YANGAROO Inc.

Interim Financial Statements

March 31, 2010

(unaudited)

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

Management Discussion and Analysis
For the Quarter Ended March 31, 2010

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 May 19, 2010.

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 ("business to business") 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 audio and video 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 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, award shows 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.

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.

Record labels and artists have been delivering their new music and music videos to radio stations and television broadcasters using traditional physical media methods, and the industry is moving to digital delivery. The traditional method for music releases requires 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.

Similarly, the advantages of DMDS can be obtained for the distribution of television broadcast quality music videos and for both audio and video advertising content. DMDS can put the control of when and to whom ads and videos 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 on CD’s, videotape, FTP or satellite based systems. YANGAROO has upgraded DMDS to the next generation 5.0 to enable it to distribute television broadcast quality music videos and TV commercials, as well as provide support for award shows, which offer significant additional market and revenue opportunities for the company.

3) Review of Results of Operations for the First Quarter Ended March 31, 2010

Revenues for the first quarter ended March 31, 2010 increased 6% over revenues for the preceding fourth quarter of 2009, and increased 2% compared to the first quarter of 2009. The loss for the first quarter of 2010 decreased by 27% ($249,000) compared to the preceding fourth quarter of 2009, and was 13% ($76,000) higher compared to the first quarter of 2009. EBITDA (Earnings before interest, taxes, depreciation and amortization) for the first quarter of 2010, calculated as the loss for the period before amortization and interest income, improved by 33% ($254,000) over the preceding fourth quarter of 2009, and decreased by 4% ($18,000) from the first quarter of 2009.

The company earned early stage revenues for the delivery of music videos from record labels to television broadcasters in Canada during the first quarter of 2010. The company expects that revenues from music video deliveries in the U.S. will commence in the second quarter and that music video delivery revenues will grow rapidly throughout the year.

The increase in total expenses of 9% ($74,000) accounted for the higher loss compared to the corresponding period in 2009. The increase in general and administrative expense of 29% ($53,000) and in amortization of intangible assets of $49,000 (45%) accounted for most of the increase in total expenses. The decrease in salaries and consulting expense of $24,000 (6%) and marketing and promotion expense of $9,000 (17%) partly offset these increases.

The increase in general and administrative expense was a result of expenses for the protection of the company’s Canadian and U.S. intellectual property rights, which were $109,000 in the first quarter of 2010 compared to $60,000 in the first quarter of 2009, an increase of $49,000 (82%). This change is primarily due to expenses for the enforcement of U.S. patent rights that were incurred in the first quarter of 2010. There were no such expenses in the first quarter of 2009 because the company’s U.S. patent was granted and the related infringement claim was filed in the second quarter of 2009. 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.

The decrease in salaries and consulting expense was primarily due to reduced human resources costs in the sales and marketing department, where this expense was lower by 36% ($47,000) in the first quarter of 2010 compared to the same period in 2009.

Total expenditures on technology development were $220,000 in the first quarter of 2010. Of these expenditures, $27,000 of this amount was expensed as technology development, $93,000 was included in salaries and consulting expense and $100,000 was capitalized as deferred development costs. Technology development expense for the first quarter of 2010 decreased $3,000 (12%) from the same period in 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 $131,000 was recognized in the first quarter of 2010, an increase of $49,000 (59%) compared to the same period in 2009.

Marketing and promotion expense for the first quarter of 2010 was $9,000 (17%) lower than for the same period in 2009 primarily because of reduced public relations costs. Stock based compensation expense of $14,000 was included in the salaries and consulting expense for the first quarter of 2010, an increase of $11,000 (413%) from 2009.

During the first quarter, the 52nd GRAMMY Awards telecast took place at Staples Center in Los Angeles on January 31, 2010. The Recording Academy® successfully utilized YANGAROO's DMDS to distribute music submitted for the 52nd GRAMMY Awards consideration to the more than 12,000 voting members of The Academy throughout the U.S. Submitted music was digitally ingested into DMDS and The Academy used the system to securely distribute the music to voting members, allowing them to stream the music online for review.

In March 2010 the company entered into multi-year agreements with the Western Canadian Music Alliance (WCMA), the organization which presents BreakOut West, and with Music BC, the organization administering The Peak Performance Project, a seven-year, $5.29 million artist development program funded by Jim Pattison Broadcasting's 100.5 The PEAK Vancouver. YANGAROO's DMDS will be used by both programs in a similar fashion to the GRAMMY® Awards and Canada's JUNO® Awards. Music submitted for consideration will be digitally ingested into a customized DMDS Awards Management Solution, and the organizations will then use DMDS to securely distribute the music for adjudication, allowing juries to stream and/or download the music for review and cast votes to determine participants, nominees, finalists, and winners as the case may be. "We had previously tried another digital platform for our awards submissions and adjudication processes that did not perform to our expectations," said Rick Fenton, Executive Director of the Western Canadian Music Alliance. "Our industry partners at CARAS [administrators of the JUNO® Awards], had great success working with the YANGAROO team for the last two years, and recommended that we switch to the proven and superior DMDS solution." Bob D'Eith of Music BC stated, "As a member of CARAS, I was amazed at the DMDS voting set-up for the JUNO Awards. As the Peak Performance Project grew in its second year, we had to respond to the anticipated growth in applications. DMDS seemed to offer the natural solution. The DMDS system will ensure that artists are adjudicated fairly and efficiently."

In March and April 2010 the company completed the private placement of 818 Units at $1,000 per Unit for gross proceeds of $818,000. Each Unit consists of $1,000 principal amount of Convertible Debentures and 7,500 Warrants. The Debentures mature on March 31, 2012, have interest payable semi-annually at 12% per annum, are secured by a general security agreement over the assets of the Company and are convertible into common shares of the Company at $0.10 per share. The Warrants are exercisable until March 22, 2012, with each whole Warrant entitling the holder to purchase one common share at $0.10.

Shortly after the end of the first quarter, in April 2010, the company signed a multi-year contract with MTV Networks (MTVN), a division of Viacom International Inc. (NYSE: VIA, VIA.B), which is one of the world's leading creators of entertainment content. MTVN's portfolio spans more than 150 television channels and 300 digital media properties in over 160 countries worldwide, and includes music video channels MTV, MTV2, VH1, VH1 Classic, VH1 Soul, and Country Music Television (CMT) and CMT Pure (see www.mtvnetworks.com). MTVN will immediately begin utilizing YANGAROO's Digital Media Distribution System (DMDS) for delivery of music videos and other artist and music-related audiovisual content and will integrate DMDS into MTVN's internal workflow. Commencing in the U.S., the agreement provides for expansion to MTVN's international operations. The company believes this agreement, and the endorsement of MTV Networks, establishes DMDS 5.0 as the world standard for the delivery of television broadcast quality video content via the internet and will provide an important new revenue stream for YANGAROO. “By implementing YANGAROO’s cutting-edge DMDS 5.0 platform, we hope to enhance the efficiency and cost-effectiveness of our music video delivery process while significantly reducing its environmental impact,” said Emilienne Gray, Sr. Vice President, MTV360 & VH1 Music Programming and Strategy. In May 2010 MTVN sent a letter to all of its video submitter partners recommending that they use DMDS to submit videos to MTVN.

In May 2010 the company announced the integration of YANGAROO’s DMDS with Telestream’s TrafficManager™, which automates the way television advertising spots move within a TV station. Using Telestream’s FlipFactory automation engine, TrafficManager integrates directly with the DMDS Manager and Website, automatically detecting spots when they are delivered via DMDS. When the spots arrive, TrafficManager automatically prepares them for broadcast, matching them with a dublist, preparing and delivering them to the on-air server, and notifying the automation system. It also automates other manual tasks including spot audio level correction and file naming. The combined solution is a file-based workflow that eliminates the need for tape and couriers, ensuring the highest possible quality and speed while saving time and money. More than 80% of the top broadcast station groups, media companies and Fortune 100 companies use Telestream products.

DMDS 5.0 is now the “one stop shop” for music labels, artists and production houses to distribute their new broadcast quality audio and video releases. No other solution provides this convenience, quality and flexibility for the music industry. YANGAROO is now pursuing new market opportunities for television broadcast quality music video delivery, television advertising distribution, and award shows.

4) 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: 2010 2009 2008

($)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	185,290	175,613	218,211	204,842	181,386	138,023	175,767	137,946
Loss for the period	686,300	935,452	545,626	725,650	610,021	760,455	675,672	1,020,724
Loss per share (basic & diluted)	.01	.01	.01	.01	.01	.01	.01	.01

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

Cash and cash equivalents at March 31, 2010 were $326,000 compared to $260,000 as at the December 31, 2009 fiscal year end. Cash used in operating activities decreased by 41% ($254,000) during the first quarter of 2010 compared to the same period in 2009. During the first quarter of 2010 the company invested $100,000 in deferred development costs.

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. To date the Company has been successful raising capital and during the three months ended March 31, 2010, the Company raised gross proceeds of $663,000. See Note 3 to the accompanying financial statements for a description of this transaction. Subsequent to the period end the company raised an additional $155,000 by way of convertible debentures. These financings are expected to fund the Company until the end of the second quarter.

6) <u>Share Capital</u>

At March 31, 2010 the company had 75,517,615 common shares, 3,075,000 options and 6,230,500 warrants outstanding. At December 31, 2009 the company had 75,517,615 common shares and 3,595,000 options and 750,000 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 7(b) of the financial statements.

7) <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 March 31, 2010 , and have evaluated the design of the Company's ICFRs for the quarter ended March 31, 2010 ; 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 March 31, 2010; 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) 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 developed a three phase plan to adopt IFRS by January 1, 2011:

(i) This first phase involves the identification of differences between IFRS and existing Canadian GAAP, and an assessment of their applicability and the expected impact on the company.

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.

(ii) The second phase includes the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. This phase will also include assessing the impact of the conversion on business activities, including the effect on information technology and data systems, income tax, internal controls over financial reporting, and disclosure controls. In this phase, accounting policies will be finalized, first-time adoption exemptions and exceptions will be considered, and draft financial statements and note disclosures will be prepared. The Audit Committee and management of the Company plan to engage the company's auditors to conduct an IFRS impact assessment in 2010.

The CICA has been updating its current standards to more closely align with IFRS prior to 2011. The CICA issued new 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. The company adopted this policy effective January 1, 2009. The result of adoption of this policy was that previously capitalized costs in the amount of $78,030, relating to the trade name and related marketing intangibles no longer met the definition of an intangible asset. The company reviewed this new policy with respect to other intangibles such as deferred development costs and concluded that it was consistent with the current treatment.

(iii) The final phase involves the actual implementation of IFRS standards. This phase will involve the finalization of IFRS conversion impacts, approval and implementation of accounting policies, implementation and testing of new processes, systems and controls, and the execution of detailed training where required.

As at March 31, 2010, the first phase of the company's IFRS plan was complete and Phase two was in progress. Phase 3 is expected to be completed by September 30, 2010.

YANGAROO Inc.

Interim Financial Statements

(unaudited)

March 31, 2010

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
As at
(unaudited - see Notice to Reader)

		March 31, 2010		December 31, 2009 (audited)
Assets				
Current				
Cash and cash equivalents	$	326,098	$	259,603
Accounts receivable		159,842		193,581
Prepaid and sundry assets		181,607		196,204
		667,547		649,388
Capital assets		111,037		133,345
Patents		136,361		138,438
Investment in technology		332,178		356,209
Deferred development costs		1,311,985		1,343,238
	$	2,559,108	$	2,620,618
Liabilities				
Current				
Line of credit	$	-	$	5,000
Accounts payable and accrued liabilities		621,832		538,666
Deferred revenue		16,826		17,134
		638,658		560,800
Convertible debentures (Note 3)		457,596	-	
		1,096,254		560,800
Shareholders' Equity				
Capital stock		21,043,889		21,043,889
Contributed surplus (Note 5)		1,427,901		1,413,871
Warrants capital (Note 6)		83,089		31,883
Equity portion of convertible debentures (Note 3)		24,100		-
Deficit		(21,116,125)		(20,429,825)
		1,462,854		2,059,818
	$	2,559,108	$	2,620,618

Going Concern (Note 1)

Commitments and Contingencies (Note 7)

Approved by the Board "Cliff Hunt" Director (Signed) "John Heaven" Director (Signed)

See accompanying notes

YANGAROO Inc.
Interim Statements of Operations and Deficit
For the Three Months Ended March 31
(unaudited - see Notice to Reader)

	2010	2009
Revenue	**$ 185,290**	$ 181,386
Expenses		
Salaries and consulting	**386,813**	411,294
Marketing and promotion	**44,676**	53,664
General and administrative	**232,588**	179,654
Technology development	**26,866**	23,987
Amortization of intangibles	**157,519**	108,539
Amortization of capital assets	**23,532**	21,265
	871,994	798,403
Loss before the undernoted items	**(686,704)**	(617,017)
Other income (expenses)		
Interest revenue	**404**	6,996
Net loss	**(686,300)**	(610,021)
Deficit, beginning of period	**(20,429,825)**	(17,613,074)
Deficit, end of period	**$(21,116,125)**	$(18,223,095)

Loss per share		
Basic and diluted	**$ (0.01)**	$ (0.01)

Weighted average number of common shares outstanding		
Basic and diluted	**75,517,615**	75,517,615

See accompanying notes

YANGAROO Inc.
Interim Statements of Cash Flows
For the Three Months Ended March 31
(unaudited - see Notice to Reader)

	2010	2009
Cash provided by (used in)		
Operations		
Net loss for the period	$ (686,300)	$ (610,021)
Items not affecting cash		
Amortization	181,051	129,805
Stock-based compensation	14,030	2,736
	(491,219)	(477,480)
Net changes in non-cash working capital		
Accounts receivable	33,739	(63,781)
Prepaids and sundry assets	14,597	(51,236)
Accounts payable and accrued liabilities	83,167	(24,883)
Deferred revenue	(308)	3,513
	(360,024)	(613,867)
Investing		
Purchase of capital assets	(1,225)	(6,503)
Patents	-	(13,912)
Deferred development costs	(100,158)	(162,548)
	(101,383)	(182,963)
Financing		
Issuance of convertible debentures, net of issue costs	532,902	-
Operating loan (repayment)	(5,000)	15,000
	527,902	15,000
Net change in cash and cash equivalents	66,495	(781,830)
Cash and cash equivalents, beginning of period	259,603	3,030,099
Cash and cash equivalents, end of period	$ 326,098	$ 2,248,269

See accompanying notes

1. GOING CONCERN

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

The Company will have to raise additional capital to fund operations until such point that revenues from their technology are able to fund operations. If the Company is not able to raise sufficient capital then there is the risk that the Company will not be able to realize the value of its assets and discharge its liabilities. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the going concern assumption not be appropriate. To date the Company has been successful raising capital and during the three months ended March 31, 2010, the Company raised gross proceeds of $663,000 (Note 3) and subsequent to the period end raised an additional $155,000 by way of convertible debentures. These financings are expected to fund the Company until the end of the second quarter.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2009, except for the additional significant accounting policy disclosed below. These financial statements should be read in conjunction with those audited financial statements.

Convertible Debentures

The Company accounts for its convertible debentures in accordance with the substance of the contractual arrangement on initial recognition. Therefore, as a result of the conversion feature of the debentures, the Company's convertible instruments have been segregated between debt and equity based on the fair value of the debt components. The difference between the estimated fair value of the debt at issuance and the face amount is reflected as "Equity portion of convertible debt" in shareholders' equity and as a discount in that amount to the liability portion of the debenture. This discount is being accreted to the principal face amount as additional interest expense over the term of the liability using the effective interest rate method.

3. CONVERTIBLE DEBENTURES

On March 22, 2010, the Company raised by way of convertible debentures (the "Debentures") 663 Units at $1,000 per Unit for gross proceeds of $663,000. The Debentures mature on March 31, 2012, have interest payable semi-annually at 12% per annum, are secured by a general security agreement over the assets of the Company and are convertible into common shares of the Company at $0.10 per share. In addition, each unit includes 7,500 warrants exercisable until March 22, 2012, with each whole Warrant entitling the holder to purchase one common share at $0.10. The Company granted the agents non-transferable warrants to acquire 508,000 common shares of the Company at $0.10 per share unit March 22, 2012.

The difference between the estimated fair value of the debt and the face amount was $55,900. To determine the value ascribed to the equity component and the warrants, the Company valued each component individually and then applied the relative fair value method of allocating the proceeds to each component. Both the fair value of the equity component of the convertible debentures and the warrants were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (i) dividend yield of 0%; (ii) expected volatility of 157%; (iii) a risk free interest rate of 1.6% and (iv) an expected life of 2 years.

Based on the results $31,900 was recorded as the equity portion of convertible debentures and $24,000 was allocated to the warrants. The Company incurred costs of $130,098 and issued agent warrants with a value of $33,106 (Note 4) in connection with issuing the convertible debt. Of the total costs, $149,504 has been allocated to the liability component, $7,800 has been allocated to the equity component and $5,900 was allocated to warrants. The discount on the debt results in an effective interest rate on the liability of approximately 30.7%.

Subsequent to the period end the Company raised an additional $155,000 by issuing 155 Units at $1,000 per Unit. These Debentures also mature on March 31, 2012 and have the same features as the previously issued Units.

4. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The Company had the following stock options outstanding at March 31, 2010:

Number of Options	Exercise Price	Expiry Date
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	$ 0.13	April 17, 2014
25,000	$ 0.10	August 19, 2014
655,000	$ 0.11	November 18, 2014
3,075,000		

(b) Warrants

The Company had the following warrants outstanding at March 31, 2010:

Number of Warrants	Exercise Price	Expiry Date
4,972,500 (i)	$ 0.10	March 22, 2012
508,000 (ii)	$ 0.10	March 22, 2012
750,000 (iii)	$ 0.10	August 24, 2014
6,230,500		

(i) These warrants were issued as part of the convertible debenture financing that closed on March 22, 2010 (Note 3).

(ii) These warrants were issued to agents in connection with the issuance of convertible debentures (Note 3). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (i) dividend yield of 0%; (ii) expected volatility of 157%; (iii) a risk free interest rate of 1.6% and (iv) an expected life of 2 years.

(iii) These warrants were issued for services related to digital media workflow solutions. The warrants will become exercisable after various phases of digital media workflow solution are completed. As at March 31, 2010, 375,000 of these warrants were exercisable.

5. CONTRIBUTED SURPLUS

	March 31 2010	December 31 2009 (audited)
Contributed surplus beginning of year	**$ 1,413,871**	$ 868,384
Expiry of warrants	**-**	505,428
Stock-based compensation expense	**14,030**	40,059
	$ 1,427,901	$ 1,413,871

6. WARRANT CAPITAL

	March 31 2010	December 31 2009 (audited)
Warrant capital beginning of year	**$ 31,883**	$ 505,428
Value of agent warrants issued in the period (Note 4)	**33,106**	-
Value allocated to warrants issued in conjunction with convertible debentures, net of issuance costs (Note 3)	**18,100**	-
Value of warrants expired in the year	**-**	(505,428)
Value of warrants issued in the year	**-**	31,883
	$ 83,089	$ 31,883

7. 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 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 by either party upon 180 days notice prior to the renewal date of the agreement. The Company must pay an additional annual maintenance fee based on the number of annual users, which at the Company's current usage results in a fee of $5,400 per year.

7. 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 counter claim 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 are complete, and are pending further answers motions and any follow up questions.

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.

7. 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. Defendants have filed a motion for summary judgment claiming that because certain steps of their method are performed outside of the United States, Yangaroo's claim should be dismissed. Yangaroo is opposing this motion. The matter is fully briefed and the parties expect a ruling from the Court in a matter of months.

The outcome of the above claims is not determinable and therefore, no provision is recorded.

8. CAPITAL RISK MANAGEMENT

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, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended March 31, 2010.

9. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), credit 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.

9. FINANCIAL RISK MANAGEMENT (Cont'd)

(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 March 31, 2010 are as follows:

		USD$
Accounts receivable		59,000
Accounts payable and accrued liabilities	$	162,000

(ii) 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 and its line of credit incurs 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.

(b) 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 ecommerce service to smaller customers. As at March 31, 2010, approximately 26% (December 31, 2009 - 22%) of accounts receivable and 26% (December 31, 2009 - 23%) of revenue are from two customers.

(c) 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 March 31, 2010, the Company has accounts payable and accrued liabilities of $621,832 due within 12 months and has cash and cash equivalents and accounts receivable of $485,940 to meet its current obligations. As disclosed in Note 1, the Company will have to raise additional capital to fund further development of their product and operations.

DMDS

Digital Media Distribution System