YANGAROO Inc.

Interim Financial Statements

September 30, 2007

(unaudited)

YANGAROO Inc.
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YOO on the TSX Venture Exchange
YOOIF on the OTCBB

Management Discussion and Analysis
<u>For the Third Quarter Ended September 30, 2007</u>

At the annual and special shareholders meeting of Musicrypt Inc. held on June 25, 2007 the shareholders of Musicrypt Inc. approved the change of the company's name to YANGAROO Inc. The name change was approved by the TSX Venture Exchange July 16, 2007 and YANGAROO Inc. ("YANGAROO") began trading on the TSX Venture Exchange under the symbol YOO (TSX-V: YOO) and in the USA on the OTCBB under the symbol YOOIF on July 18, 2007.

Musicrypt Inc. was previously listed on the TSX Venture Exchange under the symbol MCT and was traded in the USA on the OTCBB under the symbol MCYPF. Additional information on the company is available at www.yangaroo.com and www.sedar.com.

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1) <u>Date of MD&A</u> November 19, 2007.

<u>Note Regarding Forward Looking Statements</u>

This document may contain or refer to certain forward-looking statements relating but not limited to YANGAROO's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan"," intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information is based on current expectations that involve a number of business risks and uncertainties. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur.

2) <u>Description of Business</u>

YANGAROO is focused on being the leading global provider of secure, user-friendly B2B (business-to-business) digital media distribution via the internet. The principal business objective of YANGAROO is the development and marketing of its patented Digital Media Distribution System ("DMDS") technology solution.

The company's strategy is to use its technology to supplant traditional means of delivering content (such as copying to CD/tapes and delivering via courier) by leveraging the now widely available infrastructure of the high speed internet and evermore powerful desktop computers to enable faster, more secure, less expensive, and environmentally friendly digital content delivery.

DMDS is a web-based delivery system that pioneers secure digital file distribution by incorporating biometrics, high-value encryption and watermarking. DMDS currently replaces the physical distribution of musical recordings and advertising to radio, media, retailers and other authorized recipients with more accountable, effective and far less costly digital delivery of broadcast quality media via the Internet.

DMDS utilizes YANGAROO's patented Biometric Rights Management ("BRM") technology to authenticate the recipient of, and grant specified access rights to, the media being distributed. BRM is a unique combination of biometrics, high-value encryption and digital rights management. This biometric verification system identifies the recipient by his or her user name, password and distinctive personal characteristics. The biometric technology currently deployed in DMDS is keystroke dynamics, which identifies a user by their typing rhythm. BRM technology works to prevent unauthorized access and password sharing by verifying individual recipients, and requires no additional hardware for either the sender or the recipient, providing completely portable secure access to users.

The Canadian Record Industry uses DMDS exclusively and is the world leader in the transition to digital delivery of promotional recordings to radio, internally and to other destinations such as consultants, managers, artists, satellite radio, internet radio, media, and reviewers.

In the US and Europe, where record labels have been primarily delivering promotional releases to radio stations using traditional methods, the record industry is now moving to digital delivery. The traditional methods require the pressing of promotional CD's (known in the industry as CD-PRO's) then packaging, labelling, and sending these with related printed materials by mail or courier to radio and other destinations. This is very costly, time consuming, insecure and harmful to the environment.

In recent years leaks of new singles by superstar artists such as Britney Spears, Lenny Kravitz, Radiohead, U2, and Madonna before their planned public launch dates underscored the need for improved security for new releases. Further, increasing financial pressures in the record business are leading them to look for ways to reduce costs.

Similarly, the advantages of DMDS can be obtained for the distribution of audio advertising to radio stations. DMDS puts the control of when and to whom radio ads are distributed directly in the hands of the advertising firm. DMDS can provide significant costs savings, greater efficiencies, direct control, and individual accountability compared to the distribution of radio ads on either CD's, FTP or satellite based systems. YANGAROO is also adapting DMDS with the goal of providing these same benefits for the distribution of music videos and TV commercials, which also offer attractive market opportunities for the company.

3) Review of Operations

The rapid growth that YANGAROO experienced through 2006 has continued through the first three quarters of 2007. Revenues for the nine month period ended September 30, 2007 were 27% higher than revenues for the same period in 2006. The loss for the same period increased 12%, but was under the company's budget target. This increase was mainly as a result of higher expenses from the company's planned augmentation of its technical and sales teams and from continuing to enforce and expand its intellectual property rights. The Company met the deferral criteria for development costs under generally accepted accounting principles as the Company is generating revenue from the product and technology it has developed. During the first nine months of 2007 $331,000 of product development costs were capitalized and $140,000 was amortized.

On February 6, 2007 YANGAROO completed a financing for gross proceeds of $10 million through Sprott Securities Inc. (now Cormark Securities Inc.) with the sale of 40,000,000 common shares at a price of $0.25 per share. In the eight months following this funding the company has made substantial progress.

Shortly after the financing was completed, YANGAROO reported that deliveries of music tracks via DMDS in the US increased over 500% from the second quarter of 2006 to over 219,000 deliveries in the fourth quarter of 2006.

Also in February 2007 YANGAROO entered into a licensing agreement with Pando Networks, Inc, extending and expanding their relationship following a successful pilot program. The company is integrating Pando's unique technology with DMDS in order to provide the fastest and most secure delivery of large digital content such as television commercials, music videos and audio files via the Internet.

Following this, the company reported that in the fourth quarter of 2006 revenue grew 60% and independent music sector revenues were up 159%.

In April 2007, Warner Bros. Records of Los Angeles chose DMDS to deliver superstar artist Linkin Park’s new single “What I’ve Done” to radio stations across the United States exclusively via DMDS. This historic delivery marked the first time that a major record label in the US has released a new superstar single entirely by digital means to radio, thereby eliminating the major expense of producing and shipping physical CDs. The song debuted at #1 on the BDS and Mediabase Alternative charts the same week it was released, confirming the effectiveness of DMDS as a promotional distribution tool.

In the second quarter this year the company successfully applied for and received approval to be listed as a Tier 1 company on the TSX Venture Exchange. Tier 1 is the most senior level on the TSX Venture Exchange, providing listed companies with the benefits of regulations and governance that are similar to those of the Toronto Stock Exchange.

The success of the Linkin Park release via DMDS led Warner Bros. and Reprise Records to entrust DMDS exclusively with the subsequent release of superstar artist Green Day’s “Working Class Hero” in a digital only format to radio stations.

Through late winter and spring of 2007 the company successfully used its patent and market share advantages to defend the Canadian market from an attempted and abortive re-entry by a competitor. YANGAROO had previously won the Canadian market over the competitor and others, prior to the granting of any of the company’s patents. The competitor has since reported that its Canadian source revenues fell by approximately 50% from $18,677 for the quarter ended May 31, 2006 to $9,890 for the same period in 2007.

In May the company reported that first quarter revenue rose by 40% compared to the first quarter of 2006 while US delivery volumes in the same period were up 700%.

In June the company completed renegotiation its biometric technology license, resulting in the removal of all market scope limitations and the replacement of a 5% revenue royalty with a lower cost per user license structure.

In the summer of 2007 YANGAROO launched its radio advertising delivery service with the support of Los Angeles based Universal Music Group and The Gary Group, the largest advertising agency to the recording industry in the United States, with the first billable deliveries of radio advertising commencing in August 2007.

In July the company embraced a new corporate identity as YANGAROO Inc., which reflects the company's vision of being the global standard in secure B2B digital media delivery. This exciting new name will help the company to communicate with the many new markets for its products beyond the music industry.

During the second quarter the company refined the management team by recruiting a Senior Vice President Sales and adding of a Director of Engineering. Subsequently the company bolstered its technology team by adding a graphic designer in the second quarter, and in the third quarter a developer and quality assurance engineer. In conjunction with this the company moved to expanded premises and upgraded the system infrastructure for DMDS in order to accommodate current and future growth.

The company continued with the successful examination of its second US patent application No. 10/431,854 titled "Content Distribution System and Method". This is same application that the company has been granted patent #2,407,774 for in Canada. In the summer the US patent examiner withdrew rejections based on the prior art she had previously cited, and in doing so noted that the company's invention is distinguishable from that prior art. The examiner has also not issued rejections in reliance on any of the other prior art listed by a competitor as being relevant to the application, and in November dismissed as improper a submission made by them. Management remains optimistic that this US application will result in a patent being granted, just as it did in Canada, which would provide a barrier to entry against competitors in the US market.

The company continued to prosecute its Canadian patent infringement claim against a competitor and defend the concomitant action regarding the validity of its patent. Examinations for discovery of the company's executives have taken place. In turn, the company has examined for discovery Promo Only Inc.'s president. Examinations for discovery of the competitor have been scheduled and are pending. The company firmly believes that it will prevail in this action to assert its Canadian patent rights. The company has filed a claim for damages for infringement of $15 million against its competitor Destiny Media Technologies Inc. and its partners.

By September 30, 2007, the volume of US deliveries made by DMDS had more than tripled over the same nine month period in 2006. US deliveries for the third quarter alone exceeded 300,000, a first for quarterly volumes.

The one million US delivery threshold was achieved in October 2007, marking an historic milestone in the company's growth. US deliveries in the month of October alone were 211,000, a number that exceeds the total volume for the entire first six months of 2006. Over 60% of the October 2007 volume was from major label use of DMDS. These volumes demonstrate that the rate of adoption by DMDS in the US record and radio industries is growing at a rapid pace. The company's goal is to translate this usage into increased revenues.

In September the company began a campaign to emphasize the environmental benefits of using DMDS. As the US delivery volumes above show, over one million CD's and the associated printed materials, packaging and transportation can be supplanted by digital delivery. The environmental impact of promotional music distribution can be significantly reduced through the use of DMDS.

In November the composition of the board changed when Mr. Len Gill resigned from and Mr. Howard Atkinson joined the company's board of directors. The company had, with regret, accepted Mr. Gill's resignation and understood that the time and travel demands of Mr. Gill's own business interests resulted in Mr. Gill concluding that he could not devote the time, care and attention required of a director of a public company. Howard Atkinson is a CFA and CIMA, and is President of BetaPro Funds Management Inc., where he focuses on management of the Horizons BetaPro Funds and Exchange Traded Funds. He brings 20 years of investment management industry experience to the board, including executive positions with Mackenzie Financial Corporation, CI Funds and Barclay's Global Investors Canada Ltd. He is the immediate Past President of the Toronto CFA Society board of directors and is a member of the S&P/TSX Canada Index Advisory Panel. Mr. Atkinson is the author of "The New Investment Frontier III: A Guide to Exchange Traded Funds for Canadians," and "Les Fonds Négociés en Bourse: Un outil de placement novateur pour l'investisseur avisé". He has been a contributing writer and frequent analyst reference in many major Canadian newspapers, including The Globe & Mail, National Post, Toronto Star, Vancouver Sun, and Ottawa Citizen. Howard can be seen regularly on BNN (Business News Network) and CP24.

DMDS has made over 4 million deliveries of over 11,000 songs from more than 500 record labels to destinations which include radio stations representing over 35 US broadcast chains such as CBS/Infinity, Citadel, Clear Channel, Cox, Cumulus, Emmis, EntreVision, Entercom, Federated Media, Sirius, Journal, DMX, Jones Radio, AOL, Music Choice, Radio One, Salem Communications, Univision, Westwood One, Regent, Premiere Radio, Next Media, XM Satellite Radio, Waitt Media and many others.

At the end of the third quarter DMDS was the de-facto standard for B2B (business to business) digital delivery of new music files for the record and radio industry in Canada. No competitor's system was in commercial use at any major record label in Canada to date and usage of DMDS within the fast growing independent music sector continues to expand. DMDS is the only system that can deliver music internationally across the US, Canada and the UK.

4) <u>Review of Results of Operations for the Third Quarter Ended September 30, 2007</u>

Revenue for the third quarter of 2007 was $134,000, 26% higher than the revenue for the third quarter of 2006. This increase in revenue for the period is encouraging as it occurred during a quarter that covers the traditionally slow July and August period for music releases. Revenues increased as a result of greater use of DMDS by existing customers and billings to new customers, especially in the independent sector. Revenue is expected to continue to increase as billable US music deliveries grow, European music delivery revenues begin to flow and advertising delivery volumes rise.

The loss for the third quarter of 2007 was $652,000, 24% ($128,000) more than last year's third quarter, but less than the company's budget target. The loss increased largely due to the increase in salaries and consulting expense of $133,000 (38%) in the third quarter of 2007 compared to last year's third quarter. This reflects the planned addition of human resources that were brought on board to execute the company's business plan. Last year, the company bolstered its technology team in the third quarter with two developers and added a technical support representative in the fourth quarter of 2006. In the second quarter of 2007 the company recruited a Director of Engineering and a graphic designer. These additions, which were needed to support the company's growth, increased the number of personnel in the technology team by approximately 70%, representing the majority of the increase in salaries and consulting expense for this year's third quarter. A reduced rate of capitalization for technology salaries as deferred development costs, reflecting work related to non-capital maintenance of previously released products, also contributed to the increase in this expense. Sales and marketing in-house and consulting resources were augmented in 2007, which added to salaries and consulting expense. The company also recognized external directors' fees for the first time in the third quarter this year.

The second largest expense item increase for 2007 was in general and administrative expense of $80,000 (71%), primarily a result of costs related to enforcing and expanding the company's patent rights. Royalty expense was $38,000 (100%) lower, as a result of the renegotiation of the technology license to eliminate the royalty obligation. Interest income rose by $72,000 in the third quarter of 2007 due to the interest revenue earned from the funds received from the financing completed in February 2007. Amortization expense increased by $22,000, reflecting higher technology asset balances.

The commercial acceptance of the company's product (DMDS) by the marketplace indicates that expenditures for product development should be recognized as an asset because these are expected to yield future economic benefits. Accordingly, in the third quarter of 2007 $101,000 of product development costs were capitalized and $56,000 was amortized.

The company uses equity to compensate and motivate its staff and suppliers. In the third quarter of 2007 $35,000 of the expense recognized for salaries and consulting was for the non-cash expense recognized for options, compared to $52,000 for the same period last year.

5) <u>Summary of Quarterly Results</u>

The following table sets out selected quarterly results of the Corporation for the eight quarters prior to the effective date of this report. The information contained herein is drawn from the interim and annual financial statements of the Corporation.

	Fiscal 2007 ($)			**Fiscal 2006 ($)**				**Fiscal 2005 ($)**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	133,858	130,640	122,808	124,441	106,465	111,488	87,748	75,997
Loss for the period	652,295	632,562	528,693	489,405	524,314	569,753	530,115	660,847
Loss per share (basic & diluted)	.01	.01	.01	.01	.02	.02	.02	.04

These figures illustrate the successful development and ongoing marketing of DMDS in Canada and then the US, the obtaining of customers and the associated initial revenues, and the growth in usage resulting in increased revenues into 2007.

6) <u>Liquidity and Capital Resources</u>

Cash and cash equivalents at September 30, 2007 increased to $6,925,000 from $72,000 at December 31, 2006. The main reason for this change was the financing completed in February 2007 described below. During the nine month period ended September 30, 2007 the company invested $99,000 in equipment, $29,000 in patent development, $48,000 in technology licenses, $331,000 in product development and $78,000 in branding. Prepaids and sundry assets increased by $223,000 to $271,000 primarily due to interest receivable of $184,000 being earned from higher investment balances in the period.

On February 6, 2007, YANGAROO completed a financing for gross proceeds of $10 million through Sprott Securities Inc. (now Cormark Securities Inc.) with the sale of 40,000,000 common shares at a price of $0.25 per share. As compensation to the Agent, the company paid an aggregate commission of $700,000 and issued 2,800,000 broker warrants, each exercisable at a price of $0.25 to acquire a common share until February 6, 2009.

The company will continue to invest funds in building its business to achieve key market and growth targets. The company's operations are not yet generating positive cash flow, so in future the company may need to source additional funds in order to fulfil its business objectives.

7) <u>Share Capital</u>

At September 30, 2007 and at November 19, 2007 YANGAROO had 75,517,615 common shares, 3,460,000 options, and 6,725,400 warrants outstanding. At December 31, 2006 YANGAROO had 34,766,815 common shares, 3,629,625 options, and 8,183,800 warrants outstanding. The change is primarily due to the financing completed in February 2007 described above. 1,250,000 of the company's outstanding shares are not tradable currently as these are subject to the litigation described in note 6(a) of the financial statements.

8) <u>Disclosure Controls and Procedures, and Internal Control Over Financial Reporting</u>

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. For quarterly reporting periods and annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. In particular, the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and we have:

(a) designed such DC&Ps, or caused them to be designed under our supervision, to provide reasonable assurance that material information is made known to us during the period in which the annual filings are being prepared; and

(b) designed such ICFRs, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP; and

(c) evaluated the design and effectiveness of the Company's DC&Ps as of the year ended December 31, 2006, and have evaluated the design of the Company's ICFRs for the year ended December 31, 2006; and

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies with limited staff; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the period ended September 30, 2007; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, DMCT, LLP audit the annual statements, in accordance with Canadian generally accepted auditing standards, and provide a report of their findings to the Audit Committee. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

9) <u>Off Balance Sheet Arrangements</u>

The company does not have any off-balance sheet arrangements.

YANGAROO Inc.

(formerly Musicrypt Inc.)

Interim Financial Statements

September 30, 2007

(unaudited)

Notice to Reader

The accompanying unaudited interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

YANGAROO Inc.

(formerly Musicrypt Inc.)
Interim Balance Sheets
(unaudited - See Notice to Reader)

	Note	**September 30 2007**	December 31 2006 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 6,925,241**	$ 72,447
Amounts receivable		**134,451**	90,732
Prepaids and sundry assets		**270,666**	47,283
		7,330,358	210,462
Property, plant and equipment		**117,991**	59,655
Patents		**51,838**	22,994
Investment in technology		**586,611**	611,271
Trade-name and related marketing intangibles		**78,030**	-
Deferred development costs		**927,328**	736,049
		$ 9,092,156	$ 1,640,431
Liabilities			
Current			
Operating loan		**$ -**	$ 15,000
Accounts payable and accrued liabilities		**209,613**	263,168
Deferred revenue		**7,414**	-
		217,027	278,168
Shareholders' Equity			
Capital stock	4	**21,043,888**	12,322,261
Contributed surplus		**725,879**	645,844
Warrants		**524,754**	-
Deficit		**(13,419,392)**	(11,605,842)
		8,875,129	1,362,263
		$ 9,092,156	$ 1,640,431

Commitments and Contingencies (Note 6)

Approved by the Board **"John Heaven"** Director **"Clifford Hunt"** Director
(signed) **(signed)**

See accompanying notes.

YANGAROO Inc.

(formerly Musicrypt Inc.)
Interim Statements of Operations and Deficit
(unaudited - See Notice to Reader)

	Nine Months Ended September 30		Three Months Ended September 30	
	2007	2006	**2007**	2006
Revenue	**$ 387,306**	$ 305,701	**$ 133,858**	$ 106,465
Expenses				
Salaries and consulting	**1,329,940**	1,084,179	**481,553**	348,986
Marketing and promotion	**222,396**	181,847	**63,104**	53,144
General and administrative	**530,897**	341,233	**192,589**	112,400
Technology development	**74,706**	29,723	**29,877**	9,796
Royalties	**-**	112,500	**-**	37,500
Amortization	**253,325**	192,317	**97,240**	74,742
Less interest income	**(210,408)**	(11,916)	**(78,210)**	(5,789)
	2,200,856	1,929,883	**786,153**	630,779
Loss for the period	**(1,813,550)**	(1,624,182)	**(652,295)**	(524,314)
Deficit at beginning of period	**(11,605,842)**	(9,492,255)	**(12,767,097)**	(10,592,123)
Deficit at end of period	**$(13,419,392)**	$(11,116,437)	**$(13,419,392)**	$(11,116,437)
Basic and diluted loss per share	**$ (0.03)**	$ (0.05)	**$ (0.01)**	$ (0.02)
Weighted average number of shares	**69,859,798**	30,224,088	**75,517,615**	34,443,525

See accompanying notes.

YANGAROO Inc.
(formerly Musicrypt Inc.)
Interim Statements of Cash Flows
(unaudited - See Notice to Reader)

	Nine Months Ended September 30		Three Months Ended September 30	
	2007	2006	**2007**	2006
Cash flows from operating activities				
Loss for the period	**$ (1,813,550)**	$ (1,624,182)	**$ (652,295)**	$ (524,314)
Add items not affecting cash				
Amortization	**253,325**	192,317	**97,240**	74,742
Stock based compensation	**82,810**	168,447	**35,024**	52,973
Shares issued to satisfy royalty obligation	**-**	132,190	**-**	132,190
	(1,477,415)	(1,131,228)	**(520,031)**	(264,409)
Changes in non-cash working capital items				
Amounts receivable	**(43,719)**	(73,415)	**(2,961)**	(12,613)
Prepaids and sundry assets	**(223,383)**	(71,970)	**(57,547)**	(19,466)
Accounts payable and accrued liabilities	**(53,556)**	4,901	**(83,147)**	(163,377)
Deferred revenue	**7,414**	1,648	**1,049**	1,648
	(1,790,659)	(1,270,064)	**(662,637)**	(458,217)
Cash flows from investing activities				
Purchase of property plant and equipment	**(99,371)**	(26,644)	**(7,644)**	(4,046)
Investment in technology licence	**(47,991)**	-	**(31,511)**	-
Patent	**(28,845)**	-	**(10,619)**	-
Technology development	**(330,917)**	(334,492)	**(101,058)**	(116,200)
Re-branding	**(78,030)**	-	**-**	-
	(585,154)	(361,136)	**(150,832)**	(120,246)
Cash flows from financing activities				
Issuance of common shares, net of issue costs	**9,243,607**	1,333,151	**(8,414)**	(1,161)
Advances (repayment) of operating loan	**(15,000)**	10,000	**-**	(10,000)
	9,228,607	1,343,151	**(8,414)**	(11,161)
Increase (decrease) in cash during the period	**6,852,794**	(288,049)	**(821,883)**	(589,624)
Cash at beginning of period	**72,447**	641,541	**7,747,124**	943,116
Cash at end of period	**$ 6,925,241**	$ 353,492	**$ 6,925,241**	$ 353,492

See accompanying notes.

1. BASIS OF PRESENTATION

YANGAROO Inc. (the "Company") is a technology company that is targeted to become the leading enabler of user-friendly and secure distribution of media via the internet. The Company was incorporated on July 28, 1999 under the laws of Ontario as Musicrypt.com Inc. and changed to its present name on July 17, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2006, except for the new accounting policy added below and the change in accounting policy disclosed for Note 3. These financial statements should be read in conjunction with those audited financial statements.

Intangible Assets

Intangible assets with indefinite useful lives are not amortized but rather are subject to an annual impairment review or more frequently if circumstances exist that might indicate their value is impaired. Should the carrying value exceed the fair value of an intangible asset the carrying value will be written down to the fair value.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.

Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

3. CHANGE IN ACCOUNTING POLICY (Cont'd)

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and deferred revenue are classified as other liabilities, all of which are measured at amortized cost. The Company does not have any derivatives or embedded derivatives and has maintained its policy not to use hedge accounting.

The adoption of these new standards had no impact on the financial statements of the Company.

4. CAPITAL STOCK

Authorized
unlimited common shares

Issued and outstanding

	Number of Shares	Value
Balance, December 31, 2006	34,766,815	**$ 12,322,261**
Issued for cash (i)	40,000,000	**9,113,446**
Less: Proceeds allocated to warrants (i)	-	**(505,428)**
Issued on exercise of broker unit warrants (ii)	500,800	**105,160**
Less: Proceeds allocated to warrants	-	**(19,326)**
Issued on exercise of options (iii)	250,000	**27,775**
Balance, September 30, 2007	75,517,615	**$ 21,043,888**

(i) The Company issued 40,000,000 common shares for gross proceeds of $10,000,000 by way of a private placement. In connection with the issuance of common shares 2,800,000 warrants were issued to agents and given a value of $505,428.

(ii) The Company issued 500,800 common shares for proceeds of $105,160 pursuant to the exercise of warrants.

(iii) The Company issued 250,000 common shares for proceeds of $25,000 pursuant to the exercise of options.

5. STOCK OPTIONS AND WARRANTS

The Company had the following stock options outstanding at September 30, 2007:

Number of Options	Exercise Price	Expiry Date
210,000	$ 0.75	May 7, 2008
15,000	$ 0.88	May 28, 2008
25,000	$ 0.47	September 24, 2008
50,000	$ 1.04	January 1, 2009
400,000	$ 0.47	January 1, 2009
100,000	$ 0.86	August 9, 2009
25,000	$ 0.47	August 25, 2009
25,000	$ 0.52	September 14, 2009
135,000	$ 0.47	November 24, 2009
60,000	$ 0.44	February 3, 2010
500,000	$ 0.44	March 7, 2010
615,000	$ 0.42	May 19, 2010
110,000	$ 0.42	October 3, 2010
125,000	$ 0.25	November 22, 2010
110,000	$ 0.25	April 11, 2011
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
130,000	$ 0.35	April 12, 2012
400,000	$ 0.32	May 24, 2012
100,000	$ 0.27	June 25, 2012
140,000	$ 0.24	August 15, 2012
3,460,000		

The Company had the following warrants outstanding at September 30, 2007:

Number of Warrants	Purchase Price	Expiry Date
1,630,000	$ 0.30	May 12, 2008
75,000	$ 0.30	May 25, 2008
1,995,000	$ 0.30	June 7, 2008
2,800,000	$ 0.25	February 6, 2009
120,400	$ 0.30	May 12, 2008
105,000	$ 0.30	June 7, 2008
6,725,400		

6. COMMITMENTS AND CONTINGENCIES

(a) Litigation

On November 14, 2000, the Company filed a claim against a former employee and shareholder, and related shareholders, seeking a rescission of their 1,250,000 common shares and damages in the amount of $100,000. A counterclaim was brought against the Company by these defendants for various relief including damages of approximately $850,000, a declaration that the defendants are shareholders and orders that they be bought out or the Company be wound up. In May 2001, the Company successfully defeated a motion by the defendants that sought interim costs and security for costs. The Company was awarded its costs for this motion. The Company continues to vigorously defend the action. The outcome is not determinable and therefore no provision is recorded.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

(b) Patent Infringement

On July 25, 2005, the Company sent a letter to a competitor and its partners demanding that they cease infringement of the Company's Content Distribution System and Method patent number 2,407,774 in Canada. On March 7, 2006, the competitor filed a claim with the Federal Court of Canada requesting a ruling that the technology of the competitor and its partners does not infringe on this patent and that the patent was invalid. In June 2006, the Company filed with the Federal Court a statement of defence and counterclaim seeking $15 million in damages for infringement from the competitor and its partners. In May 2007, the competitor sued the company for defamation and interference with their business claiming $25 million in damages. Management is of the opinion that the suit is a meritless attempt to deflect attention from the company's patent infringement claim against the competitor. The company has filed a statement of defence and counterclaim with the Federal court for $25 million in damages from the competitor for defamation and interference with the company's business.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

DMDS

Digital Media Distribution System