

# **YANGAROO Inc.**

Unaudited Condensed Interim Financial Statements

For the Three and Nine Months Ended September 30, 2015 and 2014

(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

November 24, 2015

# YANGAROO Inc.

Unaudited Condensed Interim Statements of Financial Position

As at

(Expressed in Canadian dollars)

	September 30 2015	December 31 2014 (audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 170,407	\$ 712,729
Accounts receivable	1,316,899	1,058,097
Prepaid and sundry assets	341,841	264,383
	<b>1,829,147</b>	<b>2,035,209</b>
Property and equipment	253,293	205,690
	<b>\$ 2,082,440</b>	<b>\$ 2,240,899</b>
<b>Liabilities</b>		
<b>Current</b>		
Trade and other payables (note 5)	\$ 763,385	\$ 535,216
Deferred revenue	14,438	126,398
Finance lease obligation	86,089	59,010
	<b>863,912</b>	<b>720,624</b>
Finance lease obligation	92,325	57,057
	<b>956,237</b>	<b>777,681</b>
<b>Shareholders' Equity</b>		
Share capital (note 7)	32,072,474	31,498,041
Warrant capital (note 9)	2,078,990	2,230,254
Contributed surplus	3,909,032	3,540,016
Deficit	(36,934,293)	(35,805,093)
	<b>1,126,203</b>	<b>1,463,218</b>
	<b>\$ 2,082,440</b>	<b>\$ 2,240,899</b>

Going concern (note 2(c))

Commitments and contingencies (note 11)

Approved by the Board

"Cliff Hunt"  
Director

"Howard Atkinson"  
Director

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

# YANGAROO Inc.

Unaudited Condensed Interim Statements of Comprehensive Loss

For the period ended September 30

(Expressed in Canadian dollars)

	Nine Months Ended		Three Months Ended	
	2015	2014	2015	2014
<b>Revenue</b>	<b>\$ 3,878,955</b>	\$ 2,757,633	<b>\$ 1,384,533</b>	\$ 1,005,326
<b>Expenses</b>				
Salaries and consulting (note 8)	<b>3,749,595</b>	3,184,814	<b>1,189,583</b>	1,090,674
Marketing and promotion	<b>392,771</b>	476,294	<b>128,068</b>	153,666
General and administrative	<b>823,301</b>	670,183	<b>263,569</b>	258,421
Technology development (recovery)	<b>72,088</b>	(38,791)	<b>22,241</b>	12,105
Depreciation of property and equipment	<b>90,028</b>	66,965	<b>32,632</b>	25,994
	<b>5,127,783</b>	4,359,465	<b>1,636,093</b>	1,540,860
<b>Loss from operations</b>	<b>(1,248,828)</b>	(1,601,832)	<b>(251,560)</b>	(535,534)
<b>Finance income (expenses)</b>				
Interest income	<b>1,867</b>	3,992	<b>445</b>	1,978
Interest expense	<b>(6,487)</b>	(136,576)	<b>(2,286)</b>	(1,865)
Foreign exchange gain	<b>136,699</b>	37,767	<b>71,919</b>	37,536
Loss on extinguishment of debt (note 6)	-	(99,436)	-	-
	<b>132,079</b>	(194,253)	<b>70,078</b>	37,649
<b>Net loss before income tax</b>	<b>\$(1,116,749)</b>	\$(1,796,085)	<b>\$(181,482)</b>	\$(497,885)
Income tax expense	<b>12,451</b>	-	<b>12,451</b>	-
<b>Net loss and comprehensive loss</b>	<b>\$(1,129,200)</b>	\$(1,796,085)	<b>\$(193,933)</b>	\$(497,885)
<b>Loss per share (note 10)</b>	<b>\$ (0.02)</b>	\$ (0.04)	<b>\$ (0.00)</b>	\$ (0.01)

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

# YANGAROO Inc.

## Unaudited Condensed Interim Statements of Changes in Equity (Deficiency)

For the period ended September 30

(Expressed in Canadian dollars)

	Share capital	Warrant capital	Contributed surplus	Deficit	Total
Balance at December 31, 2013	\$27,984,047	\$2,177,455	\$3,076,340	\$(34,010,668)	\$ (772,826)
Private placement (note 7)	3,437,344	147,767	-	-	3,585,111
Exercise of warrants (notes 7&9)	76,650	(26,650)	-	-	50,000
Expiry of warrants (note 9)	-	(52,508)	52,508	-	-
Share-based payments (note 8)	-	-	373,134	-	373,134
Loss for the period	-	-	-	(1,796,085)	(1,796,085)
Balance at September 30, 2014	\$31,498,041	\$2,246,064	\$3,501,982	\$(35,806,753)	\$1,439,334
Expiry of warrants (note 9)	-	(15,810)	15,810	-	-
Share-based payments (note 8)	-	-	22,224	-	22,224
Income for the period	-	-	-	1,660	1,660
Balance at December 31, 2014	\$31,498,041	\$2,230,254	\$3,540,016	\$(35,805,093)	\$1,463,218
Private placement (note 7)	574,433	-	-	-	574,433
Expiry of warrants (note 9)	-	(151,264)	151,264	-	-
Share-based payments (note 8)	-	-	217,752	-	217,752
Loss for the period	-	-	-	(1,129,200)	(1,129,200)
Balance at September 30, 2015	\$32,072,474	\$2,078,990	\$3,909,032	\$(36,934,293)	\$1,126,203

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

# YANGAROO Inc.

Unaudited Condensed Interim Statements of Cash Flows

For the nine months ended September 30

(Expressed in Canadian dollars)

	2015	2014
<b>Cash flow from operating activities</b>		
Cash flow used in operating activities:		
Net loss for the period	\$ (1,129,200)	\$ (1,796,085)
Items not affecting cash:		
Depreciation of property and equipment	90,028	66,965
Bad debt expense	2,660	2,122
Share-based payments	217,752	373,134
Accretion interest	-	13,554
Accrued interest on debentures	-	117,576
Loss on extinguishment of debt	-	99,436
Equipment maintenance fees financed with equipment lease	4,765	-
Changes in non-cash operating working capital:		
Accounts receivable	(261,462)	(74,900)
Prepaid and sundry assets	(77,458)	(96,643)
Trade and other payables	228,169	92,265
Deferred revenue	(111,960)	177,585
<b>Net cash used in operating activities</b>	<b>(1,036,706)</b>	<b>(1,024,991)</b>
<b>Cash flow used in investing activities</b>		
Acquisition of property and equipment	(22,714)	(68,185)
<b>Net cash used in investing activities</b>	<b>(22,714)</b>	<b>(68,185)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issuance of common shares, net of share issuance costs	574,433	3,585,111
Redemption of debentures, including interest	-	(2,327,877)
Payment of finance lease obligation	(57,335)	(37,675)
Exercise of warrants	-	50,000
<b>Net cash received from financing activities</b>	<b>517,098</b>	<b>1,269,559</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(542,322)</b>	<b>176,383</b>
<b>Cash and cash equivalents at January 1</b>	<b>712,729</b>	<b>764,760</b>
<b>Cash and cash equivalents at September 30</b>	<b>\$ 170,407</b>	<b>\$ 941,143</b>
<b>Cash interest paid</b>	<b>\$ 6,488</b>	<b>\$ 198,794</b>
<b>Capital lease additions</b>	<b>\$ 119,682</b>	<b>\$ 86,039</b>

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

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(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 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, 2014. 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's financial statements for the year ended December 31, 2014.

These statements should be read in conjunction with the audited financial statements for the year ended December 31, 2014. These statements were approved by the Board of Directors on November 24, 2015.

### (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 nine months ended September 30, 2015 and 2014  
(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 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 amended 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. The Company also uses judgement in recognizing its licensing revenue.

#### (iv) Investment tax credits

The Company uses judgement to determine the recognition of investment tax credits.

### (c) Going concern

These financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. For the nine months ended September 30, 2015, the Company reported a net loss of \$1,129,200 and used net cash in operating activities of \$1,036,706. 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 regarding the going concern assumption. To date, the Company has been successful raising capital (note 7).

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(Expressed in Canadian dollars)

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## 2. Basis of Preparation (continued)

### (c) Going concern (continued)

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 were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are applicable for accounting periods beginning after December 31, 2014, 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, 2017. Earlier application is permitted. IFRS 15 supersedes the following

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
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## 3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted (continued)

- standards: IAS 11 Construction Contracts, IAS 18 Revenue, 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.

## 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 September 30, 2015, the Company had a balance outstanding of \$Nil (December 31, 2014 - \$Nil) on this line of credit.

## 5. Trade and Other Payables

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	<b>September 30 2015</b>	December 31 2014 (audited)
Trade payables	<b>\$ 377,085</b>	\$ 193,434
Non-trade payables	<b>386,300</b>	341,782
	<b>\$ 763,385</b>	\$ 535,216

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# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
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## 6. Debentures

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 \$2,327,877 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.

## 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, 2014 to September 30, 2015:

	Number of shares	Value
Balance at December 31, 2013	40,089,279	\$ 27,984,047
Issued for cash on May 30, 2014 <sup>(a)</sup>	8,236,669	2,140,154
Issued for cash on June 11, 2014 <sup>(b)</sup>	4,053,334	1,043,027
Issued for cash on August 25, 2014 <sup>(c)</sup>	1,000,000	254,163
Exercise of warrants <sup>(d)</sup>	200,000	76,650
Balance at September 30, 2014 and December 31, 2014	53,579,282	\$ 31,498,041
Issued for cash on May 21, 2015 <sup>(e)</sup>	2,609,166	574,433
<b>Balance at September 30, 2015</b>	<b>56,188,448</b>	<b>\$ 32,072,474</b>

(a) 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).

(b) 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).

# YANGAROO Inc.

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

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## 7. Share Capital (continued)

- (c) The Company issued 1,000,000 shares at a price of \$0.30 per share for gross proceeds of \$300,000 by way of a private placement. Share issuance costs of \$37,282 have been netted against share capital and \$8,555 has been allocated to 70,000 warrants issued to agents in connection with the private placement (note 9).
- (d) On September 26, 2014, 200,000 warrants were exercised for cash proceeds of \$50,000. The fair value of \$26,650 related to the warrant exercise was reclassified from warrants to share capital (note 9). The market value of the warrants on the date of exercise was \$40,000.
- (e) The Company issued 2,609,166 shares at a price of \$0.24 per share for gross proceeds of \$626,200 by way of a private placement. Share issuance costs of \$51,767 have been netted against share capital in connection with the private placement.

## 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 Meeting of the Shareholders held on August 13, 2015.

# YANGAROO Inc.

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

## 8. Share-Based Payments (continued)

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, 2013	\$ 0.46	3,015,298	893,548	4.08
Granted	0.33	1,024,500		
Expired	1.00	(2,500)		
Forfeited	0.97	(8,000)		
Cancelled	0.25	(3,000)		
Balance at September 30, 2014	\$ 0.42	4,026,298	2,077,798	3.63
Granted	0.12	5,000		
Expired	1.10	(40,000)		
Forfeited	0.29	(150,000)		
Cancelled	0.30	(105,000)		
Balance at December 31, 2014	\$ 0.42	3,736,298	2,548,048	3.39
Granted	0.18	1,097,500		
Expired	1.00	(40,000)		
Forfeited	0.14	(1,500)		
Cancelled	0.19	(13,500)		
<b>Balance at September 30, 2015</b>	<b>\$ 0.36</b>	<b>4,778,798</b>	<b>3,999,298</b>	<b>3.05</b>

For the nine months ended September 30, 2015, the fair value of the options granted was \$154,633 (September 30, 2014 - \$275,879).

The estimated fair value of the options is expensed over the vesting period. The compensation expense and charge to contributed surplus relating to the stock options for the nine months ended September 30, 2015 was \$217,752 (September 30, 2014 - \$373,134). 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 September 30, 2015 used the following assumptions:

	September 30 2015	September 30 2014
Volatility (based on historical share prices)	109%	117%
Risk-free interest rate	0.79%	1.62%
Expected life (years)	5	5
Dividend yield	Nil	Nil
Forfeiture rate	10%	10%
Underlying share price	\$0.18	\$0.33

# YANGAROO Inc.

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

## 8. Share-Based Payments (continued)

The Company had the following stock options outstanding at September 30, 2015:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
143,000	85,000	58,000	\$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
1,745,000	-	1,745,000	\$0.25	October 1, 2018
320,000	-	320,000	\$0.35	October 15, 2016
7,500	-	7,500	\$0.25	November 1, 2018
7,498	-	7,498	\$0.25	November 18, 2016
752,500	-	752,500	\$0.34	March 3, 2019
29,250	8,250	21,000	\$0.30	May 28, 2019
27,000	-	27,000	\$0.35	June 20, 2019
114,250	33,750	80,500	\$0.28	September 2, 2019
2,500	1,500	1,000	\$0.12	November 21, 2019
1,081,500	646,500	435,000	\$0.18	January 26, 2020
2,500	2,250	250	\$0.17	July 7, 2020
2,500	2,250	250	\$0.18	September 17, 2020
<b>4,778,798</b>	<b>779,500</b>	<b>3,999,298</b>	<b>\$0.36</b>	

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
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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, 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
Warrants issued (note 7)	70,000	8,555	0.30
Warrants expired	(75,000)	(52,508)	1.00
Warrants exercised (note 7)	(200,000)	(26,650)	0.25
Balance at September 30, 2014	13,510,356	\$ 2,246,064	\$ 0.48
Warrants expired (note 7)	(92,200)	(15,810)	1.00
Balance at December 31, 2014	13,418,156	\$ 2,230,254	\$ 0.47
Warrants expired (note 7)	(687,565)	(151,264)	1.00
<b>Balance at September 30, 2015</b>	<b>12,730,591</b>	<b>\$ 2,078,990</b>	<b>\$ 0.45</b>

The Company had the following warrants outstanding and exercisable at September 30, 2015:

Number of warrants		Exercise price	Expiry date
1,850,000	(i)	\$1.00	October 3, 2015
630,000	(ii)	\$1.00	December 13, 2015
6,200,000	(iii)	\$0.35	September 30, 2016
443,200	(iv)	\$0.25	October 7, 2016
2,382,726	(v)	\$0.25	October 7, 2016
336,364	(vi)	\$0.35	October 7, 2016
534,567	(vii)	\$0.30	May 30, 2016
283,734	(viii)	\$0.30	June 11, 2016
70,000	(ix)	\$0.30	August 25, 2016
<b>12,730,591</b>			

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
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## 9. 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 116%; (III) a risk free rate of 1.14%; 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 114%; (III) a risk free rate of 1.19%; 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 114%; (III) a risk free rate of 1.40%; and (IV) an expected life of 3 years.
- (iv) These warrants were issued to agents 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 interest rate of 1.40% and (IV) an expected life of 3 years.
- (v) These warrants were issued as part of the amended debenture agreements. 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.
- (vi) These warrants were issued to advisors in connection with the shares for debt transaction and debenture amendment. The fair value of the warrants issued was based on the advisory agreement with FMMC.
- (vii) 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.
- (viii) 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.

# YANGAROO Inc.

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

## 9. Warrants (continued)

- (ix) 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 95%; (III) a risk free interest rate of 1.09% 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

	Nine Months Ended		Three Months Ended	
	September 30 2015	September 30 2014	September 30 2015	September 30 2014
Numerator:				
Net loss and comprehensive loss for the period	\$ (1,129,200)	\$ (1,796,085)	\$ (193,933)	\$ (497,885)
Denominator:				
Weighted average number of common shares	54,850,414	45,632,577	56,188,448	52,792,325
Basic and diluted loss per share	\$ (0.02)	\$ (0.04)	\$ (0.00)	\$ (0.01)

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:

	September 30 2015	September 30 2014
Options	4,778,798	4,026,298
Warrants	12,730,591	13,510,356

## 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.

# YANGAROO Inc.

Notes to the Unaudited Condensed Interim Financial Statements  
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## 11. Commitments and Contingencies (continued)

### (b) Leases

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

2015	\$ 22,434
2016	89,735
2017	67,301
	<hr/>
	\$ 179,470

## 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 nine months ended September 30, 2015.

## 13. 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 8).

Key management personnel compensation is as follows for the nine months ended:

	September 30 2015	September 30 2014
Salaries and short-term employee benefits <sup>(i)</sup>	\$ 621,864	\$ 785,674
Share-based payments	196,068	319,857
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	\$ 817,932	\$ 1,105,531

(i) Short-term employee benefits include bonuses and vacation pay

For the nine months ended September 30, 2015, legal fees of \$71,389 (2014 - \$138,110) were incurred to a law firm of which one partner is a Director of the Company.

# YANGAROO Inc.

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## 14. 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.

	<b>September 30 2015</b>	December 31 2014 (audited)
Fair value through profit or loss (i)	<b>\$ 170,407</b>	\$ 712,729
Loans and receivables (ii)	<b>\$ 1,316,899</b>	\$ 1,058,097
Other financial liabilities (iii)	<b>\$ 941,799</b>	\$ 651,283

- (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