

BLUERUSH MEDIA GROUP CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JULY 31, 2016 AND 2015
(Presented in Canadian Dollars)**

BLUERUSH MEDIA GROUP CORP.

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INDEPENDENT AUDITORS' REPORT

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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, 2016 and July 31, 2015 and the consolidated statements of comprehensive (loss) income, changes in equity and cash flows for the years ended July 31, 2016 and July 31, 2015 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, 2016 and July 31, 2015 and its financial performance and its cash flows for the years ended July 31, 2016 and July 31, 2015 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
November 28, 2016
Toronto, Ontario

BLUERUSH MEDIA GROUP CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JULY 31, 2016 AND 2015

(Presented in Canadian Dollars)

	Note	2016	2015
ASSETS			
Current Assets			
Cash		\$ 2,068,136	\$ 2,121,550
Accounts receivable		733,540	860,105
Prepays and other assets		23,062	22,823
Investment tax credits	12	412,378	417,538
Unbilled revenue	3	19,513	2,069
Total Current Assets		3,256,629	3,424,085
Long Term Assets			
Investment tax credits recoverable	12	530,783	467,502
Equipment	4	36,123	36,839
Intangibles	5	578,957	393,161
Total Long Term Assets		1,145,863	897,502
Total Assets		\$ 4,402,492	\$ 4,321,587
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	6	\$ 686,699	\$ 305,364
Deferred revenue	3	203,012	347,575
Term loans - current portion	8	249,900	21,225
Total Current Liabilities		1,139,611	674,164
Long Term Liabilities			
Term loans	8	952,386	1,195,666
Deferred taxes	12	117,018	75,977
Total Long Term Liabilities		1,069,404	1,271,643
Commitments	9		
Equity			
Share capital	10	774,883	774,883
Contributed surplus	10	336,551	336,551
Retained earnings		1,082,043	1,264,346
Total Equity		2,193,477	2,375,780
Total Liabilities and Equity		\$ 4,402,492	\$ 4,321,587
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 (LOSS) INCOME FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

	Note	2016	2015
REVENUE			
Contracts		\$ 3,089,629	\$ 3,455,513
Hosting		218,875	211,376
Licensing		254,825	247,359
Interest		8,997	11,114
		3,572,326	3,925,362
EXPENSES			
Salaries and benefits		1,861,095	1,822,147
General and administrative	11	630,229	434,626
Consulting fees		608,647	670,415
Production costs	11	355,486	223,505
Professional fees		119,623	106,795
Interest and bank charges		93,477	43,074
Amortization of equipment	4	9,833	11,468
Amortization of intangible assets	5	35,198	17,307
Total Expenses		3,713,588	3,329,337
(LOSS) EARNINGS BEFORE TAXES		(141,262)	596,025
Current income taxes	12	-	(558)
Deferred income taxes	12	41,041	91,282
Total Income Taxes		41,041	90,724
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME		\$ (182,303)	\$ 505,301
EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - BASIC			
	10	\$ (0.006)	\$ 0.016
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC			
	10	32,593,000	32,593,000
EARNINGS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - DILUTED			
	10	\$ (0.006)	\$ 0.016
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED			
	10	32,593,000	32,593,000

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, 2016 AND 2015 (Presented in Canadian Dollars)

	Note	Common Shares	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance - August 1, 2014		32,593,000 \$	774,883 \$	336,551 \$	759,045 \$	1,870,479
Net earnings		-	-	-	505,301	505,301
Balance - July 31, 2015		32,593,000 \$	774,883 \$	336,551 \$	1,264,346 \$	2,375,780
Net loss		-	-	-	(182,303)	(182,303)
Balance - July 31, 2016		32,593,000 \$	774,883 \$	336,551 \$	1,082,043 \$	2,193,477

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, 2016 AND 2015
(Presented in Canadian Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) earnings	\$ (182,303)	\$ 505,301
Items not requiring an outlay of cash:		
Amortization of equipment	9,833	11,468
Amortization of intangibles	35,198	17,307
Term loan transaction cost accretion	6,620	-
Unrealized loss (gain) on foreign exchange	747	(88,018)
Deferred income taxes	41,041	91,282
Changes in non-cash working capital:		
Accounts receivable	126,875	(129,139)
Prepays and other assets	(239)	302
Work in process	-	842
Unbilled revenue	(17,443)	56,919
Income taxes and investment tax credits recoverable	63,523	(56,079)
Accounts payable and accrued liabilities	381,333	(97,652)
Deferred revenue	(144,563)	(47,432)
NET CASH PROVIDED BY OPERATING ACTIVITIES	320,622	265,101
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from term loans, net of transaction costs	-	1,216,890
Repayment of term loans	(21,225)	(800,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(21,225)	416,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures to develop internally generated intangibles	(967,851)	(396,271)
Expenditures recovered to develop internally generated intangibles	625,214	122,730
Purchase of equipment	(9,117)	(1,188)
NET CASH USED IN INVESTING ACTIVITIES	(351,754)	(274,729)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,057)	90,181
NET (DECREASE) INCREASE IN CASH	(53,414)	497,443
CASH, BEGINNING OF YEAR	2,121,550	1,624,107
CASH, END OF YEAR	\$ 2,068,136	\$ 2,121,550
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 86,855	\$ 43,074
Income taxes paid	\$ -	\$ -

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

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

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. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors approved these consolidated financial statements for issue on November 28, 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.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Company's functional currency by applying the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange in effect at the statement of financial position date and any gains or losses are recognized in the consolidated statement of comprehensive income (loss).

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Expenditures related to research activities are recognized as an expense in the period in which they are incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the entity can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete the intangible asset and use or sell it;
- (c) its ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs are capitalized once the above criteria are met. Where no internally generated intangible asset can be recognized, development expenditures are expensed in the period in which they are incurred. Expenditures recovered related to internally developed intangible assets are deducted from the capitalized development costs in the period in which they are recovered.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Once an internally generated intangible asset becomes available for use, expenditures are no longer capitalized to the intangible. Internally generated intangible assets that are available for use are amortized on a straight-line basis over their estimated useful life of five years, and an impairment loss is recognized in profit or loss when their recoverable amount is less than their net carrying amount. Internally generated intangible assets that are under development are not amortized and are reviewed for impairment annually by comparing the carrying amount with its recoverable amount. An impairment loss is recognized in profit or loss when the recoverable amount is less than the net carrying amount.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

The Company operates a stock option plan as part of its compensation of directors, officers or employees. 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

Contracts

The Company generates revenue from the creation of rich media marketing solutions. Each project requires a technological, graphical and consultative component.

The Company recognizes contract revenue on a percentage of completion basis. The Company estimates the percentage of completion of contract revenue based on the proportion of total project contract costs incurred for work performed at the statement of financial position date to the estimated total project contract costs to complete the project.

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 revenue recognized exceeds the amount billed to customers is recognized as unbilled revenue. Billings which exceed revenue to be recognized at a point in time are recognized as deferred revenue.

Hosting

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 hosting and any excess bandwidth usage services have been completed and when collection is reasonably assured.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Licensing

The Company also generates licensing revenue from the use of its products. Licensing revenue is subject to a fixed contract rate and is billed monthly. Revenue is recognized on a straight-line basis over the licensing term and when collection is reasonably assured.

Interest

Interest income is accounted for on an accrual basis using the effective interest method.

Earnings (Loss) Per Share

Basic earnings (loss) per common share is determined by dividing net earnings (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 and internally generated intangible assets that are available for use, 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.

The carrying amount of the Company's internally generated intangible assets that are under development are required to be reviewed for impairment annually by comparing the carrying amount with its recoverable amount.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets (Continued)

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 of disposal 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 earnings (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 earnings (loss).

Investment Tax Credits

An estimate of investment tax credits ("ITC") on scientific research and experimental development ("SRED") expenditures is recorded in the year the expenditures are incurred provided there is reasonable assurance that the ITC will be recovered or realized. The expenditures are reduced by the amount of the estimated investment tax credit. SRED ITCs include refundable and non-refundable tax credits. Refundable ITCs are refunded to the Company once assessed by the Canada Revenue Agency, which is generally within a year from applying for the ITC. Unused non-refundable ITCs are carried forward to reduce taxes payable of future years, and expire 20 years from the year they were granted.

Income Taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in net earnings (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.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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.

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	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Term loans	Other financial 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 earnings (loss).

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

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each year end date. It is determined that financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Financial Assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of comprehensive income for the year.

Critical Accounting Estimates and Judgments

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 judgments 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 and liabilities within the next fiscal year, are discussed below:

Revenue Recognition

Revenue from contracts is recognized based on the proportion of total project contract costs incurred for work performed at the statement of financial position date compared to the estimated total project contract costs to complete the project. Management is required to make judgmental estimates on the total project contract costs to complete the project. These judgments will affect the amount of revenue recognized as well as the reported amounts of unbilled revenue and deferred revenue.

Allowance for Doubtful Accounts

Accounts receivable are reviewed for collectibility 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.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates (Continued)

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 judgments 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 refundable, intangible assets and salaries and wages expense. Management also exercises judgment in the utilization of non-refundable ITCs recorded as an asset which have not yet been applied to reduce taxes payable and in determining the portion of ITCs the Company expects will be received within one year of the statement of financial position date.

The Company estimates the probability that taxable profits will be available to offset against deductible temporary differences which give rise to deferred tax assets and the utilization of non-refundable ITCs. The ultimate realization of the deferred tax assets and non-refundable ITCs is dependent on the generation of future taxable income during the year in which the temporary differences and non-refundable ITCs are deductible.

Capitalization of Development Costs

Management exercises judgment when establishing whether the criteria under IAS 38, Intangible Assets, for development costs have been met, specifically the technical feasibility of the products in development and the ability to generate probable economic future benefits.

Impairment of intangibles

Intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount or if the intangibles are not yet in use. The recoverable amount is determined with reference to the fair value of the intangibles less costs of disposal or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where recoverable amount is determined to be less than the carrying amount, an impairment loss may arise. Management exercises significant judgment and assumptions when determining the recoverable amount of intangibles.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Not Yet Effective

The following are significant IFRS changes that have been issued by the IASB, 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, 2018, with early adoption permitted.

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018, with early adoption permitted.

(c) IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016, and replaces IAS 17, Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Certain leases will be exempt from these requirements. The most significant effect expected of the new requirements will be an increase in lease assets and financial liabilities for lessees with material off-balance sheet leases. IFRS 16 is required for annual periods beginning on or after January 1, 2019 with early adoption permitted.

The Company is in the process of assessing the impact that the new standards will have on its consolidated financial statements and has not adopted any of the new requirements.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

3. CONTRACT COSTS AND REVENUES

	2016	2015
Costs incurred on contracts in progress	\$ 189,348	\$ 266,291
Profits recognized on contracts in progress	227,919	303,989
Progress billings	(600,766)	(915,786)
	(183,499)	(345,506)
Unbilled revenue	19,513	2,069
Deferred revenue	\$ (203,012)	\$ (347,575)

4. EQUIPMENT

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

Cost	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2015	\$ 69,681	\$ 100,053	\$ 169,734
Additions	-	9,117	9,117
Disposals	-	-	-
Closing balance - July 31, 2016	\$ 69,681	\$ 109,170	\$ 178,851

Accumulated Amortization	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2015	\$ 54,904	\$ 77,991	\$ 132,895
Amortization	2,741	7,092	9,833
Closing balance - July 31, 2016	\$ 57,645	\$ 85,083	\$ 142,728

Carrying Value	Furniture and Fixtures	Computer Equipment	Total
Balance - August 1, 2015	\$ 14,777	\$ 22,062	\$ 36,839
Balance - July 31, 2016	\$ 12,036	\$ 24,087	\$ 36,123

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

4. EQUIPMENT (Continued)

As of July 31, 2015:

Cost	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2014	\$ 69,681	\$ 98,865	\$ 168,546
Additions	-	1,188	1,188
Disposals	-	-	-
Closing balance - July 31, 2015	\$ 69,681	\$ 100,053	\$ 169,734

Accumulated Amortization	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2014	\$ 51,539	\$ 69,888	\$ 121,427
Amortization	3,365	8,103	11,468
Closing balance - July 31, 2015	\$ 54,904	\$ 77,991	\$ 132,895

Carrying Value	Furniture and Fixtures	Computer Equipment	Total
Balance - August 1, 2014	\$ 18,142	\$ 28,977	\$ 47,119
Balance - July 31, 2015	\$ 14,777	\$ 22,062	\$ 36,839

5. INTANGIBLES

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

Cost	Available for Use	Under Development	Total
Opening balance - August 1, 2015	\$ 157,810	\$ 252,658	\$ 410,468
Additions	-	967,851	967,851
Recoveries of expenditures (including SRED)	-	(746,857)	(746,857)
Intangibles available for use (i)	136,124	(136,124)	-
Disposals	-	-	-
Closing balance - July 31, 2016	\$ 293,934	\$ 337,528	\$ 631,462

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

5. INTANGIBLES (Continued)

Accumulated Amortization						
Opening balance - August 1, 2015	\$	17,307	\$	-	\$	17,307
Amortization		35,198		-		35,198
Closing balance - July 31, 2016	\$	52,505	\$	-	\$	52,505

Carrying Value						
Balance - August 1, 2015	\$	140,503	\$	252,658	\$	393,161
Balance - July 31, 2016	\$	241,429	\$	337,528	\$	578,957

The components of internally generated intangible assets are as follows as of July 31, 2015:

Cost	Available for Use	Under Development	Total			
Opening balance - August 1, 2014	\$	-	\$	236,483	\$	236,483
Additions		-		396,271		396,271
Recoveries of expenditures (including SRED)		-		(222,286)		(222,286)
Intangibles available for use (i)		157,810		(157,810)		-
Disposals		-		-		-
Closing balance - July 31, 2015	\$	157,810	\$	252,658	\$	410,468

Accumulated Amortization						
Opening balance - August 1, 2014	\$	-	\$	-	\$	-
Amortization		17,307		-		17,307
Closing balance - July 31, 2015	\$	17,307	\$	-	\$	17,307

Carrying Value						
Balance - August 1, 2014	\$	-	\$	236,483	\$	236,483
Balance - July 31, 2015	\$	140,503	\$	252,658	\$	393,161

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

5. INTANGIBLES (Continued)

- (i) Balance relates to cost incurred on intangible assets under development which are now available for use.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	2016	2015
Trade accounts payable	\$ 115,389	\$ 12,579
Accrued liabilities	157,883	160,526
Accrued vacation pay and other employee benefits	113,566	68,848
Government remittances payable	43,266	63,411
Customer deposits	256,595	-
	<u>\$ 686,699</u>	<u>\$ 305,364</u>

7. CREDIT FACILITY

In order to meet daily cash flow requirements, the Company utilized 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 was interest-bearing at the CIBC prime rate plus 1.50% per annum. The line of credit was repayable on demand and secured by a general security agreement covering all the assets of the Company and its subsidiary. The credit facility was cancelled during the year ended July 31, 2016 as the Company no longer required the availability of these funds.

8. TERM LOANS

	2016	2015
Investissement Quebec (i)	\$ 983,333	\$ 1,000,000
Business Development Bank of Canada (ii)	245,440	250,000
Canadian Imperial Bank of Commerce (iii)	-	-
Transaction costs	(26,487)	(33,109)
	<u>1,202,286</u>	<u>1,216,891</u>
Current portion	<u>(249,900)</u>	<u>(21,225)</u>
	<u>\$ 952,386</u>	<u>\$ 1,195,666</u>

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

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 were 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. Transaction costs of \$26,487 (2015 - \$33,109) have been deducted from the loan and will be amortized using the effective interest method over the term of the loan. During the year ended July 31, 2016, the Company amortized \$6,622 (2015 - \$NIL) of transaction costs, recorded in interest and bank charges. In addition, the Company is required to maintain two covenants relating to this term loan. As of July 31, 2016, the Company is outside of both of these financial covenants.
- (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 was paid in 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.
- (iii) In July 2014 the Company received a term loan from the Canadian Imperial Bank of Commerce ("CIBC") in the amount of \$800,000. The term loan was interest-bearing at the CIBC prime rate plus 0.25% per annum. Interest only payments were required until January 2015 (6 months), thereafter monthly principal payments of \$22,222 were due until January 2018 (36 months). The term loan was repayable on demand and secured by a general security agreement covering all the assets of the parent and subsidiary corporations. This loan was fully repaid during the year ended July 31, 2015.

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

2017	\$	249,900
2018		249,900
2019		249,900
2020		249,900
2021		229,173
	\$	1,228,773

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

9. COMMITMENTS

The Company has the following lease commitments for premises:

Less than one year	\$	130,576
Two to five years		196,992
More than five years		-
	\$	327,568

10. SHARE CAPITAL

The Company has authorized an unlimited number of common shares and has 32,593,000 (2015 - 32,593,000) common shares issued and outstanding.

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 20% (2015 - 20%) 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.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

10.SHARE CAPITAL (Continued)

Stock Option Plan (Continued)

A summary of the status of the Company's stock options as at July 31, 2016 and 2015 and changes during the years then ended is presented below:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of year	2,050,000	\$ 0.15	2,170,000	\$ 0.15
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(175,000)	0.15	(120,000)	0.10
Outstanding - end of year	1,875,000	\$ 0.15	2,050,000	\$ 0.15
Exercisable - end of year	1,875,000	\$ 0.15	2,050,000	\$ 0.15

The weighted average remaining contractual life of stock options as of July 31, 2016 is 5.78 years (2015 - 6.78 years).

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

Number of Options Outstanding	Exercise Price \$	Expiry Date
1,875,000	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 years ended July 31, 2016 and 2015.

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

10.SHARE CAPITAL (Continued)

A summary of the status of the Company's warrants as at July 31, 2016 and 2015 and changes during the years then ended is presented below:

	2016		2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding - beginning of year	250,000	\$ 0.10	500,000	\$ 0.10
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(250,000)	(0.10)	(250,000)	-
Outstanding - end of year	-	\$ -	250,000	\$ 0.10

Earnings (Loss) Per Share

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

	2016	2015
Numerator:		
Net (loss) earnings	\$ (182,303)	\$ 505,301
Denominator:		
Weighted average number of common shares outstanding - basic	32,593,000	32,593,000
Weighted average effect of diluted stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	32,593,000	32,593,000
Earnings (loss) per share:		
Basic	\$ (0.006)	\$ 0.016
Diluted	\$ (0.006)	\$ 0.016

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

10. SHARE CAPITAL (Continued)

Earnings (Loss) Per Share (Continued)

In the computation of diluted earnings per share during the years ended July 31, 2016 and 2015, 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, if dilutive.

During the years ended July 31, 2016 and 2015, the Company did not grant any options or issue any warrants.

11. EXPENSES BY NATURE

General and Administrative Expenses

The components of general and administrative expenses are as follows:

	2016	2015
Rent and occupancy costs	\$ 205,596	\$ 203,836
Advertising and promotion	110,653	51,527
Travel	98,843	82,851
Other general and administrative	53,242	42,522
Computer and software	47,790	28,813
Telecommunications	37,524	33,614
Training and recruitment	25,774	32,596
Insurance	20,692	19,485
Meals and entertainment	20,046	17,712
Stock exchange fees	13,361	11,630
Foreign exchange gain	(3,292)	(89,960)
	\$ 630,229	\$ 434,626

Production Costs

The components of production costs are as follows:

	2016	2015
Hosting	\$ 177,448	\$ 114,973
Other production costs	133,260	87,720
Camera and teleprompter	29,588	10,931
Talent	15,190	9,881
	\$ 355,486	\$ 223,505

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

12. INCOME TAXES

Income tax expense is as follows:

	2016	2015
Current income tax recovery		
Adjustment in respect of prior years	\$ -	\$ (558)
Total current income tax recovery	-	(558)
Deferred income tax expense		
Origination and reversal of temporary differences	41,041	91,282
Total deferred income tax expense	41,041	91,282
Total income tax expense	\$ 41,041	\$ 90,724

The following table reconciles income taxes calculated at the applicable tax rates of 25.54% (2015 - 25.54%) with the income tax expense in the consolidated financial statements. The applicable tax rate is based on the weighted Federal, Ontario and Quebec statutory rates.

	2016	2015
Income tax expense at statutory tax rate	\$ (36,078)	\$ 152,225
Permanent differences	2,728	2,281
Tax on benefit of investment tax credits and other	74,391	30,026
Federal and provincial non-refundable ITCs not recognized	(104,266)	-
Change in federal and provincial non-refundable ITCs not recognized	104,266	-
Utilization of non-capital losses	-	(93,808)
	\$ 41,041	\$ 90,724

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

12. INCOME TAXES (Continued)

The Company claims research and development deductions and related ITCs 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 ITCs recorded in the consolidated 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 \$239,721 (2015 - \$310,309) of ITCs of which \$118,078 (2015 - \$210,753) were presented as a reduction of salaries and benefits expense and \$121,643 (2015 - \$99,556) were presented as a reduction of intangible assets. The Company expects to recover \$412,378 (2015 - \$417,538) of refundable ITCs within the next fiscal year and \$530,783 (2015 - \$467,502) of unused non-refundable ITCs in subsequent years. Due to the uncertainty of realizing non-refundable ITCs, the Company has not recognized \$139,279 of non-refundable ITCs relating to the 2016 SRED claim. These non-refundable ITCs will not be recognized until it is probable that they will be realized by the Company.

The Company has also applied for new Ontario Interactive digital media tax credits for the fiscal 2012, 2013 and 2014 fiscal years, which amount to \$37,534, \$90,206 and \$110,060, respectively. Since the Company has no history of receiving these claims they will not be recognized until they have been approved by the Canada Revenue Agency ("CRA"). The Company is also in the process of completing the same applications for the 2015 and 2016 fiscal years but they have not yet been filed with CRA.

As at July 31, 2016, the Company has unused non-refundable ITCs of \$670,062 which are available to reduce future taxes payable. These non-refundable ITCs expire as follows:

	Federal	Ontario	Total
2031	\$ 5,576	\$ -	\$ 5,576
2032	85,050	-	85,050
2033	128,021	9,650	137,671
2034	167,842	24,739	192,581
2035	89,699	20,206	109,905
2036 (i)	116,292	22,987	139,279
	\$ 592,480	\$ 77,582	\$ 670,062

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

12. INCOME TAXES (Continued)

- (i) These non-refundable ITCs were not recognized in the current year consolidated financial statements due to the uncertainty of realizing them in future years.

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 25.54% (2015 - 25.54%):

	2016	2015
Non-capital losses available for carry-forward	\$ 152,451	\$ 133,065
Equipment	1,516	(995)
Intangibles	(147,866)	(100,413)
Unrealized losses on foreign exchange	191	22,480
Debt issue costs	(1,696)	(1,691)
Federal and provincial non-refundable ITCs recoverable	(17,348)	(128,423)
	(12,752)	(75,977)
Federal and provincial non-refundable ITCs not recognized	(104,266)	-
Deferred tax liability	\$ (117,018)	\$ (75,977)

As at July 31, 2016, the Company has income tax losses of which are available to reduce future taxable income. These losses expire as follows:

	Federal and Ontario	Quebec
2033	\$ 339	\$ -
2034	336,954	730,292
2035	425	-
2036	194,553	540,211
	\$ 532,271	\$ 1,270,503

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS

Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company. For the year ended July 31, 2016, salaries and fees paid to key management personnel amount to \$440,192 (2015 - \$404,077), of this amount \$50,000 (2015 - \$50,000) is recorded in professional fees and \$26,191 (2015 - \$Nil) is recorded in consulting fees, \$136,328 (2015 - \$99,761) were capitalized as intangible assets and \$227,673 (2015 - 254,316) is recorded in salaries and benefits.

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.

14. 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 and for the year ended July 31, 2016 has recorded a bad debts expense of \$Nil (2015 - \$237).

As at July 31, 2016, approximately 44% (2015 - 71%) of the Company's accounts receivable are due from four significant customers, each of which individually made up more than 10% of the Company's sales.

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

	2016	2015
Current	\$ 385,300	\$ 514,041
Past due less than 90 days	337,429	140,410
Past due greater than 90 days	10,811	205,654
Less: Allowance for doubtful accounts	-	-
	\$ 733,540	\$ 860,105

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

14. 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 and on 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 July 31, 2016, the Company had cash on hand of \$2,068,136 and accounts receivable of \$733,540 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.

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 July 31, 2016, cash and accounts receivable of \$700,595 and \$66,340 (2015 - \$539,314 and \$46,535), respectively, are shown in US dollars and converted into Canadian dollars at the year end exchange rate of 1.3041 (2015 - 1.3047). For the year ended July 31, 2016, the Company recognized a gain on foreign exchange of \$3,292 (2015 - \$89,960) 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 \$38,000 (2015 - \$28,000).

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 term loans.

Sensitivity Analysis

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

BLUERUSH MEDIA GROUP CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JULY 31, 2016 AND 2015 (Presented in Canadian Dollars)

14. FINANCIAL INSTRUMENTS (Continued)

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 I. The fair value of Level I financial instruments is based on quoted market prices.

15. 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:

	2016	2015
Share capital	\$ 774,883	\$ 774,883
Contributed surplus	336,551	336,551
Retained earnings	1,082,043	1,264,346
	\$ 2,193,477	\$ 2,375,780

The Company's objectives when managing capital are:

- To ensure that the Company maintains the level of capital necessary to meet the requirements of its suppliers and its ongoing operations;
- To give shareholders sustained growth in value by increasing shareholders' equity; and
- 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:

- Providing services to its customers that are profitable to the Company;
- Utilizing a line of credit and term loan provided by its bank; and
- 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, 2016.