YANGAROO Inc.

Unaudited Interim Financial Statements

For the Three Months and Nine Months Ended September 30, 2011

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

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

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

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

"Scott Wambolt"
Scott Wambolt
Chief Executive Officer

"Michael Galloro"
Michael Galloro
Chief Financial Officer

November 8, 2011

YANGAROO Inc.

Unaudited Interim Statement of Financial Position
As at September 30, 2011
(Expressed in Canadian dollars)

	September 30 2011	December 31 2010 (note 13)
Assets		
Current		
Cash and cash equivalents	**$ 558,416**	$ 202,604
Accounts receivable	**309,905**	162,752
Prepaid and sundry assets	**147,643**	176,397
	1,015,964	541,753
Property, plant and equipment	**118,826**	140,322
	$ 1,134,790	$ 682,075
Liabilities		
Current		
Operating line of credit (note 5)	**$ -**	$ 20,000
Trade and other payables (note 6)	**334,009**	833,410
Accrued interest on debentures (note 7)	**219,908**	-
Deferred revenue	**7,515**	33,572
Debentures (note 7)	**4,487,912**	-
	5,049,344	886,982
Debentures (note 7)	**-**	655,202
	5,049,344	1,542,184
Shareholders' Deficiency		
Share capital (note 8)	**23,285,199**	22,338,694
Warrant capital	**873,455**	761,298
Contributed surplus	**1,773,662**	1,541,896
Equity portion of convertible debentures	**-**	29,890
Deficit	**(29,846,870)**	(25,531,887)
	(3,914,554)	(860,109)
	$ 1,134,790	$ 682,075

Going concern (note 1)
Commitment and contingencies (note 10)

Approved by the Board	**"Cliff Hunt"**	**"Scott Wambolt"**
	Director	Director

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

YANGAROO Inc.

Unaudited Interim Statement of Comprehensive Loss
For the period ended September 30
(Expressed in Canadian dollars)

	Nine Months Ended September 30		Three Months Ended September 30	
	2011	2010	**2011**	2010
Revenue	**$ 994,135**	$ 553,553	**$ 410,360**	$ 171,729
Expenses				
Salaries and consulting	**2,069,795**	1,293,131	**731,590**	523,645
Marketing and promotion	**103,796**	169,878	**33,878**	68,985
General and administrative	**445,896**	902,930	**150,221**	367,353
Technology development	**40,432**	56,956	**(5,191)**	7,247
Settlement of lawsuit (note 10)	**600,000**	-	**-**	-
Amortization of capital assets	**62,139**	64,240	**18,090**	18,766
Amortization of intangibles	**-**	433,346	**-**	130,982
	3,322,058	2,920,481	**928,588**	1,116,978
Loss before the undernoted item	**(2,327,923)**	(2,366,928)	**(518,228)**	(945,249)
Other income (expense)				
Interest income	**2,588**	2,854	**1,705**	2,071
Interest expense	**(399,680)**	(99,756)	**(201,956)**	(47,748)
Financing costs	**(1,399,755)**	-	**-**	-
Debt extinguishment loss	**(190,213)**	-	**-**	-
	(1,987,060)	(96,902)	**(200,251)**	(45,677)
Net loss and comprehensive loss	**$ (4,314,983)**	$ (2,463,830)	**$ (718,479)**	$ (990,926)
Loss per share				
Basic and diluted	**$ (0.04)**	$ (0.03)	**$ (0.01)**	$ (0.01)
Weighted average number of common shares	**123,000,547**	80,970,179	**131,569,119**	91,697,506

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

YANGAROO Inc.

Unaudited Interim Statement of Changes in Equity
For the period ended September 30
(Expressed in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Equity portion of convertible debentures	Deficit	**Total**
Balance at January 1, 2010	$ 21,043,889	$ 31,883	$ 1,425,436	$ -	$ (20,441,390)	$ 2,059,818
Issuance of common shares	2,126,500	-	-	-	-	2,126,500
Share issuance costs	(823,443)	-	-	-	-	(823,443)
Issuance of warrants	-	729,871	-	-	-	729,871
Share-based payments	-	-	78,486	-	-	78,486
Equity portion of convertible debenture	-	-	-	30,500	-	30,500
Loss for the period	-	-	-	-	(2,463,830)	(2,463,830)
Balance at September 30, 2010	$ 22,346,946	$ 761,754	$ 1,503,922	$ 30,500	$ (22,905,220)	$ 1,737,902
Balance at January 1, 2011	$ 22,338,694	$ 761,298	$ 1,541,896	$ 29,890	$ (25,531,887)	$ (860,109)
Issuance of common shares	946,505	-	-	-	-	946,505
Issuance of warrants	-	112,157	-	-	-	112,157
Share-based payments	-	-	188,084	-	-	188,084
Equity portion of convertible debenture	-	-	-	69,693	-	69,693
Debt extinguishment	-	-	43,682	(99,583)	-	(55,901)
Loss for the period	-	-	-	-	(4,314,983)	(4,314,983)
Balance at September 30, 2011	$ 23,285,199	$ 873,455	$ 1,773,662	$ -	$ (29,846,870)	$(3,914,554)

YANGAROO Inc.

Unaudited Interim Statement of Cash Flows
For the period ended September 30
(Expressed in Canadian dollars)

	Nine Months Ended September 30	
	2011	2010
Cash flow from operating activities		
Net loss for the period	**$ (4,314,983)**	$ (2,463,830)
Adjustment for:		
Amortization	**62,139**	497,586
Accretion interest	**134,822**	49,084
Financing costs	**1,399,755**	-
Debt extinguishment loss	**190,213**	-
Share-based payments	**188,084**	78,486
Warrants issued	**-**	20,625
Change in accounts receivable	**(147,492)**	(45,506)
Change in prepaid and sundry assets	**29,092**	50,628
Change in trade and other payables	**(234,581)**	309,371
Change in deferred revenue	**(26,056)**	32,696
Net cash used in operating activities	**(2,719,007)**	(1,470,860)
Cash flow from investing activities		
Acquisition of property, plant and equipment	**(40,643)**	(44,843)
Investment in patents	**-**	(1,395)
Investment in technology (net of tax credit)	**-**	(260,265)
Net cash used in investing activities	**(40,643)**	(306,503)
Cash flow from financing		
Proceeds from issuance of debentures, net of issuance costs	**3,135,462**	669,753
Proceeds from issuance of common shares, net of issuance costs	**-**	1,956,321
Operating loan	**(20,000)**	(5,000)
Net cash received from financing activities	**3,115,462**	2,621,074
Net increase / (decrease) in cash and cash equivalents	**355,812**	843,711
Cash and cash equivalents at January 1	**202,604**	259,603
Cash and cash equivalents at September 30	**$ 558,416**	$ 1,103,314

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

1. Nature of Operations and Going Concern

YANGAROO Inc. (the "Company") is a publicly listed company incorporated on July 28, 1999 under the laws of Ontario as Musicrypt.com Inc. and changed to its present name on July 17, 2007. YANGAROO trades on the TSX Venture Exchange (TSX-V) under the symbol YOO and in the U.S. under TCBB: YOOIF. The head office, principal and registered address of the Company is located at 18 Mowat Avenue, Toronto, ON M6K 3E8.

YANGAROO Inc. 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. YANGAROO's patented Digital Media Distribution System (DMDS) is a leading secure B2B digital delivery solution for the music and advertising industries. DMDS is a Web-based delivery system that pioneers secure digital file distribution by incorporating biometrics, high-value encryption and watermarking. DMDS replaces the physical distribution of audio and video content for music, music videos, and advertising to television, 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.

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 in fiscal 2011. The Company raised $3.1 million by way of convertible debentures. The proceeds raised are used to fund operations of the Company.

The interim financial statements of the Company for the three and nine month period ended September 30, 2011 were approved by the Board of Directors on November 8, 2011.

2. Basis of Preparation

(a) Statement of Compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting”. These unaudited interim financial statements are for part of the period covered by the Company’s first annual financial statements prepared under IFRS. The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the unaudited consolidated interim financial statements for the three months ended March 31, 2011, as they follow the same accounting policies and methods of application, unless otherwise indicated.

2. Basis of Preparation (continued)

(a) Statement of Compliance (continued)

The Company adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date to IFRS of January 1, 2010. Consequently, the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS.

(b) Basis of Measurement

The Company's interim financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the interim financial statements are noted below with further details of the assumptions in the following notes:

(i) Share-based payments

Charges for share-based payments are based on the fair value at the date of the award. The shares are valued using Black-Scholes; inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding.

2. Basis of Preparation (continued)

(d) Use of estimates and judgements (continued)

(ii) Income taxes

Tax interpretations, regulations and legislation in the jurisdiction in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realised from future taxable earnings.

3. Significant Accounting Policies

The accounting policies have been applied consistently to all periods presented in these interim financial statements as at and for the three and nine months ended September 30, 2011 and 2010, unless otherwise indicated.

New standards and interpretations not yet adopted

The following accounting standards, amendments and interpretations have been issued but are not yet effective for the Company. Management is currently assessing the impact of the new standards on the Company's accounting policies and financial statement presentation.

- IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The IASB has proposed to move the effective date of IFRS 9 to January 1, 2015.

- IFRS 10 *Consolidated Financial Statements* was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted (continued)

- IFRS 11 *Joint Arrangements* was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- IFRS 12 *Disclosure of Interests in Other Entities* was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- IFRS 13 *Fair Value Measurement* was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- IAS 1 *Presentation of Financial Statements* was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

4. Determination of Fair Value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(Expressed in Canadian dollars)

4. Determination of Fair Value (continued)

Financial assets and liabilities:

In establishing fair value, the Company uses a fair value hierarchy based on the levels as defined below:

- Level 1 fair value measurements are based on unadjusted quoted market prices.
- Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.
- Level 3 fair value measurements are those with inputs for the asset or liability that are not based on observable market data.

The Company has determined that the carrying value of its short-term financial assets and liabilities, including cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings, approximate their fair value because of the relatively short period to maturity of the instruments or in the case of the line of credit, the fair value approximates its carrying value as it bears interest at floating rates.

5. Operating Line of Credit

The Company has available an operating line of credit of $25,000. Borrowings under the operating line of credit are due on demand and bear interest at prime plus 2.5% per annum and are secured by a general security agreement. At the quarter ended September 30, 2011, the Company had a balance outstanding of $ Nil (December 31, 2010 - $20,000) on this line of credit.

6. Trade and Other Payables

	September 30, 2011	December 31, 2010
Trade payables	**$ 126,551**	$ 520,417
Non-trade payables	**207,458**	312,993
	$ 334,009	$ 833,410

7. Debenture

On June 23, 2011, the Company issued $2,500,000 principal amount of senior secured 18% non-convertible debentures (the “New Debenture). As well on June 23 2011, the Company amended its previously issued $818,000 principal amount 12% convertible debentures maturing March 31, 2012 (the “March 2012 Debentures”) and $1,125,000 principal amount convertible debentures maturing July 31, 2012 to reflect the terms of the New Debentures (the “July 2012 Debentures” and together with the March 2012 Debentures, the “Amended Debentures”). $44,911 of interest that accrued on the March 2012 Debentures was added to the principal amount of the amended March 2012 Debentures.

(Expressed in Canadian dollars)

7. Debenture (continued)

Pursuant to their terms, the New Debentures and the Amended Debentures (collectively, the "Debentures") are, among other things, non-convertible and repayable upon demand, after the first anniversary of their issuance, subject to the requisite determination of the holders of the outstanding Debentures to make demand for repayment. In addition, in the event of an asset sale in excess of $3,000,000, the Company would be required to offer to repurchase a minimum of 50% of the outstanding Debentures, plus all accrued and unpaid interest due, at a price equal to 100%. Debenture holders would also have a right of first refusal to participate in future offerings by the Company, subject to the satisfaction of certain conditions. In turn, the Company may redeem the Debentures in the event that it has first raised a minimum of $4 million of "net new cash", which would include the proceeds raised from the issuance of the New Debentures but would exclude, among other things, the proceeds from the repayment of any debentures that, in turn, are used to fund the purchase of new securities of the Company.

In accordance with the rules of the TSX Venture Exchange, the Company also issued an aggregate of 13,521,504 "Bonus" common shares to purchasers of the New Debentures and holders of the previously issued debentures. Market value of $0.07 was used to value the "Bonus" common shares.

The securities issued and issuable pursuant to the transaction were subject to a hold period that expired on October 24, 2011.

8. Share Capital

Authorized an unlimited number of common shares

Issued and outstanding:

	Number of shares	Value
Balance at January 1, 2010	75,517,615	$ 21,043,889
Issuance of common shares on August 27, 2010 (i)	42,530,000	1,294,805
Balance at December 31, 2010	118,047,615	22,338,694
Issuance of "Bonus" common shares to purchasers of the newly issued debentures and holders of the previously issued convertible debentures on June 23, 2011 (note 7)	13,521,504	946,505
Balance at September 30, 2011	131,569,119	$ 23,285,199

(i) The Company issued 2,126.50 Units for gross proceeds of $2,126,500 by way of a private placement. Each Unit consists of 20,000 common shares and 10,000 common share purchase warrants. Share issuance costs of $258,389 have been netted against the proceeds. Included in the share issuance costs is $79,960; which represents the value of 2,055,000 warrants issued to agents in connection with the private placement.

(Expressed in Canadian dollars)

9. Stock Options and Warrants

(a) Stock Options

The Company had the following stock options outstanding at September 30, 2011:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
95,000	-	95,000	$0.24	November 21, 2011
10,000	-	10,000	$0.35	April 12, 2012
340,000	-	340,000	$0.32	May 24, 2012
50,000	-	50,000	$0.27	June 25, 2012
120,000	-	120,000	$0.24	August 15, 2012
75,000	-	75,000	$0.13	November 27, 2012
100,000	-	100,000	$0.14	January 9, 2013
250,000	-	250,000	$0.22	April 18, 2013
360,000	-	360,000	$0.10	November 19, 2013
25,000	-	25,000	$0.13	April 17, 2014
25,000	-	25,000	$0.13	April 17, 2014
25,000	-	25,000	$0.10	August 19, 2014
500,000	-	500,000	$0.11	November 18, 2014
400,000	120,000	280,000	$0.10	April 20, 2015
3,775,000	3,108,333	666,667	$0.10	June 15, 2015
1,000,000	833,333	166,667	$0.10	August 23, 2015
1,708,000	1,453,000	255,000	$0.10	February 11, 2016
2,879,761	2,591,785	287,976	$0.10	August 18, 2016
11,737,761	8,106,451	3,631,310	$0.11	Weighted-average exercise price

(b) Warrants

The Company had the following warrants outstanding and exercisable at September 30, 2011:

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
1,162,500	(iv)	$0.10	March 22, 2012
21,265,000	(v)	$0.10	January 31, 2012
2,055,000	(vi)	$0.10	August 27, 2012
600,000	(vii)	$0.10	February 11, 2013
2,066,000	(viii)	$0.10	June 23, 2013
33,379,000			

9. Stock Options and Warrants (continued)

(b) Warrants (continued)

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

(ii) These warrants were issued to agents in connection with the issuance of convertible debentures. 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 1.61% 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.

(iv) These warrants were issued as part of the convertible debenture financing that closed on April 12, 2010.

(v) These warrants were issued as part of the private placement of units. 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 129%; (III) a risk free interest rate of 1.25% and (IV) an expected life of 1.43 years.

(vi) These warrants were issued to agents in connection with the private placement of units. 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 153%; (III) a risk free interest rate of 1.25% and (IV) an expected life of 2 years.

(vii) These warrants were issued to agents in connection with the issuance of convertible debentures. 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 129%; (III) a risk free interest rate of 1.90% and (IV) an expected life of 2 years.

(viii) These warrants were issued to agents in connection with the issuance of debentures. 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 121%; (III) a risk free rate of 1.45%; and (IV) an expected life of 2 years.

10. Commitments and Contingencies

(a) Technology License Agreement

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

(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 amount cannot be estimated reliably, 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

Settlement of Patent Infringement

On June 24, 2011, the Company resolved all litigation with a competitor that had been ongoing since 2005. In consideration of the settlement, the Company agreed to pay its competitor a lump sum amount totalling $600,000 and granted the competitor certain intellectual property rights relating to the two patents held by the Company that were the subject matter of the dispute. As part of the settlement, neither party will pursue legal fees, court costs or royalties pursuant to the above mentioned disputes. The payment was made in the period.

10. Commitments and Contingencies (continued)

(c) Patent Infringement (continued)

The following is an account of the patent infringement litigation:

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.

11. 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 three month period ended September 30, 2011.

(Expressed in Canadian dollars)

12. 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.

(a) Market risk:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily United States dollars and Australian 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, 2011 are as follows:

	USD$	AUD$
Accounts receivable	$ 109,845	$ 24,167
Accounts payable and accrued liabilities	$ 92,090	$ -

(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 September 30, 2011, approximately 31% (December 31, 2010 - 27%) of accounts receivable and 17% (December 31, 2010 - 24%) of revenue are from two customers (2010 - two customers).

12. Financial Risk Management (continued)

(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 September 30, 2011, the Company has trade and other payables of $553,917 due within 12 months and has cash and cash equivalents and accounts receivable of $868,321 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.

13. Reconciliation from Canadian GAAP to IFRS

The Company's accounting policies under IFRS differ from those followed under previous GAAP. These accounting policies have been applied for the three and nine months ended September 30, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, the comparative information for the three and nine months ended September 30, 2010 and the comparative information for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit on the statement of financial position when appropriate.

On transition to IFRS on January 1, 2010 the Company used certain exemptions allowed under IFRS 1 "First Time Adoption of International Reporting Standards". The exemptions used were:

Share based compensation – IFRS1 allows an entity an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before the Company's transition date to IFRS. The Company has elected to apply IFRS 2 only to stock options that remain unvested at transition date.

The adoption of IFRS did not significantly affect our cash flows compared to GAAP. There were no changes to over all cash flows.

(Expressed in Canadian dollars)

13. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Financial Position
As at September 30, 2010

	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 1,103,314	$ -	$ 1,103,314
Accounts receivable	239,087		239,087
Prepaid and sundry assets	145,576	-	145,576
	1,487,977	-	1,487,977
Non-current assets			
Property, plant and equipment	113,948	-	113,948
Patents	133,499	-	133,499
Investment in technology	284,117	-	284,117
Deferred development costs	1,248,582	-	1,248,582
	1,780,146	-	1,780,146
	$ 3,268,123	$ -	$ 3,268,123
Liabilities			
Current liabilities			
Trade and other payables	$ 848,036	$ -	$ 848,036
Deferred revenue	49,830	-	49,830
	897,866	-	897,866
Non-current liabilities			
Convertible debentures	632,355	-	632,355
	1,530,221	-	1,530,221
Shareholders' Deficiency			
Share capital issued and outstanding	22,346,946	-	22,346,946
Warrants issued and outstanding	761,754	-	761,754
Equity portion of convertible debentures	30,500	-	30,500
Reserves: contributed surplus	1,473,465	30,457	1,503,922
Retained earnings (deficit)	(22,874,763)	(30,457)	(22,905,220)
	1,737,902	-	1,737,902
	$ 3,268,123	$ -	$ 3,268,123

(Expressed in Canadian dollars)

13. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Comprehensive Income
For the period ended September 30, 2010

	Nine Months Ended September 30, 2010			**Three Months Ended September 30, 2010**		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue	$ 553,553	$ -	$ 553,553	$ 171,729	$ -	$ 171,729
Expenses						
Salaries and consulting	1,274,239	18,892	1,293,131	514,006	9,639	523,645
Marketing and promotion	169,878	-	169,878	68,985	-	68,985
General and administrative	902,930	-	902,930	367,353	-	367,353
Technology development	56,956	-	56,956	7,247	-	7,247
Amortization of intangibles	433,346	-	433,346	130,982	-	130,982
Amortization of property, plant and equipment	64,240	-	64,240	18,766	-	18,766
	2,901,589	18,892	2,920,481	1,107,339	9,639	1,116,978
Loss before the undernoted items	(2,348,036)	(18,892)	(2,366,928)	(935,610)	(9,639)	(945,249)
Finance income (expenses)						
Interest income	2,854	-	2,854	2,071	-	2,071
Interest expense	(99,756)	-	(99,756)	(47,748)	-	(47,748)
	(96,902)	-	(96,902)	(45,677)	-	(45,677)
Net loss and comprehensive loss	$(2,444,938)	$(18,892)	$(2,463,830)	$ (981,287)	$ (9,639)	$ (990,926)

Share based compensation

In certain situations, stock options granted vest in instalments over a specified vesting period. When the only vesting condition is service from the grant date to the vesting date of each tranche awarded, then each instalment should be accounted for as a separate share-based payment arrangement under IFRS, otherwise known as the graded vesting. Canadian GAAP permits an entity the accounting policy choice with respect to graded vesting awards. Each instalment can be considered as a separate award, each with a different vesting period, consistent with IFRS, or the arrangement can be treated as a single award with a vesting period based on the average vesting period of the instalments depending on the policy elected.

The Company's policy under Canadian GAAP was to treat graded vesting awards under the latter method and, as a result, an adjustment of $9,639 was required for the three month ended September 30, 2010. The adjustment increased contributed surplus reserve by $30,457 and decreased equity by $30,457 as at September 30, 2010.