

YANGAROO Inc.

Unaudited Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2014 and 2013

(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 condensed 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 condensed interim financial statements. The unaudited condensed 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 condensed interim 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.

“Gary Moss”

Gary Moss
Chief Executive Officer

“Michael Galloro”

Michael Galloro
Chief Financial Officer

August 26, 2014

YANGAROO Inc.

Unaudited Condensed Interim Statements of Financial Position

As at

(Expressed in Canadian dollars)

	June 30 2014	December 31 2013 (audited)
Assets		
Current		
Cash and cash equivalents	\$ 1,088,289	\$ 764,760
Accounts receivable	817,540	825,210
Prepaid and sundry assets	221,965	144,826
	2,127,794	1,734,796
Property and equipment	170,350	127,524
	\$ 2,298,144	\$ 1,862,320
Liabilities		
Current		
Trade and other payables (note 5)	\$ 568,987	\$ 442,122
Deferred revenue	78,813	12,938
Finance lease obligation	54,983	35,666
	702,783	490,726
Finance lease obligation	73,628	47,110
Accrued interest on debentures (note 6)	-	75,772
Debentures (note 6)	-	2,021,538
	776,411	2,635,146
Shareholders' equity (deficiency)		
Share capital (note 7)	31,167,228	27,984,047
Warrant capital (note 9)	2,316,667	2,177,455
Contributed surplus	3,346,706	3,076,340
Deficit	(35,308,868)	(34,010,668)
	1,521,733	(772,826)
	\$ 2,298,144	\$ 1,862,320

Going concern (note 2(c))

Commitments and contingencies (note 11)

Subsequent event (note 14)

Approved by the Board

"Cliff Hunt"

Director

"Howard Atkinson"

Director

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

YANGAROO Inc.

Unaudited Condensed Interim Statements of Comprehensive Loss

For the period ended June 30

(Expressed in Canadian dollars)

	Six Months Ended		Three Months Ended	
	2014	2013	2014	2013
Revenue	\$ 1,752,307	\$ 1,598,854	\$ 852,695	\$ 835,751
Expenses				
Salaries and consulting (note 8)	2,094,140	1,411,092	1,028,366	635,151
Marketing and promotion	322,628	149,629	178,878	76,997
General and administrative	411,762	399,804	220,159	175,027
Technology development (recovery)	(50,896)	18,629	18,473	7,648
Depreciation of property and equipment	40,971	39,718	23,649	20,015
	2,818,605	2,018,872	1,469,525	914,838
Loss from operations	(1,066,298)	(420,018)	(616,830)	(79,087)
Finance income (expenses)				
Interest income	2,014	318	487	32
Interest expense	(134,711)	(423,372)	(57,859)	(219,245)
Foreign exchange gain (loss)	231	-	(29,681)	-
Loss on extinguishment of debt (note 6)	(99,436)	-	(99,436)	-
	(231,902)	(423,054)	(186,489)	(219,213)
Net loss and comprehensive loss	\$(1,298,200)	\$ (843,072)	\$(803,319)	\$ (298,300)
Basic and diluted loss per share (note 10)	\$ (0.031)	\$ (0.052)	\$ (0.018)	\$ (0.018)

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

YANGAROO Inc.

Unaudited Condensed Interim Statements of Changes in Equity

For the period ended June 30

(Expressed in Canadian dollars)

	Share capital	Warrant capital	Contributed surplus	Deficit	Total
Balance at December 31, 2012	\$23,828,456	\$1,060,551	\$2,531,803	\$(32,380,234)	\$(4,959,424)
Expiry of warrants (note 9)	-	(112,157)	112,157	-	-
Share-based payments (note 8)	-	-	124,125	-	124,125
Loss for the period	-	-	-	(843,072)	(843,072)
Balance at June 30, 2013	\$23,828,456	\$948,394	\$2,768,085	\$(33,223,306)	\$(5,678,371)
Private placement (note 7)	377,349	917,441	-	-	1,294,790
Cancellation of warrants (note 6)	-	(154,437)	154,437	-	-
Share-based payments (note 8)	-	-	153,818	-	153,818
Conversion and amendment of debenture (note 6)	3,778,242	466,057	-	-	4,244,299
Loss for the period	-	-	-	(787,362)	(787,362)
Balance at December 31, 2013	\$27,984,047	\$2,177,455	\$3,076,340	\$(34,010,668)	\$(772,826)
Private placement (note 7)	3,183,181	-	-	-	3,183,181
Issuance of warrants (note 9)	-	139,212	-	-	139,212
Share-based payments (note 8)	-	-	270,366	-	270,366
Loss for the period	-	-	-	(1,298,200)	(1,298,200)
Balance at June 30, 2014	\$31,167,228	\$2,316,667	\$3,346,706	\$(35,308,868)	\$1,521,733

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

YANGAROO Inc.

Unaudited Condensed Interim Statements of Cash Flows

For the six months ended June 30

(Expressed in Canadian dollars)

	2014	2013
Cash flow from operating activities		
Cash flow used in operating activities:		
Net loss for the period	\$ (1,298,200)	\$ (843,072)
Items not affecting cash:		
Depreciation of property and equipment	40,971	39,718
Accretion interest	13,554	16,821
Share-based payments (note 8)	270,366	124,125
Accrued interest on debentures	117,576	405,320
Bad debt expense	1,450	1,097
Loss on extinguishment of debt (note 6)	99,436	-
Changes in non-cash operating working capital:		
Accounts receivable	6,220	(124,272)
Prepaid and sundry assets	(77,139)	6,011
Trade and other payables	126,865	2,926
Deferred revenue	65,875	(12,022)
Net cash used in operating activities	(633,026)	(383,348)
Cash flow from investing activities		
Acquisition of property and equipment	(15,387)	(2,059)
Net cash used in investing activities	(15,387)	(2,059)
Cash flow from financing activities		
Proceeds from issuance of common shares, net of share issuance costs (note 7)	3,322,393	-
Redemption of debentures, including interest (note 6)	(2,327,877)	-
Payment of finance lease obligation	(22,574)	(7,422)
Net cash received (used) in financing activities	971,942	(7,422)
Net increase / (decrease) in cash and cash equivalents	323,529	(392,829)
Cash and cash equivalents at January 1	764,760	493,427
Cash and cash equivalents at June 30	\$ 1,088,289	\$ 100,598
Cash interest paid	\$ 195,237	\$ 1,609

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

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
For the three and six months ended June 30, 2014 and 2013
(Expressed in Canadian dollars)

1. Nature of Operations

YANGAROO Inc. ("YANGAROO" or "the Company") is a technology company that is the provider of user friendly and secure business to business distribution of media via the Internet. The Company's patented Digital Media Distribution System (DMDS) is a secure B2B digital media management solution for the entertainment and advertising industries. DMDS is an end to end technology solution that provides a fully integrated work flow based digital distribution and data management solution. DMDS provides 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 distribution of broadcast quality media via the Internet.

YANGAROO Inc. 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 OTCBB: YOOIF.

The address of the Company's corporate office and principal place of business is 18 Mowat Avenue, Toronto, Ontario M6K 3E8.

2. Basis of Preparation

(a) Basis of compliance

These unaudited condensed interim financial statements were prepared using the same accounting policies and methods as those used in the Company's audited financial statements for the year ended December 31, 2013. These unaudited condensed interim financial statements are in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), have been omitted. The preparation of these unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These statements should be read in conjunction with the audited financial statements for the year ended December 31, 2013. These statements were approved by the Board of Directors on August 26, 2014.

(b) Basis of measurement

The condensed unaudited interim financial statements have been prepared on the historical cost basis except certain financial instruments recorded at fair value through profit and loss. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
For the three and six months ended June 30, 2014 and 2013
(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(b) Basis of measurement (continued)

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes:

(i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants to the extent that they are not measured at the fair value of the services received are based on the fair value at the date of the award. These share-based payments are valued using Black-Scholes option pricing model.

(ii) Fair value of financial instruments

The Company estimated the fair value of the debentures using an estimated market interest rate derived from comparable companies.

(iii) Revenue recognition

The Company uses estimates to determine the percentage of completion of certain milestones for the awards management revenue stream.

(c) Going concern

The Company may 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.

At June 30, 2014, the Company had a working capital of \$1,425,011 and a deficit of \$35,308,868. To date, the Company has been successful raising capital. Refer to note 7.

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
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(Expressed in Canadian dollars)

3. Significant Accounting Policies

The unaudited condensed interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2013. These unaudited condensed financial statements should be read in conjunction with those audited financial statements.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are applicable for accounting periods beginning after December 31, 2013, as follows:

- 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. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The mandatory effective date for IFRS 9, which is to be applied retrospectively, would be annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting IFRS 9 on its financial statements.

4. Operating Line of Credit

The Company has available an operating line of credit of \$20,000. 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. As of June 30, 2014, the Company had a balance outstanding of \$Nil (December 31, 2013 - \$Nil) on this line of credit.

5. Trade and Other Payables

	June 30 2014	December 31 2013 (audited)
Trade payables	\$ 224,941	\$ 179,303
Non-trade payables	344,046	262,819
	\$ 568,987	\$ 442,122

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
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(Expressed in Canadian dollars)

6. Debentures

- (a) 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.

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. 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. The non-convertible debentures are secured by all tangible and intangible assets of the Company.

The Company incurred cash financing costs of \$374,969, "Bonus" common shares of \$946,505 and 2,066,000 warrants with a fair value of \$78,281 in connection with the June 23, 2011 transaction. These costs were allocated between the New Debentures and the previously issued convertible debentures on a pro rata basis resulting in \$606,011 of these costs being included in the loss on extinguishment of debentures and \$793,744 recorded against the carrying value of the New Debentures.

The New Debentures were being accreted to their face value at a weighted average effective interest rate of 39.72%. The amendment to the debentures was accounted for as an extinguishment of the previously issued convertible debentures as they had yet to mature when the terms were modified on June 23, 2011. Also, the terms between current debentures and the previously issued convertible debentures were considered to be substantially different.

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
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6. Debentures (continued)

- (b) As a result of closing the Private Placement on October 3, 2012 and achieving the minimum threshold of \$1,250,000 in financing, the existing debenture holders of the Company have consented to the amendment of their existing debenture agreements. The key amendments include lowering the interest rate from 18% to 14% and extending the repayment date of the existing debentures for an additional three years, all as of the closing date of the Private Placement. Accrued interest recorded up to the date of the amendment of \$687,301 was added to the principle of the Amended Debentures. The remaining interest will accrue at 14% throughout the amended term and is payable with the redemption of the principal portion of the debenture.

As part of the amended debenture agreement, the Company was required to issue bonus warrants to the debenture holders as soon as practicable following the execution of the agreement and receipt of approval from the TSX Venture Exchange. The amended agreement also outlined that there was to be approximately 8,900,000 bonus warrants issued to the debenture holders. However, only 3,600,000 warrants were actually approved for issuance. The Company issued 3,600,000 bonus warrants to the holders of the debentures as of December 31, 2012. These warrants were cancelled as of December 31, 2013 (note 9).

The amendment to the debentures is accounted for as an extinguishment since the amendments to the debt terms has resulted in a change in value of more than 10%. The difference between the fair value of the debentures and its face amount was \$154,437 which was ascribed to the bonus warrants. The debentures are being accreted to its face amount of \$5,598,692 using an effective interest rate of 15%.

The amended debenture agreement includes a cash sweep whereby the Company is to repay the debenture holders if the cash balance in any fiscal quarter end exceeds certain thresholds. In the event that the cash balance of the Company exceeds \$1,000,000, the Company is required to repay 25% of the amount over \$1,000,000 up to \$250,000. If the cash balance at any quarter end exceeds \$2,000,000, then in addition to the \$250,000 payable above, the Company is also required to pay to the debenture holders 50% of the amount over \$2,000,000.

As outlined in the amended debenture agreement, because the TSX Venture Exchange did not approve the bonus warrants, the Company was required to increase the percentage used to estimate the cash sweep over \$1,000,000 to be 35% up to a maximum of \$350,000.

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
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6. Debentures (continued)

- (c) On September 12, 2013, the Company issued amended debenture agreements to two of three classes of debenture holders who provided the requisite consent. Upon approval of the TSX Venture Exchange, the Company would offer a one-half of one warrant for every \$1.00 of current indebtedness to the debenture holders as consideration for amending the debenture agreements to reflect more favourable terms, as described below. Each whole warrant will be exercisable for a period of 36 months from the date of issuance at a price equal to \$0.25. 2,382,726 warrants were issued on October 7, 2013 (note 9).

The amended debentures provide for the reduction of the interest rate from 14% to 10%, an extension of the term by an additional 12 months to October 3, 2016, and the waiver of the cash sweeps, as defined above. The cash sweeps have been eliminated in connection with the private placement and all future debt, equity, and equity-like financings pursuant to the amended debentures.

The amendment to the debentures is accounted for as an extinguishment since the amendments to the debt terms has resulted in a change in value of more than 10%.

- (d) On September 19, 2013, the Company announced that it had entered into shares for debt agreements with a majority of its current debenture holders whereby, of the current outstanding indebtedness of the Company equal to \$6,379,656.84, a total of \$4,245,128 will be converted into post-consolidation common shares of the Company at a fair value of \$0.25 per common share. 16,980,514 shares were issued on October 7, 2013 (note 7).
- (e) The Company entered into an advisory agreement with Fraser Mackenzie Merchant Capital Partnership ("FMMC") with respect to the services provided by FMMC in connection with the shares for debt transaction and the debenture amendment and, under such agreement, FMMC was entitled to receive 384,281 common shares and 336,364 non-transferable warrants for a period of 36 months. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per unit within the first year of the warrant exercise period, and at a price of \$0.35 per unit within the second and third years of the warrant exercise period. Both common shares and warrants were issued on October 7, 2013 (notes 7 & 9).

As a result of the transactions described above in (c), (d), and (e), the Company recorded a charge of \$202,371 relating to the debenture amendments, conversions and related costs during the year ended December 31, 2013.

- (f) On June 11, 2014, the Company announced that it had redeemed all of its outstanding debentures early, without penalty and in full for the aggregate amount of \$2,327,876.62 in principal and interest, entering into debenture redemption agreements with the debenture holders. The difference between the redeemed amount and the carrying value of the debentures, which included accrued interest, was recorded in loss from extinguishment of debt.

YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements
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(Expressed in Canadian dollars)

7. Share Capital

The Company is authorized to issue an unlimited number of common shares.

The following is a summary of changes in common share capital from January 1, 2013 to June 30, 2014:

	Number of shares	Value
Balance at December 31, 2012 and June 30, 2013	163,244,771	\$ 23,828,456
Effect of share consolidation ^(a)	(146,920,287)	-
Balance at September 19, 2013, date of share consolidation ^(a)	16,324,484	\$ 23,828,456
Issued for cash on September 30, 2013 ^(b)	6,400,000	377,349
Issued in connection with conversion of debentures ^(c)	16,980,514	3,693,700
Issued in connection with conversion of debentures and amendment of debt ^(d)	384,281	84,542
Balance at December 31, 2013	40,089,279	\$ 27,984,047
Issued for cash on May 30, 2014 ^(e)	8,236,669	2,140,154
Issued for cash on June 11, 2014 ^(f)	4,053,334	1,043,027
Balance at June 30, 2014	52,379,282	\$ 31,167,228

- (a) On September 19, 2013, the Company completed the consolidation of its issued and outstanding common shares. Effective on this date, the Company's common shares were consolidated on a basis of ten pre-consolidation shares for each one post-consolidation share. After the consolidation, the Company's common shares were reduced by 146,920,287, resulting in 16,324,484 common shares outstanding, prior to the issuance of the common shares underlying the subscription receipts. The shareholders of the Company approved the share consolidation at its Annual and Special Meeting of the Shareholders held on August 15, 2013.

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7. Share Capital (continued)

- (b) The Company issued 6,400,000 units at a price of \$0.25 per unit for gross proceeds of \$1,600,000 by way of a private placement. Each unit consists of one post-consolidation common share and one warrant entitling the holder to purchase one additional common share within 36 months of closing, at a price of \$0.25 per share within the first year of the warrant exercise period, and at a price of \$0.35 per share within the second and third years of the warrant exercise period. The majority of the proceeds were deposited into escrow with Equity Financial Trust Company, an escrow agent to be held until their release upon the satisfaction by the Company of the release conditions. The escrow release conditions were satisfied on September 30, 2013 and 6,400,000 shares and 6,400,000 warrants were issued on this date (note 9). Share issuance costs of \$369,851 have been netted against share capital and \$852,800 has been allocated to warrants (note 9). Included in share issuance costs is \$64,641, which represents the value of 443,200 warrants to be issued to Fraser Mackenzie Limited, who acted as agents in connection with the private placement. Each warrant will be exercisable at a price of \$0.25 per common share for a period of 36 months. These warrants were issued on October 7, 2013 (note 9). Fraser Mackenzie Limited also received in consideration for its services a cash commission of \$110,800.
- (c) The Company issued 16,980,514 shares in connection with the shares for debt agreements entered into on September 19, 2013. A total of \$4,245,128 indebtedness was converted into post-consolidated common shares of the Company at the fair value of \$0.25 per common share (note 6). The issuance costs totaled \$551,428.
- (d) The Company issued 384,281 common shares in connection with the advisory agreement entered into with FMMC with respect to the services provided by FMMC in connection with the shares for debt transaction and debenture amendment (note 6).
- (e) The Company issued 8,236,669 shares at a price of \$0.30 per share for gross proceeds of \$2,471,000 by way of a private placement. The proceeds were used primarily to repay existing indebtedness in the form of debentures (note 6). Share issuance costs of \$243,915 have been netted against share capital and \$86,931 has been allocated to 534,567 warrants issued to agents in connection with the private placement (note 9).
- (f) The Company issued 4,053,334 shares at a price of \$0.30 per share for gross proceeds of \$1,216,000 by way of a private placement. Share issuance costs of \$120,692 have been netted against share capital and \$52,281 has been allocated to 283,734 warrants issued to agents in connection with the private placement (note 9).

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8. Share-Based Payments

On October 1, 2013, the Company announced that it had amended its "fixed" stock option plan (the "Old Plan") to a 10% "rolling" plan (the "Amended Plan").

Under the Old Plan, the Company had reserved a fixed number of 11,804,761 (pre-consolidation) common shares for the grant of stock options. Under the Amended Plan, the Company is entitled to grant stock options to purchase up to 10% of the issued capital of the Company at the time of an applicable option grant.

The Amended Plan was approved by the TSX Venture Exchange on September 25, 2013 as well as the Company's shareholders at the Annual and Special Meeting of the Shareholders held on August 15th, 2013.

The Company had issued stock options to acquire common shares as follows:

	Weighted average exercise price	Outstanding options	Vested options	Weighted average remaining life (years)
Balance at December 31, 2012	\$ 0.10	9,553,000	3,885,513	3.58
Expired	0.10	(350,000)		
Cancelled	0.20	(666,667)		
Balance at June 30, 2013	\$ 0.10	8,536,333	7,686,333	3.29
Effect of share consolidation (note 7)	-	(7,682,700)		
Balance at September 19, 2013, date of share consolidation	\$ 1.01	853,633	768,633	3.04
Granted	0.26	2,244,998		
Expired	1.00	(36,000)		
Forfeited	1.00	(38,333)		
Cancelled	0.25	(9,000)		
Balance at December 31, 2013	\$ 0.46	3,015,298	893,548	4.08
Granted	0.34	909,500		
Forfeited	0.97	(8,000)		
Balance at June 30, 2014	\$ 0.43	3,916,798	1,733,048	3.85

For the six months ended June 30, 2014, the fair value of the options granted was \$253,557 (June 30, 2013 – \$Nil).

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Notes to the Unaudited Condensed Interim Financial Statements
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8. Share-Based Payments (continued)

The Company had the following stock options outstanding at June 30, 2014:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
2,500	-	2,500	\$1.00	August 19, 2014
40,000	-	40,000	\$1.10	November 18, 2014
40,000	-	40,000	\$1.00	April 20, 2015
146,000	85,000	61,000	\$1.00	February 11, 2016
186,026	-	186,026	\$1.00	August 18, 2016
60,000	-	60,000	\$1.00	December 13, 2017
276,828	-	276,828	\$1.00	December 20, 2017
20,946	-	20,946	\$1.00	December 21, 2017
1,900,000	1,140,000	760,000	\$0.25	October 1, 2018
320,000	160,000	160,000	\$0.35	October 15, 2016
7,500	4,500	3,000	\$0.25	November 1, 2018
7,498	-	7,498	\$0.25	November 18, 2016
852,500	767,250	85,250	\$0.34	March 3, 2019
30,000	27,000	3,000	\$0.30	May 28, 2019
27,000	-	27,000	\$0.35	June 20, 2019
3,916,798	2,183,750	1,733,048	\$0.43	

The estimated fair value of the options is expensed over the vesting period. The fair value of the compensation and contributed surplus relating to the stock options for the six months ended June 30, 2014 was \$270,366 (June 30, 2013 - \$124,125). The fair value of all the Company's stock options was estimated using the Black-Scholes option pricing model.

Stock options granted during the period ended June 30, 2014 used the following assumptions:

	June 30 2014	June 30 2013
Volatility (based on historical share prices)	118%	Nil%
Risk-free interest rate	1.62%	Nil%
Expected life (years)	5	Nil
Dividend yield	Nil	Nil
Forfeiture rate	10%	Nil%
Underlying share price	\$0.34	\$Nil

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9. Warrants

The Company had issued warrants to acquire common shares as follows:

	Number of warrants	Amount	Weighted average exercise price
Balance at December 31, 2012	39,613,652	\$ 1,060,551	\$ 0.10
Warrants expired	(2,666,000)	(112,157)	0.10
Balance at June 30, 2013	36,947,652	\$ 948,394	\$ 0.10
Bonus warrants cancelled (note 6)	(3,600,000)	(154,437)	0.10
Effect of share consolidation (note 7)	(30,012,887)	-	-
Balance at September 19, 2013, date of share consolidation	3,334,765	\$ 793,957	\$ 1.00
Warrants issued (note 7)	6,400,000	852,800	0.25
Warrants issued (note 7)	443,200	64,641	0.25
Warrants issued (note 6)	2,382,726	429,057	0.25
Warrants issued (note 6)	336,364	37,000	0.25
Balance at December 31, 2013	12,897,055	\$ 2,177,455	\$ 0.44
Warrants issued (note 7)	534,567	86,931	0.30
Warrants issued (note 7)	283,734	52,281	0.30
Balance at June 30, 2014	13,715,356	\$ 2,316,667	

The Company had the following warrants outstanding and exercisable at June 30, 2014, as adjusted for the share consolidation:

Number of warrants		Exercise price	Expiry date
75,000	(i)	\$1.00	August 24, 2014
687,565	(ii)	\$1.00	September 7, 2015
1,850,000	(iii)	\$1.00	October 3, 2015
73,800	(iv)	\$1.00	October 3, 2014
630,000	(v)	\$1.00	December 13, 2015
18,400	(vi)	\$1.00	December 13, 2014
6,400,000	(vii)	\$0.25 in Year 1 & \$0.35 in Years 2 & 3	September 30, 2016
443,200	(viii)	\$0.25	October 7, 2016
2,382,726	(ix)	\$0.25	October 7, 2016
336,364	(x)	\$0.25 in Year 1 & \$0.35 in Years 2 & 3	October 7, 2016
534,567	(xi)	\$0.30	May 30, 2016
283,734	(xii)	\$0.30	June 11, 2016
13,715,356			

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9. Warrants (continued)

- (i) These warrants were issued for services related to digital media workflow solutions. The warrants became exercisable after various phases of digital media workflow solution were completed.
- (ii) 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 119%; (III) a risk free rate of 1.25%; and (IV) an expected life of 3 years.
- (iii) 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 116%; (III) a risk free rate of 1.14%; and (IV) an expected life of 3 years.
- (iv) These warrants were issued to agents in connection with the issuance of the private placement. 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 115%; (III) a risk free interest rate of 1.08% and (IV) an expected life of 2 years.
- (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 114%; (III) a risk free rate of 1.19%; and (IV) an expected life of 3 years.
- (vi) These warrants were issued to agents in connection with the issuance of the private placement. 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 118%; (III) a risk free interest rate of 1.12% and (IV) an expected life of 2 years.
- (vii) These warrants were issued as part of the private placement of units (note 7). 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 114%; (III) a risk free rate of 1.4%; and (IV) an expected life of 3 years.
- (viii) These warrants were issued to agents as part of the private placement of units (note 7). 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 114%; (III) a risk free interest rate of 1.40% and (IV) an expected life of 3 years.
- (ix) These warrants were issued as part of the amended debenture agreements (note 6). 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 115%; (III) a risk free interest rate of 1.39% and (IV) an expected life of 3 years.

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9. Warrants (continued)

- (x) These warrants were issued to advisors in connection with the shares for debt transaction and debenture amendment (note 6). The fair value of the warrants issued was based on the advisory agreement with FMMC.
- (xi) These warrants were issued to agents as part of the private placement (note 7). 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 98%; (III) a risk free interest rate of 1.05% and (IV) an expected life of 2 years.
- (xii) These warrants were issued to agents as part of the private placement (note 7). 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 97%; (III) a risk free interest rate of 1.07% and (IV) an expected life of 2 years.

Except where noted above, warrants issued to agents and related to financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable.

10. Loss per Share

	Six Months Ended		Three Months Ended	
	June 30 2014	June 30 2013	June 30 2014	June 30 2013
Numerator:				
Net loss and comprehensive loss for the period	\$ (1,298,200)	\$ (843,072)	\$ (803,319)	\$ (298,300)
Denominator:				
Weighted average number of common shares	41,993,368	16,324,477	43,876,533	16,324,477
Basic and diluted loss per share	\$ (0.031)	\$ (0.052)	\$ (0.018)	\$ (0.018)

For the above-mentioned periods, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of dilutive net loss per share in the periods presented, as their effect would have been anti-dilutive. Such outstanding securities consist of the following:

	June 30 2014	June 30 2013
Options	3,916,798	853,633
Warrants	13,715,356	3,694,765

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11. Commitments and Contingencies

(a) Litigation

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

(b) Leases

Total future annual lease payments for the premises are as follows:

2014	\$ 43,418
2015	86,836
2016	86,836
2017	65,127
	<hr/>
	\$ 282,217

12. Capital Risk Management

The Company includes equity; comprised of share capital, 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 and six months ended June 30, 2014.

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13. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, excluding HST, trade and other payables, finance lease obligation and debentures with related accrued interest. The fair values of financial instruments approximate their carrying values because of their current nature.

	June 30	December 31
	2014	2013
Fair value through profit or loss (i)	\$ 1,088,289	\$ 764,760
Loans and receivables (ii)	817,540	825,210
Other financial liabilities (iii)	697,598	2,622,208

The following table summarizes the carrying values of the Company's financial instruments:

- (i) Cash and cash equivalents
- (ii) Accounts receivable excluding HST
- (iii) Trade and other payables, finance lease obligation, debentures and accrued interest

The Company classifies its fair value measurements in accordance with the three levels fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liabilities either directly or indirectly, and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total
As at June 30, 2014				
Cash and cash equivalents	\$ 1,088,289	\$ -	\$ -	\$1,088,289
As at December 31, 2013				
Cash and cash equivalents	\$ 764,760	\$ -	\$ -	\$ 764,760

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14. Subsequent Event

On August 26, 2014, the Company announced that it had completed its brokered private placement financing of common shares sold at a price of \$0.30 per share, as was previously announced in a news release dated June 12, 2014. In the June 12 release, the Company announced that, on the advice of the TSXV, it was opening the private placement to accommodate a single investor, namely Killbear Acquisition Corp., a capital pool company whose subscription for the shares would constitute its qualifying transaction pursuant to the policies of the Exchange. The Company raised gross proceeds of \$300,000, which the Company will use primarily for working capital and accelerating growth in the Advertising Division. 1,000,000 shares were issued.

In respect of the private placement, the Company paid agent's commissions equal to \$21,000 plus expenses and issued 70,000 broker's warrants, which are exercisable for a period of 24 months at an exercise price of \$0.30.