YANGAROO Inc.

Interim Financial Statements

March 31, 2009

(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, 2009

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.

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1) Date of MD&A May 13, 2009.

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 B2B 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 on physical media (such as copying to CD, DVD 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, encryption and watermarking. DMDS replaces the physical distribution of musical recordings, music video, 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, 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 music videos and for both audio and video advertising content. DMDS puts the control of when and to whom ads are distributed directly in the hands of the advertising firm. DMDS can provide significant cost savings, greater efficiencies, direct control, and individual accountability compared to the distribution of ads on either CD's, FTP or satellite based systems. YANGAROO has upgraded DMDS to the next generation 5.0 in order to support the distribution of music videos and TV commercials, which offer attractive additional market opportunities for the company.

3) Review of Operations for the First Quarter Ended March 31, 2009

Revenues for the first quarter ended March 31, 2009 grew 43% over revenues for the first quarter of 2008, as a result of increased use of DMDS by a greater number of customers. The loss for the first quarter of 2009 was reduced by 24% ($197,000) compared to the first quarter of 2008. EBITDA (Earnings before interest, taxes, depreciation and amortization) for the first quarter of 2009, calculated as the loss for the quarter before amortization and interest income, improved by 33% ($245,000) over the same period in 2008.

The increase in revenues, combined with a decrease in total expenses, accounted for the lower loss. Decreases in salaries and consulting expense of $94,000 (19%), general and administrative expense of $55,000 (24%) and marketing and promotion expense of $36,000 (40%) were the primary reasons for the reduced total expenses, which were $191,000 (19%) lower than in the first quarter of 2008. The decline in interest income of $48,000 (87%), due to lower interest rates and investment balances, partly offset the lower operating expenses. Cash and cash equivalents were $2,248,000 at March 31, 2009, representing over three quarters of funds on hand at current use rates.

The decrease in salaries and consulting expense was primarily in the technology department, where this expense fell by 45% ($78,000) in the first quarter of 2009 compared to the same period in 2008. The company had bolstered its technology team with necessary human resources through 2007 and into 2008 to carry out its product development plans for the next generation of DMDS 5.0. As DMDS 5.0 development approached completion in the first quarter of 2009, the company began reducing this expenditure. The balance of the decrease in salaries and consulting expense was in general and administration department, where it was $21,000 (13%) lower than in the first quarter of 2008.

General and administrative expense includes expenses related to the protection of intellectual property rights, which totalled $60,000 in the first quarter of 2009 compared to $86,000 in the first quarter of 2008, a 30% reduction. Expenditures related to enforcing 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. Recruiting fees were reduced in the first quarter as the company was not hiring additional staff, contributing $38,000 to the decrease in the general and administrative expense.

Marketing and promotion expense for the first quarter of 2009 was $36,000 (40%) lower than for the same period of 2008 primarily because of reduced advertising and conference attendance. Stock based compensation of $3,000 was included in the salaries and consulting expense for the first quarter of 2009, which was a decrease of 90% ($25,000) for the same period in 2008.

The cost reductions noted above were achieved at a time when the company's U.S. dollar denominated expenses increased approximately 25% solely due to the decline in the value of the Canadian dollar relative to the U.S. dollar through the first quarter.

Total expenditures on technology development in the first quarter of 2009 were $187,000, of which $24,000 was expensed and $163,000 was capitalized. During the period technology development expense decreased $6,000 (19%) over the same period in 2008 primarily due to lower 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. Amortization expense of deferred development costs in the amount of $83,000 was recognized in the first quarter of 2009, an increase of $6,000 over last year's first quarter.

During the first quarter of 2009, the company's new DMDS 5.0 platform was successful at reducing costs and providing an environmentally-friendly method for distributing music and enabling the judging process for The Canadian Academy of Recording Arts and Sciences (CARAS) in association with the 2009 JUNO Awards. The initial phase of voting for The 2009 JUNO Awards was completed on February 3, 2009 with the announcement of the JUNO nominees and the final voting was completed on March 2. The results were delivered to PricewaterhouseCoopers, and were announced at the JUNO Awards show, which was broadcast live from Vancouver on March 29 by CTV.

In the past, music has been submitted by artists and record labels for JUNO Award consideration by the physical shipment of 12 CD copies, for each category, of their album and/or single complete with bio and a publicity photo to CARAS, who in turn would package the submissions and ship them out to the 300+ judges across the country. Using DMDS to streamline the process, submitted music was digitally ingested into DMDS and CARAS used DMDS to securely distribute the music and related promotional materials to the over 300 judges and more than 1,700 members, eliminating the need for a third-party supplier to collect, manage and distribute in the range of 15,000 physical CDs. The judges and members were able to stream the music online or download it to be burned to CD or transferred to their iPods for review. Votes were then cast online in the specific category or categories that applied and DMDS 5.0 provided CARAS with detailed reports of the entire process.

In April 2009 YANGAROO launched the next generation of its' Digital Media Distribution System - DMDS 5.0. A significant new feature of the system is support for the delivery of broadcast quality video, such as music videos and television commercials. DMDS 5.0 was designed in a modular, data driven fashion utilizing a services oriented architecture (SOA) approach, so that it can be responsive to the changing needs of YANGAROO customers worldwide, and is able to adapt to opportunities for secure digital file delivery in the music and advertising industries.

In May 2009 the company was very pleased to receive the grant of United States patent #7,529,712 titled "Content Distribution System and Method". This followed the issuance in January 2009 by the United States Patent and Trademark Office of a Notice of Allowance for the patent application. This patent will be in effect until 2026. The U.S. patent for "Content Distribution System and Method" covers a method of distributing digital content, such as music and advertising, to selected individuals over the Internet, in which the uploading content provider selects the individuals that are entitled to access the content and sets release conditions, such as a time and date. Once the identities of the selected individuals have been verified at login, they are provided with access to the uploaded content if those release conditions are met. YANGAROO'S Digital Media Distribution System (DMDS) is the only such system available to the North American record, radio and advertising industries that has U.S. and Canadian patent protection for all of these essential features.

This new U.S. patent complements YANGAROO's Canadian patent number 2,407,774 of the same title that was granted in 2005, together providing a North America-wide safeguard for the company's intellectual property. These "Content Distribution System and Method" patents augment YANGAROO'S intellectual property portfolio, which includes U.S. patent number 7,003,670 titled "Biometric Rights Management System", which is also pending in Canada as patent application number 2,349,797, and pending U.S. patent application number 11/854,289 titled "Media File Distribution System and Method".

The grant of the company's second U.S. patent underscores YANGAROO's status as the founding inventor in its sector and is expected to add substantial value to the company. Both the U.S. and Canadian patent offices have recognized the company's inventions as patents. The company's focus on leading through innovation continues to bring the best and most advanced solutions available to its customers. Management will continue with its program of actively protecting its technology and expects that this patent will provide a further barrier to entry against competitors in the U.S. market and add significant value to the company.

Following the patent grant, the company filed a claim for patent infringement in United States Federal District Court in Wisconsin requesting that the court issue an injunction against Destiny Media Technologies Inc. (OTC:DSNY) as well as Destiny Software Productions, Inc., and MPE Distribution, Inc. to cease the use of their system in the United States. In addition, the claim requests the payment of unspecified damages for patent infringement and other costs to be determined at trial.

To date DMDS has made over six million deliveries of over 21,000 songs from more than 600 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.

5) 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 Year ($):	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	181,386	138,023	175,767	137,946	127,077	137,650	133,858	130,640
Loss for the period	610,021	760,455	675,672	1,020,724	807,192	851,609	652,295	632,562
Loss per share (basic & diluted)	.01	.01	.01	.01	.01	.01	.01	.01

6) Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2009 decreased to $2,248,000 from $3,030,000 as at the December 31, 2008 fiscal year end. The main reason for this change was that the cash used in operating activities in the first quarter of 2009 was $614,000, 1% less than for the same period in 2008. The funds available at March 31, 2009 represent more than three quarters of funding for the company. During the quarter ended March 31, 2009 the company invested $163,000 in technology development, $7,000 in property, plant and equipment and $14,000 in new patent development. Cash usage is expected to decrease as the company completes its development program for DMDS 5.0.

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.

7) Share Capital

At March 31, 2009 YANGAROO had 75,517,615 common shares and 3,245,000 options outstanding. At December 31, 2008 YANGAROO had 75,517,615 common shares, 3,769,000 options, and 2,800,000 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.

8) Disclosure Controls and Procedures, and Internal Control Over Financial Reporting

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 quarter ended March 31, 2009, and have evaluated the design of the Company's ICFRs for the quarter ended March 31, 2009; 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 March 31, 2009; 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, Collins Barrow Toronto LLP (formerly 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.

9) Off Balance Sheet Arrangements

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

10) Change in Accounting Policy

Effective January 1, 2009 the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This selection also addresses when an internally developed intangible asset meets the criteria for recognition as an asset. There has been no impact on the Company's financial statements as a result of adopting this policy.

11) <u>International Financial Reporting Standards</u>

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable entities would be required to adopt International Financial Reporting Standards ("IFRS"). The Company must prepare its interim and annual financial statements in accordance with IFRS for periods beginning on January 1, 2011. The Company has assigned responsibility for IFRS adoption and is currently studying the impacts of IFRS on the Company's accounting policies, information systems, internal controls over financial reporting and contractual arrangements and covenants. The initial assessment of the process indicates that the most significant areas of difference applicable to the Company include treatment of stock-based compensation, intangible assets and the more extensive presentation and disclosure requirements under IFRS.

YANGAROO Inc.

Interim Financial Statements

March 31, 2009

(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.

Interim Balance Sheets
(unaudited - See Notice to Reader)

	March 31 2009	December 31 2008 (audited)
Assets		
Current		
Cash and cash equivalents	**$ 2,248,269**	$ 3,030,099
Accounts receivable	**221,579**	157,798
Prepaid expenses and other assets	**101,654**	50,418
	2,571,502	3,238,315
Property, plant and equipment	**151,374**	166,136
Patents	**117,978**	105,855
Investment in technology	**428,300**	452,330
Deferred development costs	**1,380,260**	1,300,433
Other assets	**78,030**	78,030
	$ 4,727,444	$ 5,341,099
Liabilities		
Current		
Operating loan	**$ 15,000**	$ -
Accounts payable and accrued liabilities	**418,570**	443,453
Deferred revenue	**18,502**	14,989
	452,072	458,442
Shareholders' Equity		
Capital stock	**21,043,889**	21,043,889
Contributed surplus	**1,376,548**	868,384
Warrants	**-**	505,428
Deficit	**(18,145,065)**	(17,535,044)
	4,275,372	4,882,657
	$ 4,727,444	$ 5,341,099

Commitments and Contingencies (Note 5)

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

See accompanying notes.

YANGAROO Inc.

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

	2009	2008
Revenue	**$ 181,386**	$ 127,077
Expenses		
Salaries and consulting	**411,294**	504,822
Marketing and promotion	**53,664**	89,234
General and administrative	**179,654**	235,117
Technology development	**23,987**	29,666
Amortization of capital assets	**21,265**	15,938
Amortization of intangible assets	**108,539**	114,880
	798,403	989,657
Loss before undernoted items	**(617,017)**	(862,580)
Interest income	**6,996**	55,388
Net loss for the period	**(610,021)**	(807,192)
Deficit at beginning of period	**(17,535,044)**	(14,271,001)
Deficit at end of period	**$ (18,145,065)**	$ (15,078,193)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding	**75,517,615**	75,517,615

See accompanying notes.

YANGAROO Inc.

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

	2009	2008
Cash flows from operating activities		
loss for the period	**$ (610,021)**	$ (807,192)
Add items not affecting cash		
Amortization	**129,805**	130,818
Stock based compensation	**2,736**	27,972
Loss on disposal of property, plant and equipment	**-**	1,094
	(477,480)	(647,308)
Changes in non-cash working capital items		
Accounts receivable	**(63,781)**	(23,730)
Prepaids and sundry assets	**(51,236)**	(24,823)
Accounts payable and accrued liabilities	**(24,883)**	71,657
Deferred revenue	**3,513**	3,434
	(613,867)	(620,770)
Cash flows from investing activities		
Other assets	**-**	(10,000)
Purchase of property, plant and equipment	**(6,503)**	(4,458)
Patents	**(13,912)**	(6,169)
Proceeds on disposal of property, plant and equipment	**-**	1,650
Deferred development costs	**(162,548)**	(118,975)
	(182,963)	(137,952)
Cash flows from financing activities		
Operating loan	**15,000**	-
Decrease in cash during the period	**(781,830)**	(758,722)
Cash at beginning of period	**3,030,099**	6,496,563
Cash at end of period	**$ 2,248,269**	$ 5,737,841

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 POLICY

Effective January 1, 2009 the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This selection also addresses when an internally developed intangible asset meets the criteria for recognition as an asset. There has been no impact on the Company's financial statements as a result of adopting this policy.

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, 2008, except for the change in accounting policy described in Note 2. These financial statements should be read in conjunction with those audited financial statements.

4. STOCK OPTIONS AND WARRANTS

The Company had the following stock options outstanding at March 31, 2009:

Number of Options	Exercise Price	Expiry Date
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
500,000	$ 0.44	March 7, 2010
535,000	$ 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
100,000	$ 0.35	April 12, 2012
400,000	$ 0.32	May 24, 2012
50,000	$ 0.27	June 25, 2012
130,000	$ 0.24	August 15, 2012
100,000	$ 0.13	November 27, 2012
100,000	$ 0.14	January 9, 2013
250,000	$ 0.22	April 18, 2013
410,000	$ 0.07	November 19, 2013
3,245,000		

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 its Digital Media Distribution System ("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 must pay an annual maintenance fee of $5,400 per year.

(b) Litigation

On November 14, 2000, the Company filed a claim against a former employee and shareholder, and related shareholders, seeking a rescission of their 1,250,000 common shares and damages in the amount of $100,000. A counterclaim was brought against the Company by these defendants for various relief including damages of approximately $850,000, a declaration that the defendants are shareholders and orders that they be bought out or the Company be wound up. In May 2001, the Company successfully defeated a motion by the defendants that sought interim costs and security for costs. The Company was awarded its costs for this motion. The Company continues to vigorously defend the action. The 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.

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.

Management believes that the above claims against the Company are meritless as a result of the Company having a valid patent, Content Distribution System and Method patent number 2,404,774, registered in Canada. In addition, in May 2009, the Company received a grant from the United States Patent and Trademark Office for US patent #7,529,712 titled Content Distribution System and Method. The Company also filed a patent infringement claim in May 2009 in the United States requesting that the court issue a permanent injunction prohibiting use of the competitor's system in the United States and payment of damages and legal costs.

The outcome of the above claims 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.

6. CAPITAL RISK MANAGEMENT (Cont'd)

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 months ended March 31, 2009.

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 management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market risk:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily United States dollars. 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, 2009 are as follows:

	USD$
Accounts receivable	$50,885
Accounts payable and accrued liabilities	$79,610

(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 and by offering an e-commerce service to smaller customers. As at March 31, 2009, approximately 40% (December 31, 2008 - 37%) of accounts receivable and 42% (December 31, 2008 - 41%) of revenue are from 3 customers (December 31, 2008 - three 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 0.9% of total expenses. A 1.0% change in interest rates would impact the Company's interest income by approximately 36%.

(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, 2009, the Company has accounts payable and accrued liabilities of $418,570 due within 12 months and has cash and cash equivalents of $2,248,269 to meet its current obligations. As a result the Company has minimal liquidity risk.

DMDS

Digital Media Distribution System