YANGAROO Inc.

Interim Financial Statements

September 30, 2009

(unaudited)

YANGAROO Inc.
95 Mural Street, Suite 600
Richmond Hill, Ontario, Canada L4B 3G2
Phone: 905-763-3553   Fax: 905-763-1180
www.yangaroo.com

YOO on the TSX Venture Exchange
YOOIF on the OTCBB

Management Discussion and Analysis
<u>For the Third Quarter Ended September 30, 2009</u>

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.

YANGAROO's address is: Suite 600, 95 Mural Street
Richmond Hill, Ontario L4B 3G2
Phone: 905-763-3553 Fax: 905-763-1180

1) <u>Date of MD&A</u> November 18, 2009.

<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 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 on physical media (such as copying to CD, DVD or tapes and delivering via courier) by leveraging the now widely available infrastructure of the high speed internet and evermore powerful 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, encryption and watermarking. DMDS replaces the physical distribution of musical recordings, music video, and advertising to television broadcasters, 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, 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 and 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 broadcast quality music videos and for both audio and video advertising content. DMDS can put the control of when and to whom ads are distributed directly in the hands of the advertising firm or production house. DMDS can provide significant cost savings, greater efficiencies, direct control, and individual accountability compared to the distribution of ads by CD’s, FTP or satellite based systems. YANGAROO has upgraded DMDS to the next generation 5.0 to support the distribution of broadcast quality music videos and TV commercials, which offer significant additional market opportunities for the company.

3) Review of Operations for the Third Quarter Ended September 30, 2009

Revenues for the third quarter ended September 30, 2009 grew 24% over revenues for the third quarter of 2008, as a result of increased use of DMDS by a greater number of customers. The loss for the third quarter of 2009 was 19% ($130,000) lower compared to the third quarter of 2008. EBITDA (Earnings before interest, taxes, depreciation and amortization) for the third quarter of 2009, calculated as the loss for the quarter before amortization and interest income, improved by 36% ($209,000) over the same period in 2008.

The increase in revenues, combined with a 13% ($115,000) decrease in total expenses, accounted for the lower loss compared to the third quarter of 2008. The decrease in salaries and consulting expense of $106,000 (22%) accounted for most of the reduction in total expenses. General and administrative expenses were lower by $49,000 (27%) and marketing and promotion by $14,000 (23%), which also contributed to the reduced total expenses. An increase in amortization expenses of $52,000 (40%) was largely a result of the commencement of amortization of deferred development costs for the investment in DMDS 5.0. This increase, plus the reduction in interest income of $28,000 (97%) due to lower interest rates and investment balances, partially offset the lower operating expenses by $80,000.

The decrease in salaries and consulting expense was primarily due to reduced human resources in the technology and the sales and marketing departments, where this expense fell by 52% ($79,000) and 22% ($28,000) respectively in the third quarter of 2009 compared to the same period in 2008. The company had bolstered its technology team with necessary human resources through 2007 and into 2008 to carry out its product development plans for the next generation of DMDS 5.0. As DMDS 5.0 development was completed in the second quarter of 2009, the company reduced these expenditures. The balance of the decrease in salaries and consulting expense was in the general and administration department, where it was 5% ($8,000) lower than in the third quarter of 2008. These decreases were slightly offset by an increase in the salaries and consulting expense for the operations department of $9,000 (20%), reflecting increased staffing to support a greater number of customers and usage of DMDS.

General and administrative expense includes expenses related to the protection of the company's Canadian and U.S. intellectual property rights, which were $11,000 in the third quarter of 2009 compared to $25,000 in the third quarter of 2008, a 58% ($14,000) decrease. These costs for the third quarter included prosecuting a claim for infringement of the company's United States patent #7,529,712 titled "Content Distribution System and Method" in United States Federal District Court in Wisconsin requesting that the court issue an injunction against Destiny Media Technologies Inc. (OTC:DSNY), Destiny Software Productions, Inc., and MPE Distribution, Inc. ("Destiny") to cease the use of their system in the United States. The claim also requests the payment of unspecified damages for patent infringement and other costs to be determined at trial. During the third quarter a Federal Court in Wisconsin ruled in the company's favour on a Motion to Dismiss brought by Destiny. This U.S. action is in addition to the ongoing prosecution of the Canadian suit including Destiny in which the company has claimed $15 million in damages for infringement of the company's Canadian patent #2,407,774, also titled "Content Distribution System and Method". Expenditures related to enforcing the company's intellectual property rights are a non-recurring operating expense, as it is expected that these will not be necessary once the matter under litigation is resolved.

Marketing and promotion expense for the third quarter of 2009 was $14,000 (23%) lower than for the same period of 2008 primarily because of reduced public relations and advertising costs. Equity based compensation of $8,000 was included in the salaries and consulting expense for the third quarter of 2009, which was a decrease of 72% ($22,000) from the same period in 2008.

Total expenditures on technology development were $222,000 in the third quarter of 2009. $24,000 of this amount was expensed as technology development, $73,000 was included in salaries and consulting expense and $125,000 was capitalized as deferred development costs. During the period technology development expense increased $3,000 (12%) over the same period in 2008. 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 $132,000 was recognized in the third quarter of 2009, an increase of $49,000 (60%) compared to last year's third quarter.

4) Review of Results of Operations for the Nine Month Period Ended September 30, 2009

Revenues for the nine months ended September 30, 2009 have exceeded revenues for the entire year of 2008. Revenues for this nine month period grew 37% over revenues for the same period in 2008, as a result of increased use of DMDS by a greater number of customers. The loss for the first nine months of 2009 was 25% ($622,000) lower compared to the first nine months of 2008 and the corresponding loss per share decreased to $0.02 from $0.03. EBITDA (Earnings before interest, taxes, depreciation and amortization) for the first nine months of 2009, calculated as the loss for the period before amortization and interest income, improved by 35% ($784,000) over the same period in 2008.

The increase in revenues, combined with a 19% ($570,000) decrease in total expenses, accounted for the lower loss compared to the first nine months of 2008. The decrease in salaries and consulting expense of $447,000 (27%) accounted for the majority of the reduction in total expenses. In addition, general and administrative expense was lower by $87,000 (12%), marketing and promotion expense decreased by $62,000 (27%) and technology development expense decreased $24,000 (30%). A reduction in interest income of $112,000 (92%), due to lower interest rates and investment balances, partially offset these lower operating expenses. An increase in amortization expenses of $50,000 (13%) was largely a result of the commencement of amortization of deferred development costs for the investment in DMDS 5.0.

The decrease in salaries and consulting expense was primarily due to reduced human resources in the technology and sales and marketing departments, where this expense fell by 53% ($253,000) and 33% ($164,000) respectively in the first nine months of 2009 compared to the same period in 2008. The company had bolstered its technology team with necessary human resources through 2007 and into 2008 to carry out its product development plans for the next generation of DMDS 5.0. As DMDS 5.0 development approached completion through the first half of 2009, the company reduced these expenditures. The balance of the decrease in salaries and consulting expense was in the general and administration department, where it was 10% ($57,000) lower than in the first nine months of 2008. These decreases were slightly offset by an increase in the salaries and consulting expense for the operations department of $27,000 (21%), reflecting increased staffing to support a greater number of customers and usage of DMDS.

General and administrative expense includes expenses related to the protection of the company's Canadian and U.S. intellectual property rights, which were $225,000 in the first nine months of 2009 compared to $264,000 in the first nine months of 2008, a 15% ($39,000) reduction. In 2009 these costs included the filing and prosecuting a claim for infringement of the company's United States patent #7,529,712 titled "Content Distribution System and Method" as described in section 3 above. Expenditures related to enforcing the company's intellectual property rights are a non-recurring operating expense, as it is expected that these will not be necessary once the matters under litigation are resolved. Recruiting expense was $38,000 lower in the first nine months of 2009, contributing to the $87,000 (12%) decrease in general and administrative expense.

Total expenditures on technology development were $694,000 in the first nine months of 2009. $56,000 of this amount was expensed as technology development, $223,000 was included in salaries and consulting expense and $415,000 was capitalized as deferred development costs. During the period technology development expense decreased $24,000 (30%) over the same period in 2008 primarily due to recognition of an investment tax credit of $17,000. Deferred development costs were also reduced by recognition of an investment tax credit of $22,000 in the first nine months of 2009. The company met the deferral criteria for development costs under generally accepted accounting principles as the company is generating increasing revenues from the products and technology it has developed. Amortization expense for deferred development costs in the amount of $295,000 was recognized in the first nine months of 2009, an increase of $54,000 (22%) compared to the same period in 2008.

Marketing and promotion expense for the first nine months of 2009 was $62,000 (27%) lower than for the same period of 2008 primarily because of reduced advertising, conference attendance, public relations and travel costs. Stock based compensation of $21,000 was included in the salaries and consulting expense for the first nine months of 2009, which was a decrease of 77% ($69,000) from the same period in 2008.

During the first quarter of 2009, the company's new DMDS 5.0 platform was successful at reducing costs and providing an environmentally-friendly method for distributing music and enabling the judging process for The Canadian Academy of Recording Arts and Sciences (CARAS) in association with the 2009 JUNO Awards. The initial phase of voting for The 2009 JUNO Awards was completed on February 3, 2009 with the announcement of the JUNO nominees and the final voting was completed on March 2. The results were delivered to PricewaterhouseCoopers, and were announced at the JUNO Awards show, which was broadcast live from Vancouver on March 29, 2009 by CTV.

In the past, music has been submitted by artists and record labels for JUNO Award consideration by the physical shipment of 12 CD copies, for each category, of their album and/or single complete with bio and a publicity photo to CARAS, who in turn would package the submissions and ship them out to the 300+ judges across the country. Using DMDS to streamline the process, submitted music was digitally ingested into DMDS and CARAS used DMDS to securely distribute the music and related promotional materials to the over 300 judges and more than 1,700 members, eliminating the need for a third-party supplier to collect, manage and distribute in the range of 15,000 physical CDs. The judges and members were able to stream the music online or download it to be burned to CD or transferred to their iPods for review. Votes were then cast online in the specific category or categories that applied and DMDS 5.0 provided CARAS with detailed reports of the entire process.

In the second quarter of 2009 YANGAROO launched the next generation of its Digital Media Distribution System - DMDS 5.0. A significant new feature of the system is support for the delivery of broadcast quality video, such as music videos and television commercials. DMDS 5.0 was designed in a modular, data driven fashion utilizing a services oriented architecture (SOA) approach, so that it can be responsive to the changing needs of YANGAROO customers worldwide, and is able to adapt to opportunities for secure digital file delivery in the music and advertising industries.

In May 2009 the company was very pleased to receive the grant of United States patent #7,529,712 titled "Content Distribution System and Method". This followed the issuance in January 2009 by the United States Patent and Trademark Office of a Notice of Allowance for the patent application. This patent will be in effect until 2026. The U.S. patent for "Content Distribution System and Method" covers a method of distributing digital content, such as music and advertising, to selected individuals over the Internet, in which the uploading content provider selects the individuals that are entitled to access the content and sets release conditions, such as a time and date. Once the identities of the selected individuals have been verified at login, they are provided with access to the uploaded content if those release conditions are met. YANGAROO'S Digital Media Distribution System (DMDS) is the only such system available to the North American record, radio and advertising industries that has U.S. and Canadian patent protection for all of these essential features.

This new U.S. patent complements YANGAROO's Canadian patent number 2,407,774 of the same title that was granted in 2005, together providing a North America-wide safeguard for the company's intellectual property.

In July 2009 the company's continuation patent application no. 12/398,238 entitled "Content Distribution System and Method" was published by the United States Patent and Trademark Office under publication no. US-2009-0171966-A1. As noted above the company has already obtained U.S. and Canadian patents for its Content Distribution System and Method. A continuation patent application is a mechanism available under the U.S. patent system to pursue additional claims in a second patent application. YANGAROO's continuation patent application no. 12/398,238 contains 29 claims and benefits from the same 2002 priority date as the original patent application. In summary, the claims in the continuation patent application are directed to distributing digital music to registered recipients who request access to the server and who are included in a distribution list specifying which registered users can access the digital music. The system enables content providers to control which recipients are included in the distribution list for a particular digital music file and what release conditions can be set for that file.

These "Content Distribution System and Method" patents and the U.S. continuation patent application augment YANGAROO'S intellectual property portfolio, which also includes U.S. patent number 7,003,670 titled "Biometric Rights Management System", which is pending in Canada as patent application number 2,349,797, and pending U.S. patent application number 11/854,289 titled "Media File Distribution System and Method".

The grant of the company's second U.S. patent underscores YANGAROO's status as the founding inventor in its sector and is expected to add substantial value to the company. Both the U.S. and Canadian patent offices have recognized the company's inventions as patents. The company's focus on leading through innovation continues to bring the best and most advanced solutions available to its customers. Management will continue with its program of actively protecting its technology and expects that this patent will provide a further barrier to entry against competitors in the U.S. market and add significant value to the company.

In May 2009, following the grant of U.S. patent #7,529,712, the company filed a claim for patent infringement in United States Federal District Court in Wisconsin requesting that the court issue an injunction against Destiny Media Technologies Inc. (OTC:DSNY) as well as Destiny Software Productions, Inc., and MPE Distribution, Inc. to cease the use of their system in the United States. In addition, the claim requests the payment of unspecified damages for patent infringement and other costs to be determined at trial.

Also in May 2009, Dean Ernst joined YANGAROO as a consultant to market the company's newly launched state of the art digital delivery system, DMDS 5.0. Dean was one of the original founders of what is known today as the Play MPE system and former Vice President of Operations for Destiny Media Technologies Inc. (OTC: DSNY), a competitor of the company. "DMDS 5.0 is clearly a superior product in every way," said Dean Ernst. "I visited YANGAROO's Development Center in Toronto and saw DMDS 5.0 for myself. I met their development team as well as their fine customer service people and was extremely impressed to say the least. My credibility and reputation is very important to me. I chose to work with YANGAROO because I am confident that DMDS 5.0 is the best product available for my music industry associates. It does everything I wanted Destiny's Play MPE system to do and much more. It has the added ability to deliver full broadcast quality video with all the same features currently available for audio file delivery. This will truly revolutionize the music industry. I'm happy to be a part of this outstanding team."

In June 2009 the company signed a commercial agreement with a U.S. based multi-national, NYSE-listed Fortune 500 company to use DMDS to securely deliver pre-release music and audio files from the company's television shows to custom lists of internal recipients and external destinations. For each show or segment of a show, DMDS will allow a custom group of recipients, including producers, editors, choreographers, dancers, actors, and others, to be selected and securely sent music and/or audio from specific segments or scenes. These recipients can then either stream or download the audio for preparation, pre-production, production, or post-production. The use of DMDS in television show production opens an attractive new market for the company.

In July 2009 the company was named to the Canadian Business "The Tech 100" 2009 list, an annual list ranking Canada's 100 leading technology companies. Canadian Business' key criteria for including a company in the Tech 100 are:

- conducts own meaningful advanced technology R&D
- develops advanced hardware or software technology of its own for an end market
- provides advanced IT services or manufactures advanced IT products
- business model rests on a value proposition of in-house advanced technological knowledge and ingenuity
- headquartered in Canada

The top 100 companies that meet these criteria are then ranked by factors including performance measures, such as sales growth and one-year total return figures, and market capitalization to provide a more rounded perspective of the contribution the selected firms make to Canada's technology sector. The full list appears in the July 20, 2009 print edition of the magazine and is available online at: www.canadianbusiness.com/tech100.

In August 2009 the company announced that, subject to regulatory approval, Horizon Media Inc. will acquire warrants to purchase 750,000 YANGAROO common shares. The warrants will become exercisable after various phases of a digital media workflow solution are successfully completed. These warrants have an exercise price of $0.10 and an expiry date of five years from the date of issuance. Founded in 1989, Horizon Media, Inc. is the largest U.S. independent media services company. Dedicated to helping clients sell products and build brands through insightful marketing counsel, media-neutral strategic planning and effective negotiation and placement. Horizon's exceptional holistic approach to brand marketing and development has resulted in estimated billings of $2 billion and established the company as the fastest growing agency in the industry. Headquartered in New York City with a full service office in Los Angeles, Horizon also has offices in San Diego, and Amsterdam, Netherlands. Horizon is also a founding member of Columbus Media International, a multi-national partnership of independent media agencies.

In August 2009 the company announced that it had delivered the first full broadcast-quality music video utilizing DMDS 5.0 in Canada. Sony Music Entertainment Canada used DMDS to successfully deliver the video for Shakira's "She Wolf" to Montreal-based MusiquePlus (an Astral Media Television Network) in a full, broadcast-ready format. YANGAROO's team worked closely with both Sony Music and MusiquePlus to refine the process for digitally distributing broadcast-quality music videos utilizing DMDS 5.0, a process that includes the enabling of the file for online availability across YANGAROO's DMDS network for streaming and a frame-accurate preview quality version of the file with time-code burned in. The DMDS delivered file can be easily integrated into Online Editing Suites, On-Air Playback Servers and stored in a Digital Archive Server. The files are 50mbit IMX in an MXF OP1a container that maintain both time-code and closed captioning for the underlying video.

Also in August 2009 the company delivered the first full broadcast-quality music video utilizing DMDS 5.0 in the United States. E1 Entertainment in New York (AIM: ETO), a leading international entertainment content and distribution business, successfully delivered the Arkaea "Locust" video to major music video broadcasters in the U.S. This was another significant milestone in YANGAROO's technology program to digitize broadcast media delivery workflows and reduce reliance on the physical delivery of DVDs and Beta SP tapes.

In September 2009 the company designated New York based Devlin Video International as the first "Certified Sender" for DMDS 5.0. Devlin Video International is a leading video production and distribution facility with major clients that include ABC Sports, BBC, CBS Networks, Comedy Central, Estee Lauder Companies, Goldman Sachs, and HBO Sports among many others. YANGAROO is working with a select group of video production houses and content owners to establish a network of DMDS Certified Senders. This network of professionals will make it faster and easier for video content owners to have their files digitally delivered to their chosen industry destinations by DMDS and will ensure that uploaded files meet rigorous DMDS and broadcast quality standards. Devlin and other Certified Senders can utilize DMDS to distribute broadcast and preview quality videos (including music videos, advertising and various other short form content) to both domestic and international destinations.

During September 2009 the company announced that a Federal Court in Wisconsin had ruled in YANGAROO'S favour on a Motion to Dismiss brought by Defendant Destiny Media Technologies Inc. (OTC:DSNY). YANGAROO is suing Destiny for patent infringement in the United States and seeks an injunction against the sale and use of Destiny's PlayMPE system and requests the payment of unspecified damages for patent infringement and other costs to be determined at trial. YANGAROO filed the infringement claim following the grant of its United States patent #7,529,712, titled "Content Distribution System and Method" in May 2009, which is described above.

In October 2009 the company entered into a multi-year agreement with The Recording Academy®, the organization responsible for the world's leading music award show, the GRAMMY® Awards. The Academy will utilize YANGAROO's patented Digital Media Distribution System (DMDS) to distribute music submitted for GRAMMY Award consideration to the more than 12,000 voting members of The Academy throughout the U.S. By using this technology, submitted music will be digitally ingested into DMDS and The Academy will then use the system to securely distribute the music to voting members, allowing them to stream the music online for review. "For quite some time now, we have been working diligently to move the entire GRAMMY voting process to a digital platform, and DMDS provides the proven and tested solution we have been looking for," said Neil Portnow, President/CEO of The Recording Academy. "We are pleased to partner with an industry leader like YANGAROO as we streamline our operations and move closer to our digital strategy goals, which include providing an online listening function for our voting members." DMDS will be in place for the upcoming 52nd Annual GRAMMY Awards. The nominees will be announced live at 8 p.m. ET on December 2 in a one-hour special on CBS, and the 52nd GRAMMY Awards telecast will take place at STAPLES Center in Los Angeles on January 31, 2010, and will be broadcast live on CBS (8 - 11 p.m. ET/PT).

Also in October 2009 the company partnered with CMJ Network Inc., the largest and most influential multi-media organization focused on U.S. College Radio and emerging music, to enable associated record labels, managers, indie promoters, and other parties to access DMDS for distributing music to the over 500 college radio stations throughout the United States. DMDS enables the distribution of entire albums to the most accurate and comprehensive college radio contact lists in the business. College radio executives benefit by having a central repository for new music, which they can preview and download in the file format and quality of their preference. Albums released on DMDS will automatically be linked on the CMJ New Music Report Charts, the industry's most important college radio charts, for radio programmers to stream or download and add to their playlists.

During the third quarter YANGAROO worked with key music video broadcasters to set them up to receive broadcast quality music videos via DMDS. Television broadcast outlets currently enabled to receive videos via DMDS are:

- CTV Networks
- MUCHMUSIC
- MUCHMORE
- PUNCHMUCH
- MUCHVIBE
- MUCHLOUD
- MUCHMORERETRO
- MTV Canada
- ETalk Now
- MusiquePlus
- BPMTV
- Glassbox
- AUX TV
- BITE TV
- Global TV Networks
- Entertainment Tonight Canada
- SunTV
- CMT Canada

The company is also working with key U.S. video broadcasters to enable them to utilize DMDS.

In October the company also introduced DMDS support for 24bit audio, the highest sound quality available and the format preferred by audiophiles. For years, DMDS has been the only digital music delivery solution providing users with uncompressed WAV files. Other systems provide downloads in a proprietary compressed format that can be 'exported' to WAV, others are MP3 only. DMDS now offers support for digital audio in 24bit, 48/96 kHz (CD is 16bit, 44.1kHz). For music industry users that value audio quality, DMDS is the music delivery system of choice.

YANGAROO's DMDS 5.0 is now the "one stop shop" for music labels to distribute their new broadcast quality audio and video releases. No other solution provides this convenience, quality and flexibility for the music industry.

The company's investment in DMDS 5.0 has produced the industry's most advanced technology platform from which five key markets can be serviced: broadcast quality music and music videos, television advertising, audio and video award shows, and television program and film production.

5) Summary of Quarterly Results

The following table sets out 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 Year: 2009 2008

($)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4 2007
Sales	218,211	204,842	181,386	138,023	175,767	137,946	127,077	137,650
Loss for the period	545,626	725,650	610,021	760,455	675,672	1,020,724	807,192	851,609
Loss per share (basic & diluted)	.01	.01	.01	.01	.01	.01	.01	.01

6) Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2009 were $782,000 compared to $3,030,000 as at the December 31, 2008 fiscal year end. The main reason for this change was the cash used in operating activities before changes in non-cash working capital items, which decreased by 30% ($600,000) during the period compared to the first nine months of 2008. Changes in non-cash working capital items used $334,000 of cash in the period, largely due to a decrease in accounts payable. During the first nine months of 2009 the company invested $415,000 in deferred development costs for DMDS 5.0, $53,000 in property plant and equipment, and $40,000 in patents.

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 will need to source additional funds in order to fulfil its business objectives.

7) Share Capital

At September 30, 2009 the company had 75,517,615 common shares and 2,995,000 options and 750,000 warrants outstanding. At December 31, 2008 YANGAROO had 75,517,615 common shares, 3,769,000 options, and 2,800,000 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) <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 quarter ended September 30, 2009 , and have evaluated the design of the Company's ICFRs for the quarter ended September 30, 2009 ; 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, 2009 ; 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.

9) Off Balance Sheet Arrangements

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

10) Change in Accounting Policy

Effective January 1, 2009 the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This selection also addresses when an internally developed intangible asset meets the criteria for recognition as an asset. There has been no impact on the Company's financial statements as a result of adopting this policy.

11) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable entities would be required to adopt International Financial Reporting Standards (“IFRS”). The Company must prepare its interim and annual financial statements in accordance with IFRS for periods beginning on January 1, 2011. The Company has assigned responsibility for IFRS adoption and is currently studying the impacts of IFRS on the Company’s accounting policies, information systems, internal controls over financial reporting and contractual arrangements and covenants. The initial assessment of the process indicates that the most significant areas of difference applicable to the Company include treatment of stock-based compensation, intangible assets and the more extensive presentation and disclosure requirements under IFRS.

YANGAROO Inc.

Interim Financial Statements

September 30, 2009

(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	September 30 2009	December 31 2008 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 782,214**	$ 3,030,099
Accounts receivable		**286,768**	157,798
Prepaid expenses and other assets		**83,786**	50,418
		1,152,768	3,238,315
Property, plant and equipment		**152,927**	166,136
Patents		**140,282**	105,855
Investment in technology		**380,239**	452,330
Deferred development costs		**1,419,599**	1,300,433
Other assets		**78,030**	78,030
		$ 3,323,845	$ 5,341,099
Liabilities			
Current			
Operating loan		**$ 15,000**	$ -
Accounts payable and accrued liabilities		**269,605**	443,453
Deferred revenue		**16,768**	14,989
		301,373	458,442
Shareholders' Equity			
Capital stock		**21,043,889**	21,043,889
Contributed surplus		**1,394,924**	868,384
Warrants		**-**	505,428
Deficit		**(19,416,341)**	(17,535,044)
		3,022,472	4,882,657
		$ 3,323,845	$ 5,341,099

Commitments and Contingencies (Note 5)

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

See accompanying notes.

YANGAROO Inc.

Interim Statements of Operations and Deficit

(unaudited - See Notice to Reader)

	Nine Months Ended September 30		Three Months Ended September 30	
	2009	2008	**2009**	2008
Revenue	**$ 604,439**	$ 440,790	**$ 218,211**	$ 175,767
Expenses				
Salaries and consulting	**1,207,693**	1,654,943	**378,083**	484,323
Marketing and promotion	**163,798**	225,499	**47,740**	61,847
General and administrative	**629,282**	716,210	**133,949**	183,213
Technology development	**56,181**	80,332	**24,435**	21,852
Amortization of capital assets	**65,563**	56,588	**22,370**	19,862
Amortization of intangible assets	**373,264**	332,374	**158,205**	108,815
	2,495,781	3,065,946	**764,782**	879,912
Loss before undernoted item	**(1,891,342)**	(2,625,156)	**(546,571)**	(704,145)
Interest income	**10,044**	121,569	**945**	28,473
Loss for the period	**(1,881,298)**	(2,503,587)	**(545,626)**	(675,672)
Deficit at beginning of period	**(17,535,043)**	(14,271,002)	**(18,870,715)**	(16,098,917)
Deficit at end of period	**$(19,416,341)**	$(16,774,589)	**$(19,416,341)**	$(16,774,589)
Basic and diluted loss per share	**$ (0.02)**	$ (0.03)	**$ (0.01)**	$ (0.01)
Weighted average number of shares	**75,517,615**	75,517,615	**75,517,615**	75,517,615

See accompanying notes.

YANGAROO Inc.

Interim Statements of Cash Flows
(unaudited - See Notice to Reader)

	Nine Months Ended September 30		Three Months Ended September 30	
	2009	2008	**2009**	2008
Cash flows from operating activities				
Loss for the period	**$ (1,881,298)**	$ (2,503,587)	**$ (545,626)**	$ (675,672)
Add items not affecting cash				
Amortization	**438,827**	388,962	**180,575**	128,677
Loss / (Gain) on disposal of capital assets	**(762)**	1,876	**(496)**	782
Stock based compensation	**21,112**	90,495	**8,464**	30,382
	(1,422,121)	(2,022,254)	**(357,083)**	(515,831)
Changes in non-cash working capital items				
Accounts receivable	**(128,970)**	(57,343)	**29,627**	(17,952)
Prepaids and sundry assets	**(33,368)**	(18,530)	**36,987**	11,080
Accounts payable and accrued liabilities	**(173,845)**	(172,017)	**(98,721)**	(129,829)
Deferred revenue	**1,779**	5,103	**(3,295)**	(2,463)
	(1,756,525)	(2,265,041)	**(392,485)**	(654,995)
Cash flows from investing activities				
Purchase of property plant and equipment	**(52,722)**	(114,314)	**(19,307)**	(3,553)
Proceeds from disposition of property, plant and equipment	**1,129**	2,270	**750**	620
Other assets	**-**	(10,000)	**-**	-
Patent	**(40,144)**	(39,697)	**(23,480)**	(15,913)
Deferred development costs	**(414,623)**	(454,037)	**(125,309)**	(175,380)
	(506,360)	(615,778)	**(167,346)**	(194,226)
Cash flows from financing activities				
Advances (repayment) of operating loan	**15,000**	10,000	**10,000**	-
	15,000	10,000	**10,000**	-
Decrease in cash during the period	**(2,247,885)**	(2,870,819)	**(549,831)**	(849,221)
Cash at beginning of period	**3,030,099**	6,496,563	**1,332,045**	4,474,965
Cash at end of period	**$ 782,214**	$ 3,625,744	**$ 782,214**	$ 3,625,744

See accompanying notes.

1. BASIS OF PRESENTATION

YANGAROO Inc. is a technology company that is targeted to become the leading enabler of user-friendly and secure distribution of media via the internet.

To continue with its current rate of growth, the Company will require additional funding within the next twelve months and would likely seek to obtain this in the form of equity financing. Under the current economic environment, access to the capital markets to obtain equity financing is uncertain, and might not be available to the Company on a timely basis.

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2009 the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This selection also addresses when an internally developed intangible asset meets the criteria for recognition as an asset. There has been no impact on the Company's financial statements as a result of adopting this policy.

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, 2008, except for the change in accounting policy described in Note 2. These financial statements should be read in conjunction with those audited financial statements.

4. STOCK OPTIONS AND WARRANTS

The Company had the following stock options outstanding at September 30, 2009:

Number of Options	Exercise Price	Expiry Date
100,000	$ 0.47	November 24, 2009
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
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
60,000	$ 0.35	April 12, 2012
400,000	$ 0.32	May 24, 2012
50,000	$ 0.27	June 25, 2012
120,000	$ 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
410,000	$ 0.07	November 19, 2013
25,000	$ 0.13	April 17, 2014
25,000	$ 0.10	August 19, 2014
2,995,000		

The Company had the following warrants outstanding at September 30, 2009:

Number of Warrants	Exercise Price	Expiry Date
750,000 (i)	$ 0.10	August 24, 2014

(i) These warrants are exercisable on certain performance targets being attained. As at September 30, 2009, these targets were not met.

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 its Digital Media Distribution System ("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 must pay an annual maintenance fee of $5,400 per year.

5. COMMITMENTS AND CONTINGENCIES (Cont'd)

(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.

(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. Examinations for discovery were conducted in 2007 into 2008 followed by motion appearances before the Court seeking orders compelling answers to questions refused. The Company was successful in obtaining a number of rulings in its favour including a ruling requiring the competitor to produce its software source code on a strict confidential basis for review by the Company's experts. The second round of examinations for discovery is near completion.

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.

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.

5. COMMITMENTS AND CONTINGENCIES (Cont'd)

(c) Patent Infringement (Cont'd)

Management believes that the above claims against the Company are meritless as a result of the Company having a valid patent, Content Distribution System and Method patent number 2,404,774, registered in Canada. In addition, in May 2009, the Company received a grant from the United States Patent and Trademark Office for US patent #7,529,712 titled Content Distribution System and Method. The Company also filed a patent infringement claim in May 2009 in the United States requesting that the court issue a permanent injunction prohibiting use of the competitor's system in the United States and payment of damages and legal costs. In August 2009 a Federal Court in Wisconsin ruled in the Company’s favour on a motion to dismiss that was brought by the competitor and the claim is proceeding.

The outcome of the above claims 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, warrants and 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 nine month period ended September 30, 2009.

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 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 September 30, 2009 are as follows:

	USD$
Accounts receivable	$100,580
Accounts payable and accrued liabilities	$38,140

(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 and by offering an e-commerce service to smaller customers. As at September 30, 2009, approximately 15% (December 31, 2008 - 37%) of accounts receivable and 23% (December 31, 2008 - 41%) of revenue are from two customers (December 31, 2008 - three 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 0.4% of total expenses. A 1.0% change in interest rates would not have a significant impact on the Company's interest income.

(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 September 30, 2009, the Company has accounts payable and accrued liabilities of $269,605 due within 12 months and has cash and cash equivalents of $782,214 to meet its current obligations. As a result the Company has minimal liquidity risk.

DMDS

Digital Media Distribution System