

# **YANGAROO Inc.**

Unaudited Condensed Interim Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(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 Professional 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 24, 2017

# YANGAROO Inc.

Unaudited Condensed Interim Statements of Financial Position

As at

(Expressed in Canadian dollars)

	June 30 2017	December 31 2016 (audited)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 607,558	\$ 354,579
Accounts receivable	1,855,073	1,590,176
Prepaid and sundry assets	299,773	218,802
	<b>2,762,404</b>	<b>2,163,557</b>
Property and equipment	202,384	114,029
	<b>\$ 2,964,788</b>	<b>\$ 2,277,586</b>
<b>Liabilities</b>		
<b>Current</b>		
Trade and other payables (note 5)	\$ 763,844	\$ 614,821
Deferred revenue	14,438	88,356
Finance lease obligation	61,761	52,475
Loan payable (note 14)	-	200,000
	<b>840,043</b>	<b>955,652</b>
Debentures (note 15)	463,767	-
Accrued interest on debentures (note 15)	17,222	-
Finance lease obligation	50,923	22,504
	<b>1,371,955</b>	<b>978,156</b>
<b>Shareholders' Equity</b>		
Share capital (note 6)	32,532,328	32,532,328
Warrant capital (note 8)	203,824	173,873
Contributed surplus (note 7)	6,089,475	6,030,469
Deficit	(37,232,794)	(37,437,240)
	<b>1,592,833</b>	<b>1,299,430</b>
	<b>\$ 2,964,788</b>	<b>\$ 2,277,586</b>

Going concern (note 2(c))

Commitments and contingencies (note 10)

Approved by the Board

"Gerry Hurlow"

Director

"Howard Atkinson"

Director

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

# YANGAROO Inc.

Unaudited Condensed Interim Statements of Comprehensive Income (Loss)

For the three and six months ended June 30

(Expressed in Canadian dollars)

	Six Months Ended		Three Months Ended	
	2017	2016	2017	2016
<b>Revenue (note 16)</b>	<b>\$ 3,766,797</b>	\$ 2,504,767	<b>\$ 2,026,731</b>	\$ 1,157,618
Commission (note 17)	223,917	135,237	128,741	70,399
Post-production costs (note 17)	23,251	29,006	12,362	12,717
	<b>247,168</b>	164,243	<b>141,103</b>	83,116
<b>Gross margin</b>	<b>3,519,629</b>	2,340,524	<b>1,885,628</b>	1,074,502
<b>Expenses</b>				
Salaries and consulting (notes 7 & 12)	2,496,752	2,225,694	1,262,841	1,079,301
Marketing and promotion	200,961	280,687	121,140	155,613
General and administrative	398,420	335,857	201,113	151,874
Technology development	60,037	52,997	30,738	25,731
Depreciation of property and equipment	56,018	66,347	28,771	32,488
	<b>3,212,188</b>	2,961,582	<b>1,644,603</b>	1,445,007
<b>Income (loss) from operations</b>	<b>307,441</b>	(621,058)	<b>241,025</b>	(370,505)
<b>Other income (expenses)</b>				
Interest income	444	39	444	-
Interest expense	(31,998)	(16,790)	(18,241)	(9,673)
Foreign exchange loss	(71,105)	(99,101)	(51,631)	(14,261)
Financing costs	-	(8,633)	-	(3,000)
	<b>(102,659)</b>	(124,485)	<b>(69,428)</b>	(26,934)
<b>Net income (loss) before income tax</b>	<b>204,782</b>	(745,543)	<b>171,597</b>	(397,439)
Corporate income tax	(336)	(661)	-	(661)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 204,446</b>	\$ (746,204)	<b>\$ 171,597</b>	\$ (398,100)
<b>Basic income (loss) per share (note 9)</b>	<b>\$ 0.003</b>	\$ (0.013)	<b>\$ 0.003</b>	\$ (0.007)
<b>Diluted income (loss) per share (note 9)</b>	<b>\$ 0.003</b>	\$ (0.013)	<b>\$ 0.003</b>	\$ (0.007)

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

# YANGAROO Inc.

## Unaudited Condensed Interim Statements of Changes in Equity

For the six months ended June 30

(Expressed in Canadian dollars)

	Share capital	Warrant capital	Contributed surplus	Deficit	Total
Balance at December 31, 2015	\$32,072,474	\$1,504,615	\$4,469,080	\$(36,602,307)	\$1,443,862
Expiry of warrants (note 8)	-	(139,212)	139,212	-	-
Share-based payments (note 7)	-	-	34,492	-	34,492
Loss for the period	-	-	-	(746,204)	(746,204)
Balance at June 30, 2016	\$32,072,474	\$1,365,403	\$4,642,784	\$(37,348,511)	\$732,150
Private placement (note 6)	459,854	173,873	-	-	633,727
Expiry of warrants (note 8)	-	(1,365,403)	1,365,403	-	-
Share-based payments (note 7)	-	-	22,282	-	22,282
Loss for the period	-	-	-	(88,729)	(88,729)
Balance at December 31, 2016	\$32,532,328	\$173,873	\$6,030,469	\$(37,437,240)	\$1,299,430
Issuance of warrants (notes 8 & 15)	-	29,951	-	-	29,951
Share-based payments (note 7)	-	-	59,006	-	59,006
Income for the period	-	-	-	204,446	204,446
<b>Balance at June 30, 2017</b>	<b>\$32,532,328</b>	<b>\$203,824</b>	<b>\$6,089,475</b>	<b>\$(37,232,794)</b>	<b>\$1,592,833</b>

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)

	2017	2016
<b>Cash flow from (used in) operating activities</b>		
Net income (loss) for the period	\$ 204,446	\$ (746,204)
Items not affecting cash:		
Depreciation of property and equipment	56,018	66,347
Bad debt expense	39,546	-
Share-based payments (note 7)	59,006	34,492
Unrealized foreign exchange loss	85,269	94,634
Accretion of interest (note 15)	3,838	-
Accrued interest on debentures (note 15)	17,222	-
Changes in non-cash operating working capital:		
Accounts receivable	(368,408)	124,058
Prepaid and sundry assets	(78,574)	(48,470)
Trade and other payables	162,266	81,190
Deferred revenue	(73,918)	(7,800)
<b>Net cash from (used in) operating activities</b>	<b>106,711</b>	<b>(401,753)</b>
<b>Cash flow used in investing activities</b>		
Acquisition of property and equipment	(71,203)	(5,940)
<b>Net cash used in investing activities</b>	<b>(71,203)</b>	<b>(5,940)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issuance of debentures, net of issuance costs	489,880	-
Payment of finance lease obligation	(37,862)	(43,059)
Advances from (repayment of) loan payable (note 14)	(200,000)	200,000
<b>Net cash received from financing activities</b>	<b>252,018</b>	<b>156,941</b>
<b>Net increase (decrease) in cash</b>	<b>287,526</b>	<b>(250,752)</b>
<b>Effect of foreign exchange on cash</b>	<b>(34,547)</b>	<b>(43,601)</b>
<b>Cash at January 1</b>	<b>354,579</b>	<b>396,705</b>
<b>Cash at June 30</b>	<b>\$ 607,558</b>	<b>\$ 102,352</b>
<b>Cash interest paid</b>	<b>\$ 10,939</b>	<b>\$ 16,790</b>
<b>Capital lease additions</b>	<b>\$ 73,710</b>	<b>\$ -</b>

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, 2017 and 2016  
(Expressed in Canadian dollars)

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## 1. Nature of Operations

YANGAROO Inc. ("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 67 Mowat Avenue, Suite 535, Toronto, Ontario, M6K 3E3.

## 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, 2016. 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, 2016. These statements were approved by the Board of Directors on August 24, 2017.

### (b) Basis of measurement

The unaudited condensed 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, 2017 and 2016  
(Expressed in Canadian dollars)

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## 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 as follows:

#### (i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants issued to agents, shareholders and debenture holders, 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 the Black-Scholes option pricing model, which includes inputs that require management's estimates and assumptions (notes 7 & 8).

#### (ii) Revenue recognition

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

#### (iii) Investment tax credits

The Company uses judgment to determine the reasonable assurance of collection and estimates the valuation of investment tax credits to be accrued.

#### (iv) Functional currency

The Company uses judgment to determine the Company's functional currency.

### (c) Going concern

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. For the six months ended June 30, 2017, the Company reported a net income of \$204,446 (2016 - net loss of \$746,204) and received net cash in operating activities of \$106,711 (2016 - used net cash of \$401,753). Although the Company has generated net income and positive net cash from operations during the six months ended June 30, 2017, the Company has a deficit of \$37,232,794 (December 31, 2016 - \$37,437,240). The Company's ability to continue as a going concern is dependent upon its ability to develop and maintain profitable operations or to obtain additional financing. However, there is no assurance that the outcome of these matters will be successful and, as a result, there are material uncertainties that cause significant doubt



# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and six months ended June 30, 2017 and 2016  
(Expressed in Canadian dollars)

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## 2. Basis of Preparation (continued)

### (c) Going concern (continued)

regarding the going concern assumption. To date, the Company has been successful raising capital and obtaining additional financing (notes 6 & 15).

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements. Such adjustments could be material.

## 3. Significant Accounting Policies

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are applicable for accounting periods beginning after June 30, 2017, are as follows:

- IFRS 9 *Financial Instruments* was issued in final form in July 2014 by the IASB 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 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.
- In May 2014, IASB issued *IFRS 15 Revenue from Contracts with Customers*. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: *IAS 11 Construction Contracts*, *IAS 18 Revenue*,

# YANGAROO Inc.

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

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## 3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted (continued)

*IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue-Barter Transactions Involving Advertising Services.*

- Effective for annual periods beginning on or after January 1, 2019, *IFRS 16 Leases* was issued by the IASB in January 2016 and will replace *IAS 17 Leases*. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted only if the Company early adopts IFRS 15.

The Company is currently evaluating the impact of the above mentioned standards 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, 2017, the Company had a balance outstanding of \$Nil (December 31, 2016 - \$Nil) on this line of credit.

## 5. Trade and Other Payables

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	<b>June 30 2017</b>	December 31 2016 (audited)
Trade payables	<b>\$ 209,638</b>	\$ 255,565
Non-trade payables	<b>554,206</b>	359,256
	<b>\$ 763,844</b>	\$ 614,821

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# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and six months ended June 30, 2017 and 2016  
(Expressed in Canadian dollars)

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## 6. 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, 2016 to June 30, 2017:

	Number of shares	Value
Balance at January 1, 2016 and June 30, 2016	56,188,448	\$ 32,072,474
Issued for cash on July 8, 2016 <sup>(a)</sup>	3,744,692	341,360
Issued for cash on July 20, 2016 <sup>(b)</sup>	1,275,000	118,494
<b>Balance at December 31, 2016 and June 30, 2017</b>	<b>61,208,140</b>	<b>\$ 32,532,328</b>

- (a) The Company issued 3,744,692 units at a price of \$0.13 per unit for gross proceeds of \$486,810 by way of a private placement. Share issuance costs of \$12,364 have been netted against share capital and \$133,086 has been allocated to 1,872,345 warrants issued to investors in connection with the private placement.
- (b) The Company issued 1,275,000 units at a price of \$0.13 per unit for gross proceeds of \$165,750 by way of a private placement. Share issuance costs of \$6,469 have been netted against share capital and \$40,787 has been allocated to 637,500 warrants issued to investors in connection with the private placement.

# YANGAROO Inc.

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

## 7. Share-Based Payments

The Company revised its stock option plan from a 10% rolling stock option plan to a 12% fixed plan (the "Plan"), in which the total number of options shall not exceed 7,344,976, which is 12% of the issued and outstanding number of shares as of the date of approval. The Plan was approved at the Company's Annual Meeting of the Shareholders held on June 28, 2017.

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 January 1, 2016	\$ 0.370	4,742,048	4,000,798	2.79
Granted	0.150	312,500		
Expired	1.000	(143,000)		
Forfeited	0.260	(246,000)		
Balance at June 30, 2016	\$ 0.340	4,665,548	4,099,298	2.49
Granted	0.115	5,000		
Expired	0.580	(513,524)		
Forfeited	0.180	(42,750)		
Balance at December 31, 2016	\$ 0.310	4,114,274	3,943,274	2.26
Granted	0.110	1,780,000		
Forfeited	0.160	(49,500)		
<b>Balance at June 30, 2017</b>	<b>\$ 0.250</b>	<b>5,844,774</b>	<b>4,179,774</b>	<b>2.62</b>

For the six months ended June 30, 2017, the fair value of the options granted was \$125,945 (2016 - \$41,951).

The estimated fair value of the options is expensed over the vesting period. The options vest 10% on the date of grant, and the remaining 90% vest as to a third on each 6 month anniversary following the date of grant. The compensation expense and charge to contributed surplus relating to the stock options for the six months ended June 30, 2017 was \$59,006 (2016 - \$34,492). The fair value of all the Company's stock options was estimated using the Black-Scholes option pricing model. Stock options granted during the six months ended June 30, 2017 used the following weighted average assumptions:

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and six months ended June 30, 2017 and 2016  
(Expressed in Canadian dollars)

## 7. Share-Based Payments (continued)

	<b>June 30 2017</b>	June 30 2016
Volatility (based on historical share prices)	<b>94%</b>	108%
Risk-free interest rate	<b>1.07%</b>	0.61%
Expected life (years)	<b>5.00</b>	5.00
Dividend yield	<b>Nil</b>	Nil
Forfeiture rate	<b>12%</b>	20%
Underlying share price	<b>\$0.100</b>	\$0.170

The Company had the following stock options outstanding at June 30, 2017:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
52,500	-	52,500	\$1.000	December 13, 2017
276,828	-	276,828	\$1.000	December 20, 2017
20,946	-	20,946	\$1.000	December 21, 2017
1,610,000	-	1,610,000	\$0.250	October 1, 2018
7,500	-	7,500	\$0.250	November 1, 2018
750,000	-	750,000	\$0.340	March 3, 2019
25,000	-	25,000	\$0.300	May 28, 2019
27,000	-	27,000	\$0.350	June 20, 2019
57,500	-	57,500	\$0.280	September 2, 2019
2,500	-	2,500	\$0.120	November 21, 2019
980,000	-	980,000	\$0.180	January 26, 2020
268,750	78,000	190,750	\$0.150	January 11, 2021
5,000	3,000	2,000	\$0.115	September 6, 2021
1,261,250	1,134,000	127,250	\$0.100	January 10, 2022
500,000	450,000	50,000	\$0.140	May 1, 2022
<b>5,844,774</b>	<b>1,665,000</b>	<b>4,179,774</b>	<b>\$0.250</b>	

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and six months ended June 30, 2017 and 2016  
(Expressed in Canadian dollars)

## 8. Warrants

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

	Number of warrants	Amount	Weighted average exercise price
Balance at January 1, 2016	10,250,591	\$ 1,504,615	\$ 0.32
Warrants expired	(534,567)	(86,931)	0.30
Warrants expired	(283,734)	(52,281)	0.30
Balance at June 30, 2016	9,432,290	\$ 1,365,403	\$ 0.32
Warrants granted	1,872,345	133,086	0.20
Warrants granted	637,500	40,787	0.20
Warrants expired	(6,200,000)	(826,150)	0.35
Warrants expired	(70,000)	(8,555)	0.30
Warrants expired	(443,200)	(64,641)	0.25
Warrants expired	(2,382,726)	(429,057)	0.25
Warrants expired	(336,364)	(37,000)	0.35
Balance at December 31, 2016	2,509,845	\$ 173,873	\$ 0.20
Warrants issued	500,000	29,951	0.15
<b>Balance at June 30, 2017</b>	<b>3,009,845</b>	<b>\$ 203,824</b>	<b>\$ 0.19</b>

The Company had the following warrants outstanding and exercisable at June 30, 2017:

Number of warrants		Exercise price	Expiry date
1,872,345	(i)	\$0.20	July 8, 2019
637,500	(ii)	\$0.20	July 20, 2019
500,000	(iii)	\$0.15	February 24, 2020
<b>3,009,845</b>			

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and six months ended June 30, 2017 and 2016  
(Expressed in Canadian dollars)

## 8. Warrants (continued)

- (i) 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 93%; (III) a risk free interest rate of 0.48% and (IV) an expected life of 3 years.
- (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 93%; (III) a risk free interest rate of 0.57% and (IV) an expected life of 3 years.
- (iii) These bonus warrants were issued to lenders in connection with the issuance of debentures (notes 12 & 15). 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 88%; (III) a risk free interest rate of 0.87% and (IV) an expected life of 3 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.

## 9. Basic and Diluted Income (Loss) per Share

The income (loss) and weighted average number of common shares used in the calculation of basic and diluted income (loss) per share for the six months ended June 30, 2017 and 2016 were as follows:

	June 30 2017	June 30 2016
Numerator:		
Net income (loss) and comprehensive income (loss) for the period	\$ 204,446	\$ (746,204)
Denominator:		
Weighted average number of common shares - basic	61,208,140	56,188,448
Adjustments for calculation of diluted income per share:		
Options	181,750	-
Weighted average number of common shares - diluted	61,389,890	56,188,448
Basic income (loss) per share	\$ 0.003	\$ (0.013)
Diluted income (loss) per share	\$ 0.003	\$ (0.013)

For the period ended June 30, 2016, the Company had securities outstanding which could potentially dilute basic loss per share, thus were excluded from the computation of dilutive net loss per share in the period presented, as their effect would have been anti-dilutive. These included 4,665,548 options and 9,432,290 warrants.

# YANGAROO Inc.

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## 10. 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 non-cancellable annual lease payments for the premises are as follows:

2017	\$	117,662
2018		226,061
2019		226,061
2020		226,061
2021		226,061
2022		131,869
		<hr/>
		\$ 1,153,775

## 11. 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 six months ended June 30, 2017.



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## 12. Related Party Transactions

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's share option program (note 7).

Key management personnel compensation is as follows:

	<b>June 30 2017</b>	June 30 2016
Salaries and short-term employee benefits <sup>(i)</sup>	<b>\$ 491,353</b>	\$ 413,498
Share-based payments	<b>50,703</b>	21,968
	<b>\$ 542,056</b>	\$ 435,466

<sup>(i)</sup> Short-term employee benefits include bonuses, vacation pay and commission (effective Q2 2017).

During the period ended June 30, 2017, the Company issued debentures with a principal amount of \$100,000 and issued 100,000 bonus warrants to a director of the Company (notes 8 & 15).

## 13. Financial Instruments

The following table summarizes the carrying values of the Company's financial instruments. The fair values of financial instruments approximate their carrying values because of their current nature. The fair value of the debentures approximate the carrying value as the debentures' effective interest rates are consistent with current market rates.

	<b>June 30 2017</b>	December 31 2016 (audited)
Fair value through profit or loss (i)	<b>\$ 607,558</b>	\$ 354,579
Loans and receivables (ii)	<b>\$ 1,855,073</b>	\$ 1,590,176
Other financial liabilities (iii)	<b>\$ 1,357,517</b>	\$ 889,800

(i) Cash

(ii) Accounts receivable

(iii) Trade and other payables, finance lease obligation, loan payable and debentures

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## 14. Loan Payable

On December 14, 2015, the Company entered into a Credit Facility Agreement (the "Agreement") with Espresso Capital Investment Fund IV Limited Partnership ("Espresso"), whereby Espresso provided the Company with a revolving credit facility (the "Credit Facility") of up to the lesser of \$500,000 and the Authorized Credit Amount (as defined in the Agreement). The Credit Facility was required to be drawn down in one or more tranches in the Company's discretion subject to a minimum amount to be drawn on or before January 31, 2016.

The Credit Facility was used to fund working capital requirements. Amounts drawn down under the Credit Facility were subjected to interest at the rate of 1.5% per month from the date of each advance. Further, a fee for each advance was payable to Espresso. Subject to early termination, the Credit Facility would mature on December 31, 2017. A general security agreement (the "GSA") was issued by the Company in favour of Espresso to secure the Credit Facility.

The Company withdrew \$100,000 from the Credit Facility on January 26, 2016 and an additional \$100,000 on May 25, 2016. During the period ended June 30, 2017, the loan was repaid using the proceeds from the issuance of debentures and the Agreement was terminated (note 15).

## 15. Debentures

On February 24, 2017, the Company completed a non-brokered debenture offering (the "Offering") of secured, non-convertible debentures (the "Debentures") for aggregate gross proceeds of \$500,000 (the "Principal Amount"). The net proceeds of the Offering were used to repay the loan to Espresso (note 14) with the balance used for working capital. The Debentures mature three years from the closing (the "Closing Date") of the Offering (the "Maturity Date") but the Company is entitled to repay the Principal Amount and all accrued interest in full, without penalty, at any time following the two year anniversary of the Closing Date ("Early Repayment"), subject to the mutual approval of the Company and the holders of the Debentures. The Debentures bear interest at a rate of 10% per annum, which accrue and become due on the Maturity Date, subject to Early Repayment.

The Company also issued to the lenders one share purchase warrant (each the "Bonus Warrant", collectively the "Bonus Warrants") for each dollar of the Principal Amount to purchase one common share of the Company at an exercise price of \$0.15 per share for a period of three years from the Closing Date (notes 8 & 12). The securities issued pursuant to the Offering are subject to a 4-month hold period. Neither the Debentures nor the Bonus Warrants are listed on any stock exchange. The Debentures are secured against all personal property of the Company.

The following Debentures were outstanding as at June 30, 2017:

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<b>Maturity Date</b>	<b>Carrying Value</b>	<b>Face Value</b>	<b>Stated Interest Rate</b>	<b>Effective Interest Rate</b>
February 24, 2020	\$ 463,767	\$ 500,000	10%	13%

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## 16. Segmented Information

The Company provides digital media distribution and data management solutions to customers across multiple geographic regions. It considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the CEO of the Company. The operating segments are based on the regional geographic areas. Specifically for revenues, the amounts included are from the originating country. Below is the breakdown of revenue by operating segment.

<b>For the six months ended June 30, 2017</b>	Canada	US	Other	Total revenue
Advertising	\$ 284,395	\$ 1,965,166	\$ -	\$ 2,249,561
Entertainment				
Music <sup>(i)</sup>	298,430	552,845	11,005	862,280
Awards management	103,250	551,706	-	654,956
	401,680	1,104,551	11,005	1,517,236
<b>Total revenue</b>	<b>\$ 686,075</b>	<b>\$ 3,069,717</b>	<b>\$ 11,005</b>	<b>\$ 3,766,797</b>

  

For the six months ended June 30, 2016	Canada	US	Other	Total revenue
Advertising	\$ 243,845	\$ 993,041	\$ -	\$ 1,236,886
Entertainment				
Music <sup>(i)</sup>	324,673	551,555	-	876,228
Awards management	102,500	289,153	-	391,653
	427,173	840,708	-	1,267,881
<b>Total revenue</b>	<b>\$ 671,018</b>	<b>\$ 1,833,749</b>	<b>\$ -</b>	<b>\$ 2,504,767</b>

<sup>(i)</sup> Music includes audio/video delivery and subscription fees

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## **17. Comparative Figures**

Certain comparative figures have been reclassified to conform to the current period's presentation.

The Company has disclosed the calculation of gross margin in the statements of comprehensive income (loss). Gross margin is computed as total revenues, including advertising, music audio & video and awards management revenue streams, less commission costs related to sales personnel, any royalty payments, and production and offline delivery costs related to its advertising production activities. The Company believes this disclosure provides useful and transparent information to users of the financial statements with respect to the operating and financial performance of the Company.