YANGAROO Inc.

Interim Financial Statements

June 30, 2008

(unaudited)

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

Management Discussion and Analysis
For the Second Quarter Ended June 30, 2008

YANGAROO Inc. ("YANGAROO" or "the company") trades on the TSX Venture Exchange under the symbol YOO (TSX-V: YOO) and in the USA on the OTCBB under the symbol YOOIF. Additional information on the company is available at www.yangaroo.com and www.sedar.com.

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1) Date of MD&A August 18, 2008.

Note Regarding Forward Looking Statements

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) Description of Business

YANGAROO Inc. is a technology company that is targeted to become the leading enabler of user-friendly and secure B2B distribution of media 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 or 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 used DMDS to become 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, Madonna and Justin Timberlake as well as Coldplay 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) <u>Review of Results of Operations for the Six Month Period Ended June 30, 2008</u>

Revenues for the six months ended June 30, 2008 were 5% higher than revenues for the same period in 2007, due to increased use of DMDS. Cash and cash equivalents were $4,475,000 at June 30, 2008.

The loss for the first half of 2008 increased 57% from the first half of 2007, which was mainly a result of higher total expenses, which increased by $639,000 (41%). The company utilized funds from the financing completed in February 2007 to reinforce areas that were previously under-resourced due to funding constraints. The higher total expenses are primarily due to planned increases in operating expenses, and were below the budgeted target for the first half of 2008.

The majority of the increase in operating expenses in the first six months of 2008 stemmed from the company's planned augmentation of its human resources and from continuing to enforce and expand its intellectual property rights. The salaries and consulting expense for the company in the first six months of 2008 increased $322,000 (38%) compared to the first

half of 2007, and expenses related to protection of intellectual property rights, which are classified under general and administrative expense, increased $166,000 (86%) for the same period. Expenditures related to asserting the company's intellectual property rights are a non-recurring operating expense ($246,000 in the first half of 2008), as it is expected that these will not be necessary once the matter under litigation is resolved.

The bulk of the increase in salaries and consulting expense occurred in the technology department, where it rose by $199,000 (160%) in the first half of 2008 in comparison to last year's first half. The company commenced bolstering its technology team with necessary human resources in late 2006, adding two developers and a technical support representative. In the second quarter of 2007 the company recruited a Director of Engineering and a graphic designer, and in the fourth quarter of 2007 added a developer and a quality assurance person. These additions, which were needed to support the company's business development, doubled the number of personnel in the technology and support team by the fourth quarter of 2007, resulting in the higher salaries and consulting expense for 2008. A reduced rate of capitalization for technology salaries as deferred development costs was used in the first half of 2008 as compared to the same period in 2007, reflecting work related to non-capital maintenance of previously released products, which also contributed to the increase in this expense item.

The sales and marketing department salaries and consulting expense for the first half of 2008 increased by $49,000 (16%), primarily due to increased salaries and wages expense compared to the first half of 2007. The salaries and consulting expense for the operations department increased $14,000 (20%) in the first half of 2008 compared to last year's first half, due to supporting increased use of DMDS by a greater number of users. The salaries and consulting expense for general and administration rose by $61,000 (18%) in the first half of 2008, mainly as a result of an increase in salaries and wages expense compared to the first half of 2007.

General and administrative expenses increased $195,000 (58%) in the first half of 2008, most of which was attributable to the $166,000 increase in expenses in the period related to the protection of intellectual property rights mentioned above. Also affecting this expense for the six month period were recruiting fees that were $13,000 higher, and $17,000 higher rent for larger premises, compared to last year's first half. Interest income declined by $39,000 (30%) in the second quarter of 2008 over the same period in 2007 mainly as a result of lower average investment balances.

Amortization expense increased $104,000 (67%) in the first half of 2008 over same period last year mainly because of the increase in amortization of higher deferred development cost and technology license asset balances. Marketing and promotion expenses rose slightly by $4,000 (3%) in the first half of 2008 compared to the same period in 2007, because of greater public relations and advertising expenses in the period.

In the first half of 2008 the company commenced work on a major version upgrade of DMDS that will improve existing functions and add several new features and capabilities to the system. During the six month period technology development expense increased $14,000 (30%) over the same period in 2007 primarily due to higher network management fees and higher technology license costs. Total expenditures on technology development in the first half of 2008 were $337,000, of which $58,000 was expensed and $279,000 was capitalized. The company met the deferral criteria for development costs under generally accepted accounting principles as the company is generating increasing revenues from the

product and technology it has developed. Amortization expense of deferred development costs in the amount of $159,000 was recognized in the first half of 2008, an increase of $75,000 over last year's first half.

The volume of US deliveries made by DMDS in 2007 increased 266% over 2006 to 1.3 million. In the fourth quarter of 2007 the number of US deliveries made on DMDS doubled over the fourth quarter of 2006 to 437,000. This trend continued into 2008, with the traditionally slower first quarter showing that the number of US deliveries made on DMDS increased to 438,000, a 62% increase over last year's first quarter. This growth continued into the second quarter of 2008, which saw US deliveries more than double over the second quarter of 2007 to 526,000. These volume increases demonstrate that the adoption of DMDS in the US record and radio industries is growing at a rapid pace. The company expects to monetize this usage through the year.

In January 2008 the company bolstered its management team with the appointment of Richard Klosa as Chief Technology Officer (CTO). Richard Klosa brings more than a decade of technology development and management experience as an entrepreneur and digital media innovator to the company. In his previous role as Chief Technology Officer and Co-Founder of J!VE Media Technologies Inc., Richard led his team to a 2002 Canadian New Media Award for 'Most Promising Company' and recognition from the Branham Group as one of the Top 25 Up and Comers. Richard graduated from Ryerson University's Radio & Television arts program with an Honours B.A.A., is a certified PMP and Solutions Developer and has authored "Building A Working Revenue Model For The Digital Distribution Of Copyrighted Media". Richard is a highly regarded technologist whose thoughts and opinions are sought for multiple TV shows (ROB TV, Media TV, CP24), newspaper articles, and online publications.

Also in January 2008 the company entered into a partnership with Radio and Records (R&R), the leading music industry information company in the United States, to market and promote DMDS to the US radio and recording industries. This partnership provides for DMDS branding with direct links to the DMDS login page on all R&R electronic and print products. YANGAROO and R&R will also co-market DMDS' eNote products and R&R's EPK products, expanding the commercial potential of both.

In the second quarter 2008, the company became a founding partner in FYIMusic.ca along with Gary Slaight, the former president and CEO of Standard Radio Inc. and a long-time champion of Canadian music. Veteran music industry journalist David Farrell returned to the music industry to found FYIMusic.ca, a digital independent news source that will focus on the Canadian music industry. FYIMusic.ca offers detailed reporting on the companies and individuals involved in the creation, marketing, promotion, and export of Canadian music. Mr. Farrell, previously co-publisher of The Record, has been reporting on Canada's musicians and music industry for over 30 years. FYIMusic.ca launched in April 2008, to coincide with the Juno awards. FYIMusic.ca reaches out to and provides a voice for the company's DMDS users and associates in the Canadian music community, from record labels to artists to radio and more.

In March 2008 Intermedia Regional Promotions of the UK began using DMDS to digitally deliver new releases to the UK's radio network through the company's UK based partner Adstream Ltd. Steve Tandy, Managing Director of Intermedia Regional Promotions said "In this digital age, it has frustrated me for some time that there seemed not to be an acceptable, workable, secure music radio digital delivery system. Intermedia has strongly supported

attempts in the past to achieve such a system that would be adopted and embraced by key music people within radio, instead of the antiquated CD-in-a-envelope approach we have all been using for years."

Also in March 2008, the company announced the launch of DMDSDirect, a new ecommerce service that allows the independent North American music community greater access to digital delivery of music. DMDSDirect will initially be available to member artists and labels of independent aggregators Indie911, I2R, Indie Pool, and The Manitoba Country Music Association (MCMA) located in both the United States and Canada. DMDSDirect allows the independent aggregators and their tens of thousands of member artists and labels to digitally distribute their radio singles and promotional materials in the same manner utilized by major labels. DMDSDirect users will be able to choose a package of key stations in a given radio format or genre, pay by credit card, and have their music distributed both quickly and digitally to radio stations throughout the United States and Canada. We expect this service to provide significant new revenues for the company in the third and fourth quarters.

In May 2008 the company signed agreements with San Francisco based IRIS Distribution, and Los Angeles based A&R Select to provide their member artists and labels with digital distribution of their music to radio and other destinations throughout the US and Canada using DMDS. IRIS Distribution currently represents 5,000 independent artists and labels and A&R Select has worked with more than 2,000 artists and bands since its founding in 2006. IRIS Distribution's member artists and labels will have access DMDSDirect, which allows them to choose a package of key stations in a given radio format or genre, pay by credit card, and have their music distributed both quickly and digitally to radio stations throughout the United States. A&R Select's artists and bands will be able to use DMDS to digitally and securely distribute their music and promotional materials throughout North America in the same manner as major record labels using DMDS.

Also in May 2008, RCA Music Group selected DMDS to deliver the winning song from the new American Idol, David Cook, to radio across North America. Over 30 million viewers tuned in to see the American Idol season finale and over 97.5 million votes were cast with David Cook winning by over 12 million votes. The 2008 American Idol winner David Cook's song "The Time of My Life" was available for immediate download and airplay via DMDS on Thursday, May 22, 2008, at 1 AM ET following the show's airing in Hawaii.

YANGAROO announced several important events in June 2008:

- The extension of its agreement with Universal Music Canada, for distribution of promotional music to radio and internally via DMDS. Universal Music is the country's leading music company has been using DMDS commercially in Canada since July 2004.

- The expansion of its partnership with Nielsen Broadcast Data Systems (BDS). Under the agreement, artists and labels that electronically send their music to Nielsen BDS for encoding via BDS' Virtual Encode process will now have the option to use DMDSDirect to send their music digitally to hundreds of radio stations and other media contacts throughout the United States and Canada. Every year, over 50,000 songs are submitted with Virtual Encode into the Nielsen BDS database allowing their airplay to be tracked at BDS monitored radio stations. Once these songs are in the Nielsen BDS system, artists and record label personnel will have the option to

link directly to DMDS and send the music to DJs, radio station programmers, and other media contacts via DMDSDirect.

- The integration of DMDS with the iMediaTouch Radio Automation Software from OMT Inc. (TSXV:OMT). As a result of this integration, iMediaTouch users at over 1,500 radio stations throughout the United States can now import new music available through DMDS directly into their iMediaTouch music library. New music is imported with cart chunk track information and album artwork using the iMediaImport module.

- The 2,000th US radio station to register to use DMDS was Emmis Broadcasting's Triple A station WRXP 101.9 FM in New York City. WRXP can now receive broadcast-quality music digitally and securely from artists and record labels via DMDS.

Throughout the first half of 2008 the company made significant progress with the 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. During that period, continuing discussions with the U.S. Patent Examiner in charge of the application resulted in an agreement with respect to the patent claims, and a submission conforming to that agreement is currently before the Examiner. Management is optimistic that this US application will result in a patent being granted, as it was in Canada, which would provide a barrier to entry against competitors in the US market and add significant value to the company.

To date DMDS has made over five million deliveries of over 11,000 songs from more than 600 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. All of these deliveries have been made without a single leak being reported.

4) Review of Results of Operations for the Second Quarter Ended June 30, 2008

Revenues for the second quarter ended June 30, 2008 were 6% higher than revenues for the same period in 2007, due to increased use of DMDS. The loss for the second quarter of 2008 increased 61% from the second quarter of 2007, which was mainly a result of higher total expenses, which increased by $361,000 (43%).

The majority of the increase in operating expenses in the second quarter of 2008 stemmed from the company's planned augmentation of its human resources and from continuing to enforce and expand its intellectual property rights. The salaries and consulting expense for the company in the second quarter of 2008 increased $199,000 (43%) compared to the second quarter of 2007, and expenses related to protection of intellectual property rights, which are classified under general and administrative expense, increased $94,000 (124%) for the same period.

The bulk of the increase in salaries and consulting expense occurred in the technology department, where it rose by $81,000 (119%) in the second quarter of 2008 in comparison to

last year's second quarter, largely due to increased number of technology team members and a reduced rate of capitalization for technology salaries as deferred development costs. During the period the company commenced work on a major version upgrade of DMDS that will improve existing functions and add several new features and capabilities to the system. The sales and marketing department had a higher salaries and consulting expense for the second quarter of 2008, increasing by $62,000 (36%), primarily due to an increase in salaried team members, as compared to the first quarter of 2007. The salaries and consulting expense for the operations department increased $4,000 (10%) in the second quarter of 2008 compared to last year's second quarter, due to supporting increased use of DMDS. The salaries and consulting expense for general and administration rose by $52,000 (28%) in the second quarter of 2008, mainly as a result of an increase in salaries and wages expense compared to the second quarter of 2007.

General and administrative expenses increased $82,000 (38%) in the second quarter of 2008, the large majority of which was attributable to the increase in expenses related to the protection of intellectual property rights, compared to last year's second quarter. Marketing and promotion expenses increased $23,000 (45%) in the second quarter of 2008 compared to the same period in 2007 because of greater public relations and advertising expenses in the period.

Amortization expense increased $51,000 (65%) in the second quarter of 2008 over the second quarter last year mainly because of the increase in amortization of higher deferred development cost and technology license asset balances. Interest income declined by $34,000 (47%) in the second quarter of 2008 over the same period in 2007 as a result of lower average investment balances.

In the second quarter of 2008 technology development expense increased $6,000 (28%) over 2007 primarily due to higher network management fees and higher technology license costs. The company met the deferral criteria for development costs under generally accepted accounting principles as the company is generating increasing revenues from the product and technology it has developed. Total expenditures on technology development in the second quarter of 2008 were $188,000, of which $29,000 was expensed and $160,000 was capitalized. Amortization expense of deferred development costs in the amount of $83,000 was recognized in the second quarter of 2008, an increase of $41,000 over last year's second quarter.

5) **Summary of Quarterly Results**

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 2008 ($)		**Fiscal 2007 ($)**				**Fiscal 2006 ($)**	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	137,946	127,077	137,650	133,858	130,640	122,808	124,441	106,465
Loss for the period	1,020,724	807,192	851,609	652,295	632,562	528,693	489,405	524,314
Loss per share (basic & diluted)	.01	.01	.01	.01	.01	.01	.01	.02

6) Liquidity and Capital Resources

Cash and cash equivalents at June 30, 2008 decreased to $4,475,000 from $6,496,000 as at the December 31, 2007 fiscal year end. The main reason for this change was that the cash used in operating activities in the first half of 2008 increased $482,000 (43%) to $1,610,000 compared to the second quarter of 2007. During the second quarter ended June 30, 2008 the company invested $279,000 in technology development, $111,000 in property, plant and equipment (primarily computer hardware devices for infrastructure upgrades), $10,000 in FYI Inc., and $24,000 in patent development.

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) Share Capital

At June 30, 2008 YANGAROO had 75,517,615 common shares, 3,830,000 options, and 2,800,000 warrants outstanding. At December 31, 2007 YANGAROO had 75,517,615 common shares, 3,321,000 options, and 6,725,400 warrants outstanding. 1,250,000 of the company's outstanding common shares are not tradable currently as these are subject to the litigation described in note 5(b) of the financial statements.

8) Disclosure Controls and Procedures, and Internal Control Over Financial Reporting

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, 2007, and have evaluated the design of the Company's ICFRs for the year ended December 31, 2007; 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 December 31, 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, Collins Barrow Toronto LLP (formerly 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.

8) Off Balance Sheet Arrangements

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

9) Change in Accounting Policies

(i) Effective January 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 6.

(ii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 7.

(iii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument related presentation disclosures.

(iv) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

YANGAROO Inc.

Interim Financial Statements

June 30, 2008

(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.

Interim Balance Sheets
(unaudited - See Notice to Reader)

	Note	June 30 2008 (unaudited)	December 31 2007 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 4,474,965**	$ 6,496,563
Accounts receivable		**180,883**	141,492
Prepaid expenses and other assets		**87,045**	57,435
		4,742,893	6,695,490
Property, plant and equipment		**182,162**	110,871
Patents		**81,047**	60,869
Investment in technology		**500,391**	561,379
Deferred development costs		**1,080,979**	961,288
Other assets		**88,030**	78,030
		$ 6,675,502	$ 8,467,927
Liabilities			
Current			
Bank indebtedness		**$ 10,000**	$ -
Accounts payable and accrued liabilities		**381,126**	423,314
Deferred revenue		**17,367**	9,801
		408,493	433,115
Shareholders' Equity			
Capital stock		**21,043,889**	21,043,889
Contributed surplus		**816,609**	737,170
Warrants		**505,428**	524,754
Deficit		**(16,098,917)**	(14,271,001)
		6,267,009	8,034,812
		$ 6,675,502	$ 8,467,927

Commitments and Contingencies (Note 5)

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

See accompanying notes.

YANGAROO Inc.

Interim Statements of Operations and Deficit
(unaudited - See Notice to Reader)

	Six Months Ended June 30		Three Months Ended June 30	
	2008	2007	**2008**	2007
Revenue	**$ 265,023**	$ 253,448	**$ 137,946**	$ 130,640
Expenses				
Salaries and consulting	**1,170,620**	848,387	**665,798**	466,501
Marketing and promotion	**163,652**	159,292	**74,418**	51,285
General and administrative	**532,997**	338,308	**297,881**	216,018
Technology development	**58,480**	44,829	**28,814**	22,487
Amortization	**260,285**	156,085	**129,467**	78,626
	2,186,034	1,546,901	**1,196,378**	834,917
Loss before undernoted item	**(1,921,011)**	(1,293,453)	**(1,058,432)**	(704,277)
Interest income	**93,096**	132,198	**37,708**	71,715
Loss for the period	**(1,827,915)**	(1,161,255)	**(1,020,724)**	(632,562)
Deficit at beginning of period	**(14,271,002)**	(11,605,842)	**(15,078,193)**	(12,134,535)
Deficit at end of period	**$(16,098,917)**	$(12,767,097)	**$(16,098,917)**	$(12,767,097)
Basic and diluted loss per share	**$ (0.02)**	$ (0.02)	**$ (0.01)**	$ (0.01)
Weighted average number of shares	**75,517,615**	66,984,002	**75,517,615**	75,088,912

See accompanying notes.

YANGAROO Inc.

Interim Statements of Cash Flows

(unaudited - See Notice to Reader)

	Six Months Ended June 30		Three Months Ended June 30	
	2008	2007	**2008**	2007
Cash flows from operating activities				
Loss for the period	**$ (1,827,915)**	$ (1,161,255)	**$ (1,020,724)**	$ (632,563)
Add items not affecting cash				
Amortization	**260,285**	156,085	**129,467**	78,626
Gain on disposal of capital assets	**1,094**	-	**-**	-
Stock based compensation	**60,113**	47,786	**32,141**	15,637
	(1,506,423)	(957,384)	**(859,116)**	(538,300)
Changes in non-cash working capital items				
Accounts receivable	**(39,391)**	(40,758)	**(15,661)**	28,165
Prepaids and sundry assets	**(29,610)**	(165,836)	**(4,787)**	(47,522)
Accounts payable and accrued liabilities	**(42,188)**	29,591	**(113,845)**	84,653
Deferred revenue	**7,566**	6,365	**4,132**	(1,046)
	(1,610,046)	(1,128,022)	**(989,277)**	(474,050)
Cash flows from investing activities				
Purchase of property plant and equipment	**(110,761)**	(91,727)	**(106,302)**	(55,551)
Proceeds from disposition of property, plant and equipment	**1,650**	-	**-**	-
Investment in technology licence	**-**	(16,480)	**-**	(7,664)
Investment in FYI Inc.	**(10,000)**	-	**-**	-
Patent	**(23,784)**	(18,226)	**(17,615)**	(10,511)
Technology development	**(278,657)**	(229,859)	**(159,682)**	(124,924)
Re-branding	**-**	(78,030)	**-**	(78,030)
	(421,552)	(434,322)	**(283,599)**	(276,680)
Cash flows from financing activities				
Issuance of common shares, net of issue costs	**-**	9,252,021	**-**	115,160
Advances (repayment) of operating loan	**10,000**	(15,000)	**10,000**	-
	10,000	9,237,021	**10,000**	115,160
Increase (decrease) (decrease) in cash during the period	**(2,021,598)**	7,674,677	**(1,262,876)**	(635,570)
Cash at beginning of period	**6,496,563**	72,447	**5,737,841**	8,382,694
Cash at end of period	**$ 4,474,965**	$ 7,747,124	**$ 4,474,965**	$ 7,747,124

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.

2. CHANGE IN ACCOUNTING POLICIES

(i) Effective January 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' (“CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 7.

(ii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 7.

(iii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument related presentation disclosures.

(iv) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

3. 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, 2007, except for the new accounting policy added below and the change in accounting policy disclosed for Note 2. These financial statements should be read in conjunction with those audited financial statements.

Recent Accounting Pronouncements Issued and Not Yet Applied

(i) In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing January 1, 2009. The Company is assessing the impact of the new standard on its financial statements.

(ii) The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

4. STOCK OPTIONS AND WARRANTS

The Company had the following stock options outstanding at June 30, 2008:

Number of Options	Exercise Price	Expiry Date
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
100,000	$ 0.47	November 24, 2009
60,000	$ 0.44	February 3, 2010
500,000	$ 0.44	March 7, 2010
535,000	$ 0.42	May 19, 2010
60,000	$ 0.42	October 3, 2010
75,000	$ 0.25	November 22, 2010
100,000	$ 0.25	April 11, 2011
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
120,000	$ 0.35	April 12, 2012
400,000	$ 0.32	May 24, 2012
50,000	$ 0.27	June 25, 2012
140,000	$ 0.24	August 15, 2012
100,000	$ 0.13	November 27, 2012
100,000	$ 0.14	January 9, 2013
250,000	$ 0.22	April 18, 2013
430,000	$ 0.22	April 18, 2013
3,830,000		

The Company had the following warrants outstanding at June 30, 2008:

Number of Warrants	Purchase Price	Expiry Date
2,800,000	$ 0.25	February 6, 2009

5. COMMITMENTS AND CONTINGENCIES

(a) Technology License Agreement

Pursuant to a licensing agreement dated June 28, 2007, the Company was granted a non-exclusive license to integrate a patented biometric technology (the "Intellectual Property") with their DMDS. The initial term of the License is for six years, automatically renewing for successive terms of one year after the initial five-year term and may be terminated upon 180 days notice prior to the renewal date of the agreement.

The Company paid a one time cost of $30,000 and must pay an annual maintenance fee of $5,400 per year and an annual user license fee of a minimum of $5,000.

(b) 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.

5. COMMITMENTS AND CONTINGENCIES (Cont'd)

(c) 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. The outcome is not determinable and therefore no provision is recorded.

On June 22, 2007, the Company filed a claim against a customer of the above competitor, requesting a declaration that the Company's Canadian patent, Content Distribution System and Method patent number 2,407,774 is valid and infringed by the use of the competitors technology and is seeking $2 million in damages. In November 2007, a defence and counterclaim was filed seeking a declaration that the use of the competitor's technology does not infringe the patent and the patent is valid. The outcome is not determinable and therefore no provision is recorded.

6. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, 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 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 six month period ended June 30, 2008.

7. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, credit risk and interest rate risk) and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close cooperation with management. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market risk:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily United States dollars. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

Balances in foreign currencies at June 30, 2008 are as follows:

	USD$	GBP £
Accounts receivable	$7,700	3,700
Accounts payable and accrued liabilities	$39,500	NIL

(ii) Credit risk:

The Company is subject to risk of non-payment of accounts receivable. The Company mitigates this risk by monitoring the credit worthiness of its customers. As at June 30, 2008, approximately 41% (December 31, 2007 - 55%) of accounts receivable and 48% (December 31, 2007 - 53%) of revenue are from three customers (2007 - four customers).

7. FINANCIAL RISK MANAGEMENT (Cont'd)

(iii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations as interest income represents approximately 5.5% of total expenses. A 1.0% change in interest rates would impact the Company's interest income by approximately 35%.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at June 30, 2008, the Company has accounts payable and accrued liabilities of $381,126 due within 12 months and has cash and cash equivalents of $4,474,965 to meet its current obligations. As a result the Company has minimal liquidity risk.

8. COMPARATIVE FIGURES

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

DMDS
Digital Media Distribution System