635
Camera and teleprompter	71,065	28,067
Talent	62,810	77,466
Other production costs	179,922	166,146
	$ 421,604	$ 346,314

(Presented in Canadian Dollars)

11. 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 were as follows:

Type of Expense		2012		2011
Salaries and consulting fees (a)	$	535,000	$	346,462
Stock-based compensation (b)		36,713		-
	$	571,713	$	346,462

a) Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company.

b) Stock-based compensation for directors is comprised of the vested value of 150,000 options granted on October 13, 2011 with an exercise price of $0.10 per share and 450,000 options granted on May 10, 2012 with an exercise price of $0.15 per share. These options are included within the option grants described in note 7.

12. ECONOMIC DEPENDENCE

Approximately 46% (2011 - 47%) of the Company's sales are made to two customers. The outstanding accounts receivable from these customers as at July 31, 2012 accounted for approximately 43% (July 31, 2011 - 44% and August 1, 2010 - 26%) of the total accounts receivable.

13. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk is the risk that a counterparty experiences financial difficulties or otherwise fails to fulfil its payment obligations. The Company is exposed to credit risk on accounts receivables from its customers. In order to mitigate this risk, the Company proactively manages its credit exposure to individual accounts and sets appropriate credit policies. The Company is exposed to significant credit risk from two customers as described in note 12. As of July 31, 2012 accounts receivable outstanding over 90 days amounted to $211,432.

13. FINANCIAL INSTRUMENTS (Continued)

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. 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 July 31, 2012, the Company had cash on hand of $674,571 and $442,494 available on its line of credit to meet working capital requirements.

Sensitivity Analysis

As at July 31, 2012, 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

In accordance with IFRS 7 and the Company's accounting policies in note 2, 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.

(Presented in Canadian Dollars)

14. MANAGEMENT OF CAPITAL

The Company considers share capital, contributed surplus, and retained earnings as capital and manages its capital to meet its funding requirements for ongoing operations. There have been no changes in the Company's objectives towards managing its capital in the year.

The Company includes the following in its capital:

	July 31, 2012	July 31, 2011 (Note 15)	August 1, 2010 (Note 15)
Share capital	$ 742,633	$ 735,683	$ 735,683
Contributed surplus	260,675	133,423	78,195
Retained earnings	591,436	1,072,870	495,029
	$ 1,594,744	$ 1,941,976	$ 1,308,907

The Company's objectives when managing capital are:

(a) To ensure that the Company maintains the level of capital necessary to meet the requirements of its suppliers and its ongoing operations;

(b) To give shareholders sustained growth in value by increasing shareholders' equity; and

(c) To maintain a flexible capital structure which optimises the cost of capital at acceptable levels of risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) Providing services to its customers that are profitable to the Company;

(b) Utilizing a line of credit provided by its bank; and

(c) Raising capital through equity or debt financings.

The Company is not subject to any capital requirements imposed by a regulator. There were no changes in the Company's approach to capital management during the year. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of capital. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at July 31, 2012.

15. TRANSITION TO IFRS

Elections under IFRS 1

As stated in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS. In accordance with IFRS 1, the Company applied IFRS retrospectively at the transition date of August 1, 2010 and in preparing the consolidated financial statements for the years ending July 31, 2011 and 2012. The Company has applied the following optional exemptions to full retrospective application of IFRS and has made the following adjustments to transition from Canadian GAAP to IFRS.

Business Combinations

IFRS 1 allows for IFRS 3 *Business Combinations* to be applied retrospectively or prospectively. The Company elected to adopt IFRS 3 prospectively to business combinations subsequent to the date of transition. Accordingly, all business combinations after August 1, 2010 will be accounted for in accordance with IFRS 3.

Share-Based Payment Transactions

IFRS 1 allows that full retrospective application may not apply to certain share-based instruments depending on the grant date and vesting terms. The Company has elected to not apply IFRS 2 *Share-Based Payments* to stock options granted after November 7, 2002 that vested before the date of transition to IFRS. Accordingly, the Company has applied IFRS 2 only to unvested stock options outstanding as of August 1, 2010.

Estimates

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening consolidated statement of financial position as of the transition date are consistent with those that were made under Canadian GAAP.

15. TRANSITION TO IFRS (Continued)

Stock-Based Compensation

The Company issues stock options under its employee stock option plan, which have graded vesting periods and are exercisable up to ten years from the date of grant.

Under Canadian GAAP, the fair value of stock-based awards with graded vesting was calculated as one grant of options at the time of the grant, and the resulting fair value was recognized on a straight-line basis over the vesting period for the entire grant. Under IFRS, each tranche of an award with graded vesting period is considered a separate grant and the resulting fair value is amortized over the vesting period for that tranche.

In order to be compliant with IFRS 2, the Company has changed one aspect of its accounting policies with regards to stock-based compensation expense. This change in policy does not affect the total amount of stock-based compensation to be recognized for each grant of options, however it does affect the timing of expense recognition for these grants. In effect, a greater amount of stock-based compensation will be recognized in earlier periods, with a lesser amount being recognized in later periods.

At the end of each reporting period, the Company re-assesses its estimate of the number of awards that are expected to vest and recognizes the impact of the revisions within stock-based compensation expenses through profit or loss.

(Presented in Canadian Dollars)

15. TRANSITION TO IFRS (Continued)

Consolidated Statements of Financial Position

	As of July 31, 2011			As of August 1, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS						
Current Assets						
Cash	$ 697,394	$ -	$ 697,394	$ 284,752	$ -	$ 284,752
Accounts receivable	1,489,953	-	1,489,953	1,195,419	-	1,195,419
Prepaid expenses	14,671	-	14,671	13,658	-	13,658
Income taxes and investment tax credits recoverable	105,651	-	105,651	173,608	-	173,608
Advances to related party	2,783	-	2,783	-	-	-
Unbilled revenue	58,865	-	58,865	128,400	-	128,400
Work in process	33,152	-	33,152	13,079	-	13,079
	2,402,469	-	2,402,469	1,808,916	-	1,808,916
Long Term Asset						
Equipment	55,122	-	55,122	59,099	-	59,099
	$ 2,457,591	$ -	$ 2,457,591	$ 1,868,015	$ -	$ 1,868,015
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued liabilities	$ 360,595	$ -	$ 360,595	$ 407,010	$ -	$ 407,010
Deferred revenue	155,020	-	155,020	149,870	-	149,870
Advances from related party	-	-	-	2,228	-	2,228
	515,615	-	515,615	559,108	-	559,108
Shareholders' Equity						
Share capital	735,683	-	735,683	735,683	-	735,683
Contributed surplus	127,685	5,738	133,423	64,918	13,277	78,195
Retained earnings	1,078,608	(5,738)	1,072,870	508,306	(13,277)	495,029
	1,941,976	-	1,941,976	1,308,907	-	1,308,907
	$ 2,457,591	$ -	$ 2,457,591	$ 1,868,015	$ -	$ 1,868,015

(Presented in Canadian Dollars)

15. TRANSITION TO IFRS (Continued)

Consolidated Statements of Comprehensive Income

	Year Ended July 31, 2011		
	Canadian GAAP	Effects of Transition to IFRS	IFRS
REVENUE	$ 4,868,733	$ -	$ 4,868,733
EXPENSES			
Salaries and benefits	2,037,150	-	2,037,150
Consulting fees	976,923	55,228	1,032,151
General and administrative	573,762	-	573,762
Production costs	346,314	-	346,314
Professional fees	89,183	-	89,183
Stock-based compensation	62,767	(62,767)	-
Amortization	15,630	-	15,630
Total Expenses	4,101,729	(7,539)	4,094,190
NET EARNINGS BEFORE TAXES	767,004	7,539	774,543
Income taxes	196,702	-	196,702
NET EARNINGS AND COMPREHENSIVE INCOME	$ 570,302	$ 7,539	$ 577,841

Consolidated Statements of Cash Flows

The transition to IFRS did not have an impact on the cash flows of the Company.

16. COMPARATIVE FIGURES

Certain 2011 comparative figures have been reclassified to reflect the current year's presentation.

17. SUBSEQUENT EVENT

On September 13, 2012, the Company received cash proceeds of $15,000 and issued 150,000 shares upon the exercise of options at $0.10 per share.