

# **YANGAROO Inc.**

Condensed Interim Financial Statements

For the Three and Nine Months Ended September 30, 2019 and 2018

(Unaudited)

## **Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of YANGAROO Inc. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

"Gary Moss"  
Gary Moss  
Chief Executive Officer

"Dom Kizek"  
Dom Kizek  
Chief Financial Officer

November 7, 2019

# YANGAROO Inc.

Condensed Interim Statements of Financial Position (Unaudited)  
(Expressed in Canadian dollars)

	As at	
	September 30 2019	December 31 2018 (audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,705,416	\$ 1,441,716
Accounts receivable	1,458,624	1,662,181
Prepaid and sundry assets	374,891	313,595
Contract assets	68,969	124,528
	<b>3,607,900</b>	<b>3,542,020</b>
<b>Non-current</b>		
Property and equipment (note 7)	834,133	170,642
	<b>\$ 4,442,033</b>	<b>\$ 3,712,662</b>
<b>Liabilities</b>		
<b>Current</b>		
Trade and other payables (note 8)	\$ 682,196	\$ 618,820
Contract liabilities	39,577	68,488
Current portion of lease obligations (note 9)	290,759	50,675
Revolving loan facility (note 10)	750,000	-
Contractual severance payable	-	79,594
	<b>1,762,532</b>	<b>817,577</b>
<b>Non-current</b>		
Debentures (note 11)	-	574,888
Lease obligations (note 9)	487,150	37,953
	<b>487,150</b>	<b>612,841</b>
	<b>2,249,682</b>	<b>1,430,418</b>
<b>Equity</b>		
Share capital (note 12)	32,515,688	32,558,445
Warrant capital (note 14)	29,950	203,824
Contributed surplus	6,805,825	6,366,932
Deficit	(37,159,112)	(36,846,957)
	<b>2,192,351</b>	<b>2,282,244</b>
	<b>\$ 4,442,033</b>	<b>\$ 3,712,662</b>

Commitments and contingencies (note 18)

Approved by the Board of Directors

"Anthony Miller"  
Director

"Gerry Hurlow"  
Director

See accompanying notes, which are an integral part of these interim condensed financial statements

# YANGAROO Inc.

Condensed Interim Statements of Net Income (Loss) and Comprehensive Income (Loss) (Unaudited)

Three and nine months ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<b>Revenue (note 16)</b>	<b>\$ 1,959,865</b>	\$ 1,735,291	<b>\$ 5,580,655</b>	\$ 5,482,305
Commission expense	71,777	75,767	241,780	240,145
Post-production costs	8,896	12,005	35,154	50,062
	<b>80,673</b>	87,772	<b>276,934</b>	290,207
<b>Revenue, net of commission and production costs</b>	<b>1,879,192</b>	1,647,519	<b>5,303,721</b>	5,192,098
<b>Expenses</b>				
Salaries and consulting (notes 13 & 17)	1,337,120	1,135,100	4,321,216	3,942,663
Marketing and promotion	90,367	107,591	276,886	319,723
General and administrative	196,478	194,108	509,406	574,713
Technology development	18,247	47,749	111,565	131,213
Depreciation of property and equipment (note 7)	88,804	27,883	256,931	89,020
	<b>1,731,016</b>	1,512,431	<b>5,476,004</b>	5,057,332
<b>Income (loss) from operations</b>	<b>148,176</b>	135,088	<b>(172,283)</b>	134,766
<b>Other income (expenses)</b>				
Interest income	4,549	4,525	17,534	12,899
Interest expense	(9,420)	(17,775)	(69,153)	(54,579)
Foreign exchange gain (loss)	17,260	(36,992)	(83,859)	58,292
	<b>12,389</b>	(50,242)	<b>(135,478)</b>	16,612
<b>Net income (loss) before income tax</b>	<b>160,565</b>	84,846	<b>(307,761)</b>	151,378
Corporate income tax	(4,069)	-	(4,394)	(389)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 156,496</b>	\$ 84,846	<b>\$ (312,155)</b>	\$ 150,989
<b>Basic income (loss) per share (note 15)</b>	<b>\$ 0.00</b>	\$ 0.00	<b>\$ (0.01)</b>	\$ 0.00
<b>Diluted income (loss) per share (note 15)</b>	<b>\$ 0.00</b>	\$ 0.00	<b>\$ (0.01)</b>	\$ 0.00

See accompanying notes, which are an integral part of these interim condensed financial statements

# YANGAROO Inc.

Condensed Interim Statements of Changes in Equity (Unaudited)

Nine months ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

	Number of shares	Share capital	Warrant capital	Contributed surplus	Deficit	Total
Balance at January 1, 2018 (audited)	61,288,140	\$32,545,388	\$203,824	\$6,130,476	\$(37,360,012)	\$1,519,676
Share-based payments (note 13)	-	-	-	208,446	-	208,446
Exercise of options (note 13)	51,000	13,060	-	(5,557)	-	7,500
Income for the period	-	-	-	-	150,989	150,989
<b>Balance at September 30, 2018</b>	<b>61,339,140</b>	<b>\$32,558,445</b>	<b>\$203,824</b>	<b>\$6,333,365</b>	<b>\$(37,209,023)</b>	<b>\$1,886,611</b>
Balance at January 1, 2019 (audited)	61,339,140	\$32,558,445	\$203,824	\$6,366,932	\$(36,846,957)	\$2,282,244
Share-based payments (note 13)	-	-	-	265,019	-	265,019
Shares repurchased and cancelled (note 12)	(325,000)	(42,757)	-	-	-	(42,757)
Expiry of warrants (note 14)	-	-	(173,874)	173,874	-	-
Loss for the period	-	-	-	-	(312,155)	(312,155)
<b>Balance at September 30, 2019</b>	<b>61,014,140</b>	<b>\$32,515,688</b>	<b>\$29,950</b>	<b>\$6,805,825</b>	<b>\$(37,159,112)</b>	<b>\$2,192,351</b>

See accompanying notes, which are an integral part of these interim condensed financial statements

# YANGAROO Inc.

Condensed Interim Statements of Cash Flows (Unaudited)  
(Expressed in Canadian dollars)

	Nine Months Ended September 30	
	2019	2018
<b>Cash flow from (used in) operating activities</b>		
Net income (loss) for the period	\$ (312,155)	\$ 150,989
Items not affecting cash:		
Depreciation of property and equipment	256,931	89,020
Bad debt expense	7,850	-
Share-based payments (note 13)	265,019	208,446
Unrealized foreign exchange gain (loss)	89,814	(40,382)
Accrued contractual severance payable	(79,400)	(213,784)
Accrued interest on debentures (note 11)	27,321	47,095
Changes in non-cash operating working capital:		
Accounts receivable	195,933	51,727
Prepaid and sundry assets	(67,428)	53,120
Contract assets	55,558	(83,387)
Trade and other payables	(4,450)	(205,492)
Contract liabilities	(28,875)	74,005
<b>Net cash from operating activities</b>	<b>406,118</b>	<b>131,357</b>
<b>Cash flow used in investing activities</b>		
Acquisition of property and equipment (note 7)	(26,582)	(26,472)
<b>Net cash used in investing activities</b>	<b>(26,582)</b>	<b>(26,472)</b>
<b>Cash flow from financing activities</b>		
Payment of lease obligation	(209,087)	(54,790)
Extinguishment of debentures (note 11)	(613,472)	7,500
Proceeds from revolving loan facility (note 10)	750,000	-
Common shares repurchased and cancelled (note 12)	(43,295)	-
<b>Net cash used in financing activities</b>	<b>(115,854)</b>	<b>(47,290)</b>
<b>Net increase in cash</b>	<b>263,682</b>	<b>57,595</b>
<b>Effect of foreign exchange on cash</b>	<b>18</b>	<b>22,877</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,441,716</b>	<b>1,215,554</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,705,416</b>	<b>\$ 1,296,026</b>
<b>Cash interest paid</b>	<b>\$ 185,467</b>	<b>\$ 5,449</b>

See accompanying notes, which are an integral part of these interim condensed financial statements

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

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## 1. Nature of Operations

YANGAROO Inc. ("Company") is a technology company that is the provider of user friendly and secure business to business distribution of media via the Internet. The Company's patented Digital Media Distribution System (DMDS) is a secure B2B digital media management solution for the entertainment and advertising industries. DMDS is an end to end technology solution that provides a fully integrated work flow based digital distribution and data management solution. DMDS provides audio and video content for music, music videos, and advertising to television, radio, media, retailers, award shows and other authorized recipients via the internet.

YANGAROO Inc. is a publicly listed company incorporated on July 28, 1999 under the laws of Ontario as Musicrypt.com Inc. and changed to its present name on July 17, 2007. YANGAROO trades on the TSX Venture Exchange (TSX-V) under the symbol YOO and in the U.S. under OTCBB: YOOIF.

The address of the Company's corporate office and principal place of business is 67 Mowat Avenue, Suite 535, Toronto, Ontario, M6K 3E3.

## 2. Basis of Preparation

### (a) Basis of compliance

These unaudited condensed interim financial statements were prepared using the same accounting policies and methods as those used in the Company's audited financial statements for the year ended December 31, 2018. These unaudited condensed interim financial statements are in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), have been omitted. The preparation of these unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These statements should be read in conjunction with the audited financial statements for the year ended December 31, 2018.

These financial statements were authorized for issue by the Board of Directors on November 6, 2019.

### (b) Basis of measurement

The unaudited condensed interim financial statements have been prepared on the historical cost basis except certain financial instruments recorded at fair value through profit and loss. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

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## 2. Basis of Preparation (continued)

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

(i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants granted to agents and debenture holders, to the extent that they are not measured at the fair value of the services received, are based on the fair value at the date of the award. These share-based payments are valued using the Black-Scholes option pricing model, which includes inputs that require management's estimates and assumptions (note 13).

(ii) Revenue recognition

To the extent a contract includes multiple performance obligations, the Company applies judgement to determine whether these performance obligations are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation. Additionally, recognition of revenue requires significant judgement to determine if revenue is recognized at a point in time or over time.

(iii) Investment tax credits

The Company uses judgement to determine the reasonable assurance of collection and estimates the valuation of investment tax credits to be accrued.

(iv) Functional currency

The Company uses judgement to determine the Company's functional currency.

(v) Collectability of accounts receivable

The Company applies the simplified method to measure loss allowance on accounts receivable at an amount equal to the lifetime expected credit loss (ECL).

## 3. Significant Accounting Policies

These condensed interim financial statements follow the same accounting policies and methods of their application as the December 31, 2018 annual audited financial statements except as described below for new accounting standards adopted effective January 1, 2019.



# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

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## 3. Significant Accounting Policies (continued)

### **New standards and interpretations adopted during the period ended September 30, 2019:**

#### ***IFRS 16 - Leases***

In January 2016, the IASB issued IFRS 16 “Leases” (“IFRS 16”), which replaces IAS 17 “Leases”, and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for most leases on its balance sheet, as well as corresponding depreciation and interest expense. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Company typically leases office space for fixed periods of 1-5 years but may have extension options. The lease terms are negotiated on an individual basis and contains a wide range of different terms and conditions. The lease agreements do not impose any covenants, but the leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of lease.

Effective January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. The lease liability is measured at amortized cost using the effective interest method. The finance cost is charged to profit and loss and right-of-use asset depreciated over the shorter of the life of the asset and the lease term on a straight-line basis.

The Company adopted IFRS 16 for the annual period beginning January 1, 2019 using the modified retrospective approach without restating the financial statements on a retrospective basis. The Company assessed the impact of the new standard on its systems and processes and evaluated the practical expedients and policy choices that are available under the standard. As such, the Company has elected not to recognize assets and lease liabilities for short-term leases, that have a lease term of 12 months or less, and leases of low-value assets. Lease payments associated with these leases will be recognized as a straight-line expense over the lease term.

Adoption of IFRS 16 resulted in the recognition of additional lease liabilities and right-of-use assets on the balance sheet, a corresponding increase in depreciation and interest expense representing the accretion of the discount on the lease liability, and a decrease in lease and rental expenses. Cash flow from operating activities is increased under IFRS 16 as lease payments for additional right-of-use asset leases are recorded as financing outflows in the statement of cash flows. The liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.5%, consistent with the Company’s incremental cost of capital and other finance leases in place.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

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### 3. Significant Accounting Policies (continued)

For leases previously classified as finance leases the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles are only applied after that date and did not result in any measurement adjustments as all leases identified do not have material residual value guarantees, variable lease rates or expected term renewals at transition.

The Company's only additional right-of-use leased assets recognized at transition were property leases. The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied. There are no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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	<b>January 1, 2019</b>
Operating lease commitments disclosed as at December 31, 2018	\$ 839,027
Operating leases discounted using incremental borrowing rate at initial application	\$ 804,134
Add: finance lease liabilities recognized at December 31, 2018	\$ 88,628
<b>Total</b>	<b>\$ 892,762</b>

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	<b>January 1, 2019</b>
Current lease liabilities	\$ 263,702
Non-current lease liabilities	\$ 629,060
<b>Total</b>	<b>\$ 892,762</b>

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### 4. Fair Value Measurement

The following tables summarize the carrying values of the Company's financial instruments. The fair values of financial instruments approximate their carrying values because of their current nature. The fair value of the Company's finance lease obligations and debentures are based on estimated market interest rates on similar borrowings. The carrying amount of the finance lease obligations and debentures is not materially different from the present value of the future cash flows to settle the liability.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
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## 4. Fair Value Measurement (continued)

The following tables illustrate the differences in the classification of the Company's financial instruments under IFRS 9:

	December 31 2018 (audited)
Fair value through profit or loss (i)	\$ 1,421,620
Loans and receivables (ii)	\$ 1,806,805
Other financial liabilities (iii)	\$ 1,361,930

  

	September 30 2019
Fair value through profit or loss (i)	\$ 1,705,416
Amortized cost - financial assets (ii)	\$ 1,527,593
Amortized cost - financial liabilities (iii)	\$ 2,210,105

- (i) Cash
- (ii) Accounts receivable and contract assets
- (iii) Trade and other payables, finance lease obligations, and the revolving loan facility

## 5. Capital Risk Management

The Company includes equity comprised of share capital, warrant capital, contributed surplus, and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further develop and market its digital media distribution systems, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended September 30, 2019.

## 6. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

## 7. Property and Equipment

	Office Equipment	Computer Equipment	Computer Software	Right-of-Use Office Property	Leasehold Improvements	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$
Balance, January 1, 2018	34,367	584,025	254,638	-	8,246	881,276
Additions	-	39,786	20,114	-	2,029	61,929
Disposals	-	(6,373)	-	-	-	(6,373)
Balance, December 31, 2018	34,367	617,438	274,752	-	10,275	936,832
Additions	-	36,182	78,264	804,135	1,841	920,422
<b>Balance, September 30, 2019</b>	<b>34,367</b>	<b>653,620</b>	<b>353,016</b>	<b>804,135</b>	<b>12,116</b>	<b>1,857,254</b>
<b>Accumulated depreciation</b>						
Balance, January 1, 2018	25,238	436,479	196,762	-	675	659,154
Depreciation expense	2,854	79,142	29,443	-	1,971	113,410
Disposals	-	(6,374)	-	-	-	(6,374)
Balance, December 31, 2018	28,092	509,247	226,205	-	2,646	766,190
Depreciation expense	2,207	52,350	32,265	168,307	1,802	256,931
<b>Balance, September 30, 2019</b>	<b>30,299</b>	<b>561,597</b>	<b>258,470</b>	<b>168,307</b>	<b>4,448</b>	<b>1,023,121</b>
<b>Carrying amounts</b>						
December 31, 2018	6,275	108,191	48,547	-	7,629	170,642
<b>September 30, 2019</b>	<b>4,068</b>	<b>92,023</b>	<b>94,546</b>	<b>635,828</b>	<b>7,669</b>	<b>834,133</b>

Included in property and equipment are computer equipment, computer software, and right-of-use office property under finance leases with a cost of \$1,355,398 (2018 - \$463,187). Accumulated depreciation for assets under finance leases is \$597,968 (2018 - \$380,041).

## 8. Trade and Other Payables

	September 30 2019	December 31 2018
Trade payables	\$ 105,103	\$ 181,715
Non-trade payables	577,093	437,105
	<b>\$ 682,196</b>	<b>\$ 618,820</b>

## 9. Lease Obligations

The Company has assumed finance lease obligations until 2022 with purchase options at the end of each lease term. The monthly lease payments consist of principal repayment and interest and the weighted average imputed interest rate is 4.21%. The minimum payments under the finance lease are as follows:

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

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## 9. Lease Obligations (continued)

2019	\$	82,309
2020		309,354
2021		281,033
2022		131,667
		<hr/>
		804,363
Less: imputed interest		(26,454)
		<hr/>
		777,909
Less: current portion		<b>(290,759)</b>
		<hr/>
Long term portion	\$	<b>487,150</b>

## 10. Revolving Loan Facility

On May 23, 2019, the Company closed a \$750,000 revolving loan facility. The revolving loan facility has a maximum draw capacity of \$750,000 bearing interest at prime plus 0.5 percent per annum. Borrowings under the revolving loan facility are due on demand and are secured by a general security agreement. The net proceeds of the revolving loan facility are used for general working capital and to repay outstanding Debentures (note 11).

As at September 30, 2019 the Company has drawn down \$750,000 (December 31, 2018 - \$nil) on the revolving loan facility.

## 11. Debentures

On February 24, 2017, the Company completed a non-brokered debenture offering (the "Offering") of secured, non-convertible debentures (the "Debentures") for aggregate gross proceeds of \$500,000 (the "Principal Amount"). The net proceeds of the Offering were used to repay a previously existing credit facility with the balance used for general working capital purposes.

The Company also issued to the Debenture Holders one share purchase warrant (each the "Bonus Warrant", collectively the "Bonus Warrants") for each dollar of the Principal Amount to purchase one common share of the Company at an exercise price of \$0.15 per share for a period of three years from the Closing Date for a total of 500,000 Bonus Warrants (note 14). The securities issued pursuant to the Offering were subject to a 4-month hold period. The Bonus Warrants are not listed on any stock exchange.

On June 3, 2019, the Company completed the early repayment of Debentures in conjunction with the closing of the revolving loan facility (note 10). Repayment amount of \$613,472 included \$113,472 in accrued interest.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
(Expressed in Canadian dollars, unless otherwise noted)

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## 12. Share Capital

The Company is authorized to issue an unlimited number of common shares.

The following is a summary of changes in common share capital from January 1, 2018 to September 30, 2019:

	Number of shares	Value
Balance at January 1, 2018	61,288,140	\$ 32,545,388
Exercise of options on July 20, 2018 <sup>(a)</sup>	51,000	13,057
Balance at December 31, 2018	<b>61,339,140</b>	<b>\$ 32,558,445</b>
Share buyback <sup>(b)</sup>	(325,000)	(42,757)
<b>Balance at September 30, 2019</b>	<b>61,014,140</b>	<b>\$ 32,515,688</b>

- (a) Exercise of 30,000 stock options at a price of \$0.18 per unit for gross proceeds of \$5,400 and exercise of 21,000 options at a price of \$0.10 per unit for gross proceeds of \$2,100. The initial value of \$5,557 related to the options' original issuances was reclassified from contributed surplus to share capital.
- (b) On December 20, 2018, the Company announced a normal course issuer bid, to commence on January 2, 2019 and continue through to December 31 2019, to purchase and cancel up to a maximum of 3,066,957 common shares representing 5% of the outstanding shares of the Company. As of September 30, 2019, the Company has purchased and cancelled 325,000 shares at a weighted average price of \$0.13 / share.

## 13. Share-Based Payments

The Company has a 12% fixed stock option plan (the "Plan"), in which the total number of options shall not exceed 7,344,976, which was 12% of the issued and outstanding number of shares as of the date of approval. The Plan was approved at the Company's Annual Meeting of the Shareholders held on June 28, 2017.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2019 and 2018  
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## 13. Share-Based Payments (continued)

The Company had issued stock options to acquire common shares as follows:

	Weighted average exercise price	Outstanding options	Vested options	Weighted average remaining life (years)
Balance at January 1, 2018	\$ 0.200	5,409,000	4,300,500	2.26
Granted	0.280	1,392,500		
Forfeited	0.240	(209,000)		
Expired	0.250	(1,535,000)		
Exercised	0.150	(51,000)		
Balance at December 31, 2018	\$ 0.210	5,006,500	4,199,500	2.45
Granted	0.146	3,030,000		
Forfeited	0.185	(139,500)		
Expired	0.339	(834,500)		
Exercised	-	-		
<b>Balance at September 30, 2019</b>	<b>\$ 0.166</b>	<b>7,062,500</b>	<b>4,567,750</b>	<b>3.31</b>

For the period ended September 30, 2019, the fair value of options granted was \$344,872 (2018 - \$277,282).

The estimated fair value of the options is expensed over the vesting period. The options vest 10% on the date of grant, and the remaining 90% vest as to a third on each 6-month anniversary following the date of grant. The compensation expense and charge to contributed surplus relating to the stock options for the period ended September 30, 2019 was \$265,019 (2018 - \$208,446).

The fair value of the Company's stock options grants was estimated using the Black-Scholes option pricing model. Stock options granted during the periods ended September 30, 2019 and 2018 used the following weighted average assumptions:

	September 30 2019	September 30 2018
Volatility (based on historical share prices)	81%	92%
Risk-free interest rate	1.76%	1.89%
Expected life (years)	5.00	5.00
Dividend yield	Nil	Nil
Forfeiture rate	11%	12%
Underlying share price	\$0.14	\$0.280

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## 13. Share-Based Payments (continued)

The Company had the following stock options outstanding at September 30, 2019:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
2,500	-	2,500	\$0.120	November 21, 2019
912,500	-	912,500	\$0.180	January 26, 2020
207,500	-	207,500	\$0.150	January 11, 2021
5,000	-	5,000	\$0.115	September 6, 2021
1,077,500	-	1,077,500	\$0.100	January 10, 2022
500,000	-	500,000	\$0.140	May 1, 2022
75,000	-	75,000	\$0.120	August 25, 2022
1,257,500	392,250	865,250	\$0.275	January 8, 2023
2,150,000	1,935,000	215,000	\$0.155	January 4, 2024
100,000	90,000	10,000	\$0.150	February 20, 2024
775,000	77,500	697,500	\$0.120	June 18, 2024
<b>7,062,500</b>	<b>2,494,750</b>	<b>4,567,750</b>	<b>\$0.166</b>	

## 14. Warrants

The Company had issued warrants to acquire common shares as follows:

	Number of warrants	Amount	Weighted average exercise price
Balance at January 1, 2018	3,009,845	\$ 203,824	\$ 0.19
Warrants issued	-	-	-
Balance at December 31, 2018	<b>3,009,845</b>	<b>\$ 203,824</b>	<b>\$ 0.19</b>
Warrants issued	-	-	-
Warrants expired	(2,509,845)	(173,874)	(0.20)
<b>Balance at September 30, 2019</b>	<b>500,000</b>	<b>\$ 29,950</b>	<b>\$ 0.15</b>

The Company had the following warrants outstanding and exercisable at September 30, 2019:

Number of warrants	Exercise price	Expiry date
500,000 (i)	\$0.15	February 24, 2020
<b>500,000</b>		



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## 14. Warrants (continued)

- (i) These bonus warrants were issued to lenders in connection with the issuance of debentures (Note 11). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 88%; (III) a risk free interest rate of 0.87% and (IV) an expected life of 3 years.

Except where noted above, warrants issued to agents and related to financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable.

## 15. Basic and Diluted Income (Loss) per Share

The income (loss) and weighted average number of common shares used in the calculation of basic and diluted income (loss) per share for the nine months ended September 30, 2019 and 2018 were as follows:

	September 30 2019	September 30 2018
Numerator:		
Net income (loss) and comprehensive income (loss) for the period	\$ (312,155)	\$ 150,989
Denominator:		
Weighted average number of common shares - basic	61,166,138	61,301,777
Adjustments for calculation of diluted income per share:		
Options and warrants in the money	-	3,362,500
Weighted average number of common shares - diluted	61,166,138	64,664,277
<b>Basic income (loss) per share</b>	<b>\$ (0.01)</b>	<b>\$ 0.00</b>
<b>Diluted income (loss) per share</b>	<b>\$ (0.01)</b>	<b>\$ 0.00</b>

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## 16. Segmented Information

The Company provides DMDS and Awards Management solutions to customers across multiple geographic regions. It considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the Chief Executive Officer of the Company. For revenues, the amounts included are from the originating country.

Below is the breakdown of revenue and long-term assets by operating segment:

<b>For the nine months ended September 30, 2019</b>	Canada	US	Other	Total
Advertising	\$ 301,413	\$ 2,973,145	\$ -	\$ 3,274,558
Entertainment				
Music <sup>(i)</sup>	492,412	778,156	-	1,270,568
Awards management	107,683	927,846	-	1,035,529
Licensing <sup>(ii)</sup>	-	-	-	-
	<b>600,095</b>	<b>1,706,002</b>	<b>-</b>	<b>2,306,097</b>
<b>Total revenue</b>	<b>\$ 901,508</b>	<b>\$ 4,679,147</b>	<b>\$ -</b>	<b>\$ 5,580,655</b>
<b>Property and equipment</b>	<b>\$ 830,052</b>	<b>\$ 4,081</b>	<b>\$ -</b>	<b>\$ 834,133</b>
<b>For the nine months ended September 30, 2018</b>	Canada	US	Other	Total
Advertising	\$ 482,174	\$ 2,809,234	\$ -	\$ 3,291,408
Entertainment				
Music <sup>(i)</sup>	485,657	734,260	193	1,220,110
Awards management	165,154	770,683	-	935,837
Licensing <sup>(ii)</sup>	-	-	34,950	34,950
	<b>650,811</b>	<b>1,504,943</b>	<b>35,143</b>	<b>2,190,897</b>
<b>Total revenue</b>	<b>\$ 1,132,985</b>	<b>\$ 4,314,177</b>	<b>\$ 35,143</b>	<b>\$ 5,482,305</b>
<b>Property and equipment</b>	<b>\$ 173,670</b>	<b>\$ 5,255</b>	<b>\$ -</b>	<b>\$ 178,925</b>

<sup>(i)</sup> Music includes audio/video delivery and subscription fees.

<sup>(ii)</sup> Licensing includes revenues from licensing DMDS to other territories outside of Canada and US.

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Notes to the Condensed Interim Financial Statements (Unaudited)  
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## 17. Related Party Transactions

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's stock option program (note 13).

Key management personnel compensation is as follows:

	<b>September 30 2019</b>	September 30 2018
Salaries and short-term employee benefits <sup>(i)</sup>	<b>\$ 968,563</b>	\$ 1,144,209
Share-based payments	<b>233,531</b>	181,051
	<b>\$ 1,202,094</b>	\$ 1,325,260

(i) Short-term employee benefits include bonuses, vacation pay and commission.

## 18. Commitments and Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. There were no litigation and claims during the period ended September 30, 2019.