YANGAROO Inc.

Interim Financial Statements

March 31, 2008

(unaudited)

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

Management Discussion and Analysis
For the First Quarter Ended March 31, 2008

YANGAROO Inc. ("YANGAROO" or "the company") trades on the TSX Venture Exchange under the symbol YOO (TSX-V: YOO) and in the USA on the OTCBB under the symbol YOOIF. Additional information on the company is available at www.yangaroo.com and www.sedar.com.

YANGAROO's address is: Suite 600, 95 Mural Street
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1) Date of MD&A May 20, 2008.

Note Regarding Forward Looking Statements

This document may contain or refer to certain forward-looking statements relating but not limited to YANGAROO's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan"," intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information is based on current expectations that involve a number of business risks and uncertainties. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur.

2) Description of Business

YANGAROO Inc. is a technology company that is targeted to become the leading enabler of user-friendly and secure distribution of media via the internet. The principal business objective of YANGAROO is the development and marketing of its patented Digital Media Distribution System ("DMDS") technology solution.

The company's strategy is to use its technology to supplant traditional means of delivering content (such as copying to CD or tapes and delivering via courier) by leveraging the now widely available infrastructure of the high speed internet and evermore powerful desktop computers to enable faster, more secure, less expensive, and environmentally friendly digital content delivery.

DMDS is a web-based delivery system that pioneers secure digital file distribution by incorporating biometrics, high-value encryption and watermarking. DMDS currently replaces the physical distribution of musical recordings and advertising to radio, media, retailers and other authorized recipients with more accountable, effective and far less costly digital delivery of broadcast quality media via the Internet.

DMDS utilizes YANGAROO's patented Biometric Rights Management ("BRM") technology to authenticate the recipient of, and grant specified access rights to, the media being distributed. BRM is a unique combination of biometrics, high-value encryption and digital rights management. This biometric verification system identifies the recipient by his or her user name, password and distinctive personal characteristics. The biometric technology currently deployed in DMDS is keystroke dynamics, which identifies a user by their typing rhythm. BRM technology works to prevent unauthorized access and password sharing by verifying individual recipients, and requires no additional hardware for either the sender or the recipient, providing completely portable secure access to users.

The Canadian Record Industry used DMDS to become the world leader in the transition to digital delivery of promotional recordings to radio, internally and to other destinations such as consultants, managers, artists, satellite radio, internet radio, media, and reviewers.

In the US and Europe, where record labels have been primarily delivering promotional releases to radio stations using traditional methods, the record industry is now moving to digital delivery. The traditional methods require the pressing of promotional CD's (known in the industry as CD-PRO's) then packaging, labelling, and sending these with related printed materials by mail or courier to radio and other destinations. This is very costly, time consuming, insecure and harmful to the environment.

In recent years, leaks of new singles by superstar artists such as Britney Spears, Lenny Kravitz, Radiohead, U2, Madonna and Justin Timberlake as well as Coldplay before their planned public launch dates underscored the need for improved security for new releases. Further, increasing financial pressures in the record business are leading them to look for ways to reduce costs.

Similarly, the advantages of DMDS can be obtained for the distribution of audio advertising to radio stations. DMDS puts the control of when and to whom radio ads are distributed directly in the hands of the advertising firm. DMDS can provide significant costs savings, greater efficiencies, direct control, and individual accountability compared to the distribution of radio ads on either CD's, FTP or satellite based systems. YANGAROO is also adapting DMDS with the goal of providing these same benefits for the distribution of music videos and TV commercials, which also offer attractive market opportunities for the company.

3) Review of Results of Operations for the First Quarter Ended March 31, 2007

Revenues for the first quarter year ended March 31, 2008 were 3% higher than revenues for the same period in 2007, due to increased use of DMDS. Cash and cash equivalents were $5,738,000 at March 31, 2008, which, based upon the change in cash in the quarter of $759,000, represented approximately two years of funding on hand for the company at that expenditure level.

The loss for the first quarter of 2008 increased 53% from the first quarter of 2007, which was mainly a result of higher total expenses, which increased by $278,000 (39%). The company utilized funds from the financing completed in February 2007 to reinforce areas that were previously under-resourced due to funding constraints. The higher total expenses are primarily due to planned increases in operating expenses, which were below the budgeted target for the first quarter of 2008.

The majority of the increase in operating expenses in the first quarter of 2008 stemmed from the company's planned augmentation of its human resources and from continuing to enforce and expand its intellectual property rights. The salaries and consulting expense for the company in the first quarter of 2008 increased $123,000 (32%) compared to the first quarter of 2007, and expenses related to protection of intellectual property rights, which are classified under general and administrative expense, increased $72,000 (523%) for the same period. Expenditures related to asserting the company's intellectual property rights are a non-recurring operating expense, as it is expected that these will not be necessary once the matter under litigation is resolved.

The bulk of the increase in salaries and consulting expense occurred in the technology department, where it rose by $118,000 (208%) in the first quarter of 2008 in comparison to last year's first quarter. The company commenced bolstering its technology team with necessary human resources in late 2006, adding two developers and a technical support representative. In the second quarter of 2007 the company recruited a Director of Engineering and a graphic designer, and in the fourth quarter added a developer and a quality assurance person. These additions, which were needed to support the company's growth, doubled the number of personnel in the technology and support team by the fourth quarter of 2007, resulting in the higher salaries and consulting expense. A reduced rate of capitalization for technology salaries as deferred development costs, reflecting work related to non-capital maintenance of previously released products was used in the first quarter of 2008 as compared to the same period in 2007, also contributing to the increase in this expense.

The sales and marketing department had a lower salaries and consulting expense for the first quarter of 2008, decreasing by $13,000 (9%), primarily due to lower marketing consulting fees as compared to the first quarter of 2007. The salaries and consulting expense for the operations department increased $10,000 (31%) in the first quarter of 2008 compared to last year's first quarter, due to supporting increased use of DMDS by a greater number of users. The salaries and consulting expense for general and administration rose by $8,000 (5%) in the first quarter of 2008, mainly as a result of an increase in salaries and wages expense compared to the first quarter of 2007.

General and administrative expenses increased $128,000 (120%) in the first quarter of 2008, the majority of which was attributable to the $72,000 increase in expenses over last year's first quarter related to the protection of intellectual property rights mentioned above. Also affecting this expense for the period were recruiting fees from the addition of human resources that were $38,000 higher than last year's first quarter; an increase in investor relations expense of $15,000; $9,000 higher rent for larger premises and an accrual of $8,000 for directors fees.

Amortization expense increased $53,000 (69%) in the first quarter of 2008 over the first quarter last year mainly because of the increase in amortization of higher deferred development cost and technology license asset balances. Marketing and promotion expenses decreased $19,000 (17%) in the first quarter of 2008 compared to the same period in 2007 largely as a result of reduced travel expenses for the period. Royalties expense was reduced to nil, yielding a $15,000 decrease from the first quarter last year, because the company renegotiated a technology license in the third quarter of 2007 that eliminated the royalty requirement.

In the first quarter of 2008 technology development expense increased $7,000 (33%) over 2007 primarily due to higher technology license costs. The company met the deferral criteria for development costs under generally accepted accounting principles as the company is generating increasing revenues from the product and technology it has developed. Total expenditures on technology development in the first quarter of 2008 were $149,000, of which $30,000 was expensed and $119,000 was capitalized. Amortization expense of deferred development costs in the amount of $76,000 was recognized in the first quarter of 2008, an increase of $34,000 over last year's first quarter.

The volume of US deliveries made by DMDS in 2007 increased 266% over 2006 to 1.3 million. In the fourth quarter of 2007 the number of US deliveries made on DMDS doubled over the fourth quarter of 2006 to 437,000. This trend continued into 2008, with the traditionally slower first quarter showing that the number of US deliveries made on DMDS increased to 438,000, a 62% increase over last year's first quarter. These volume increases demonstrate that the rate of adoption of DMDS in the US record and radio industries is growing at a rapid pace. The company expects to monetize this usage this year.

In January 2008 the company bolstered its management team with the appointment of Richard Klosa as Chief Technology Officer (CTO). Wojtek Hoch left the position of Vice President Technology after five years with company to pursue other opportunities. Richard Klosa brings more than a decade of technology development and management experience as an entrepreneur and digital media innovator to the company. In his previous role as Chief Technology Officer and Co-Founder of J!VE Media Technologies Inc., Richard led his team to a 2002 Canadian New Media Award for 'Most Promising Company' and recognition from the Branham Group as one of the Top 25 Up and Comers. More recently, as the Vice President of Technology at Cubic Health Inc., Richard architected and led the development of the 'Cubic Health Canadian Drug Database™', a comprehensive reporting and analytics system designed to aid Canadian employers in managing their prescription drug benefit. Richard graduated from Ryerson University's Radio & Television arts program with an Honours B.A.A., is a certified PMP and Solutions Developer and has authored "Building A Working Revenue Model For The Digital Distribution Of Copyrighted Media". Richard is a highly regarded technologist whose thoughts and opinions are sought for multiple TV shows (ROB TV, Media TV, CP24), newspaper articles, and online publications.

Also in January 2008 the company entered into a partnership with Radio and Records (R&R), the leading music industry information company in the United States, to market and promote DMDS to the US radio and recording industries. This partnership provides for DMDS branding with direct links to the DMDS login page on all R&R electronic and print products. YANGAROO and R&R will also co-market DMDS' eNote products and R&R's EPK products, expanding the commercial potential of both.

In the first quarter 2008, the company became a founding partner in FYIMusic.ca along with Gary Slaight, the former president and CEO of Standard Radio Inc. and a long-time champion of Canadian music. Veteran music industry journalist David Farrell returned to the music industry to found FYIMusic.ca, a digital independent news source that will focus on the Canadian music industry. FYIMusic.ca offers detailed reporting on the companies and individuals involved in the creation, marketing, promotion, and export of Canadian music. Mr. Farrell, previously co-publisher of The Record, has been reporting on Canada's musicians and music industry for over 30 years. FYIMusic.ca launched in April 2008, to coincide with the Juno awards.

In March 2008 Intermedia Regional Promotions of the UK began using DMDS to digitally deliver new releases to the UK's radio network through the company's UK based partner Adstream Ltd. Steve Tandy, Managing Director of Intermedia Regional Promotions said "In this digital age, it has frustrated me for some time that there seemed not to be an acceptable, workable, secure music radio digital delivery system. Intermedia has strongly supported attempts in the past to achieve such a system that would be adopted and embraced by key music people within radio, instead of the antiquated CD-in-a-envelope approach we have all been using for years."

Also in March 2008, the company announced the launch of DMDSDirect, a new ecommerce service that allows the independent North American music community greater access to digital delivery of music. DMDSDirect will initially be available to member artists and labels of independent aggregators Indie911, I2R, Indie Pool, and The Manitoba Country Music Association (MCMA) located in both the United States and Canada. DMDSDirect allows the independent aggregators and their tens of thousands of member artists and labels to digitally distribute their radio singles and promotional materials in the same manner utilized by major labels. DMDSDirect users will be able to choose a package of key stations in a given radio format or genre, pay by credit card, and have their music distributed both quickly and digitally to radio stations throughout the United States and Canada. We expect this service to provide significant new revenues for the company in the third and fourth quarters.

Throughout the first quarter of 2008 the company continued to make progress with the examination of its second US patent application No. 10/431,854 titled "Content Distribution System and Method". This is same application that the company has been granted patent #2,407,774 for in Canada. Management is optimistic that this US application will result in a patent being granted, just as it was in Canada, which would provide a barrier to entry against competitors in the US market and add significant value to the company.

To date DMDS has made over five million deliveries of over 11,000 songs from more than 500 record labels to destinations which include radio stations representing over 35 US broadcast chains such as CBS/Infinity, Citadel, Clear Channel, Cox, Cumulus, Emmis, EntreVision, Entercom, Federated Media, Sirius, Journal, DMX, Jones Radio, AOL, Music Choice, Radio One, Salem Communications, Univision, Westwood One, Regent, Premiere Radio, Next Media, XM Satellite Radio, Waitt Media and many others. All of these deliveries have been made without a single leak being reported.

4) Summary of Quarterly Results

The following table sets out selected quarterly results of the Corporation for the eight quarters prior to the effective date of this report. The information contained herein is drawn from the interim and annual financial statements of the Corporation.

	Fiscal 2008 ($)	**Fiscal 2007 ($)**				**Fiscal 2006 ($)**		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	127,077	137,650	133,858	130,640	122,808	124,441	106,465	111,488
Loss for the period	807,192	851,609	652,295	632,562	528,693	489,405	524,314	569,753
Loss per share (basic & diluted)	.01	.01	.01	.01	.01	.01	.02	.02

5) Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2008 decreased to $5,738,000 from $6,496,000 as at the December 31, 2007 fiscal year end. The main reason for this change was the use of $759,000 of funds in the first quarter of 2008 to develop the company's business. Cash used in operating activities in the first quarter of 2008 decreased $33,000 (-5%) to $621,000 compared to the first quarter of 2007. During the first quarter ended March 31, 2008 the company invested $119,000 in product development, $10,000 in FYI Inc., and $6,000 in patent development.

The company will continue to invest funds in building its business to achieve key market and growth targets. The company's operations are not yet generating positive cash flow, so in future the company may need to source additional funds in order to fulfil its business objectives.

6) <u>Share Capital</u>

At March 31, 2008 YANGAROO had 75,517,615 common shares, 3,365,000 options, and 6,725,400 warrants outstanding. At December 31, 2007 YANGAROO had 75,517,615 common shares, 3,321,000 options, and 6,725,400 warrants outstanding. 1,250,000 of the company's outstanding common shares are not tradable currently as these are subject to the litigation described in note 5(b) of the financial statements.

7) <u>Disclosure Controls and Procedures, and Internal Control Over Financial Reporting</u>

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. For quarterly reporting periods and annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. In particular, the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and we have:

(a) designed such DC&Ps, or caused them to be designed under our supervision, to provide reasonable assurance that material information is made known to us during the period in which the annual filings are being prepared; and

(b) designed such ICFRs, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP; and

(c) evaluated the design and effectiveness of the Company's DC&Ps as of the year ended December 31, 2007, and have evaluated the design of the Company's ICFRs for the year ended December 31, 2007; and

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies with limited staff; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the period ended December 31, 2007; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, DMCT, LLP audit the annual statements, in accordance with Canadian generally accepted auditing standards, and provide a report of their findings to the Audit Committee. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

8) Off Balance Sheet Arrangements

The company does not have any off-balance sheet arrangements.

9) Change in Accounting Policies

(i) Effective January 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' (“CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 6.

(ii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 7.

(iii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument related presentation disclosures.

(iv) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

YANGAROO Inc.

(formerly Musicrypt Inc.)

Interim Financial Statements

March 31, 2008

(unaudited)

Notice to Reader

The accompanying unaudited interim financial statements have been prepared by the company's management and the company's independent auditors have not performed a review of these financial statements.

YANGAROO Inc.

(formerly Musicrypt Inc.)
Interim Balance Sheets
(unaudited - See Notice to Reader)

	Note	March 31 2008	December 31 2007 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 5,737,841**	$ 6,496,563
Accounts receivable		**165,222**	141,492
Prepaid expenses and other assets		**82,258**	57,435
		5,985,321	6,695,490
Property, plant and equipment		**96,648**	110,871
Patents		**65,361**	60,869
Investment in technology		**524,422**	561,379
Deferred development costs		**1,004,018**	961,288
Other assets		**88,030**	78,030
		$ 7,763,800	$ 8,467,927
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 494,973**	$ 423,314
Deferred revenue		**13,235**	9,801
		508,208	433,115
Shareholders' Equity (Deficiency)			
Capital stock		**21,043,889**	21,043,889
Contributed surplus		**765,142**	737,170
Warrants		**524,754**	524,754
Deficit		**(15,078,193)**	(14,271,001)
		7,255,592	8,034,812
		$ 7,763,800	$ 8,467,927

Commitments and Contingencies (Note 5)

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

See accompanying notes.

YANGAROO Inc.

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

	2008	2007
Revenue	**$ 127,077**	$ 122,808
Expenses		
Salaries and consulting	**504,822**	381,886
Marketing and promotion	**89,234**	108,007
Office and general	**235,117**	106,838
Research and development	**29,666**	22,342
Royalties	**-**	15,452
Amortization	**130,818**	77,459
	989,657	711,984
Loss before undernoted items	**(862,580)**	(589,176)
Interest income	**55,388**	60,483
Net loss for the period	**(807,192)**	(528,693)
Deficit at beginning of period	**(14,271,001)**	(11,605,842)
Deficit at end of period	**$ (15,078,193)**	$ (12,134,535)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding	**75,517,615**	58,789,037

See accompanying notes.

YANGAROO Inc.

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

	2008	2007
Cash flows from operating activities		
Loss for the period	**$ (807,192)**	$ (528,693)
Add items not affecting cash		
Amortization	**130,818**	77,459
Stock based compensation	**27,972**	32,149
Loss on disposal of property, plant and equipment	**1,094**	-
	(647,308)	(419,085)
Changes in non-cash working capital items		
Accounts receivable	**(23,730)**	(68,922)
Prepaids and other assets	**(24,823)**	(118,314)
Accounts payable and accrued liabilities	**71,657**	(55,063)
Deferred revenue	**3,434**	7,411
	(620,770)	(653,973)
Cash flows from investing activities		
Other assets	**(10,000)**	-
Purchase of property, plant and equipment	**(4,458)**	(36,176)
Patents	**(6,169)**	(7,715)
Proceeds on disposal of property, plant and equipment	**1,650**	-
Investment in technology licence	**-**	(8,816)
Deferred development costs	**(118,975)**	(104,934)
	(137,952)	(157,641)
Cash flows from financing activities		
Issuance of common shares, net of issue costs	**-**	9,136,861
Operating loan	**-**	(15,000)
	-	9,121,861
Increase (decrease) in cash during the period	**(758,722)**	8,310,247
Cash at beginning of period	**6,496,563**	72,447
Cash at end of period	**$ 5,737,841**	$ 8,382,694

See accompanying notes.

1. BASIS OF PRESENTATION

YANGAROO Inc. is a technology company that is targeted to become the leading enabler of user-friendly and secure distribution of media via the internet.

2. CHANGE IN ACCOUNTING POLICIES

(i) Effective January 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' (“CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 7.

(ii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 7.

(iii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument related presentation disclosures.

(iv) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2007, except for the change in accounting policies described in Note 2. These financial statements should be read in conjunction with those audited financial statements.

Recent Accounting Pronouncements Issued and Not Yet Applied

(i) In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing January 1, 2009. The Company is assessing the impact of the new standard on its financial statements.

(ii) The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

4. STOCK OPTIONS AND WARRANTS

The Company had the following stock options outstanding at March 31, 2008:

Number of Options	Exercise Price	Expiry Date
185,000	$ 0.75	May 7, 2008
25,000	$ 0.47	September 24, 2008
50,000	$ 1.04	January 1, 2009
400,000	$ 0.47	January 1, 2009
100,000	$ 0.86	August 9, 2009
25,000	$ 0.47	August 25, 2009
25,000	$ 0.52	September 14, 2009
100,000	$ 0.47	November 24, 2009
60,000	$ 0.44	February 3, 2010
500,000	$ 0.44	March 7, 2010
565,000	$ 0.42	May 19, 2010
60,000	$ 0.42	October 3, 2010
75,000	$ 0.25	November 22, 2010
100,000	$ 0.25	April 11, 2011
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
120,000	$ 0.35	April 12, 2012
400,000	$ 0.32	May 24, 2012
50,000	$ 0.27	June 25, 2012
140,000	$ 0.24	August 15, 2012
100,000	$ 0.13	November 27, 2012
100,000	$ 0.14	January 9, 2013
3,365,000		

The Company had the following warrants outstanding at March 31, 2008:

Number of Warrants	Purchase Price	Expiry Date
1,630,000	$ 0.30	May 12, 2008
75,000	$ 0.30	May 25, 2008
1,995,000	$ 0.30	June 7, 2008
2,800,000	$ 0.25	February 6, 2009
120,400	$ 0.30	May 12, 2008
105,000	$ 0.30	June 7, 2008
6,725,400		

5. COMMITMENTS AND CONTINGENCIES

(a) Technology License Agreement

Pursuant to a licensing agreement dated June 28, 2007, the Company was granted a non-exclusive license to integrate a patented biometric technology (the "Intellectual Property") with their DMDS. The initial term of the License is for six years, automatically renewing for successive terms of one year after the initial five-year term and may be terminated upon 180 days notice prior to the renewal date of the agreement.

The Company paid a one time cost of $30,000 and must pay an annual maintenance fee of $5,400 per year and an annual user license fee of a minimum of $5,000.

(b) Litigation

On November 14, 2000, the Company filed a claim against a former employee and shareholder, and related shareholders, seeking a rescission of their 1,250,000 common shares and damages in the amount of $100,000. A counterclaim was brought against the Company by these defendants for various relief including damages of approximately $850,000, a declaration that the defendants are shareholders and orders that they be bought out or the Company be wound up. In May 2001, the Company successfully defeated a motion by the defendants that sought interim costs and security for costs. The Company was awarded its costs for this motion. The Company continues to vigorously defend the action. The outcome is not determinable and therefore no provision is recorded.

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

5. COMMITMENTS AND CONTINGENCIES (Cont'd)

(c) Patent Infringement

On July 25, 2005, the Company sent a letter to a competitor and its partners demanding that they cease infringement of the Company’s Content Distribution System and Method patent number 2,407,774 in Canada. On March 7, 2006, the competitor filed a claim with the Federal Court of Canada requesting a ruling that the technology of the competitor and its partners does not infringe on this patent and that the patent was invalid. In June 2006, the Company filed with the Federal Court a statement of defence and counterclaim seeking $15 million in damages for infringement from the competitor and its partners. In May 2007, the competitor sued the company for defamation and interference with their business claiming $25 million in damages. Management is of the opinion that the suit is a meritless attempt to deflect attention from the company’s patent infringement claim against the competitor. The Company has filed a statement of defence and counterclaim with the Federal court for $25 million in damages from the competitor for defamation and interference with the Company’s business. The outcome is not determinable and therefore no provision is recorded.

On June 22, 2007, the Company filed a claim against a customer of the above competitor, requesting a declaration that the Company's Canadian patent, Content Distribution System and Method patent number 2,407,774 is valid and infringed by the use of the competitors technology and is seeking $2 million in damages. In November 2007, a defence and counterclaim was filed seeking a declaration that the use of the competitor's technology does not infringe the patent and the patent is valid. The outcome is not determinable and therefore no provision is recorded.

6. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, warrant capital, contributed surplus and deficit, in the definition of capital.

The Company’s primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further develop and market its digital media distribution systems, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants 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 months ended March 31, 2008.

7. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, credit risk and interest rate risk) and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market risk:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily United States dollars. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

Balances in foreign currencies at March 31, 2008 are as follows:

	USD$	GBP £
Accounts receivable	3,700	3,700
Accounts payable and accrued liabilities	67,000	NIL

(ii) Credit risk:

The Company is subject to risk of non-payment of accounts receivable. The Company mitigates this risk by monitoring the credit worthiness of its customers. As at March 31, 2008, approximately 37% (December 31, 2007 - 55%) of accounts receivable and 47% (December 31, 2007 - 53%) of revenue are from three customers (2007 - four customers).

7. FINANCIAL RISK MANAGEMENT (Cont'd)

(iii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations as interest income represents approximately 5.5% of total expenses. A 1.0% change in interest rates would impact the Company's interest income by approximately 35%.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at March 31, 2008, the Company has accounts payable and accrued liabilities of $494,973 due within 12 months and has cash and cash equivalents of $5,737,841 to meet its current obligations. As a result the Company has minimal liquidity risk.

DMDS

Digital Media Distribution System