YANGAROO Inc.

Interim Financial Statements

June 30, 2009

(unaudited)

YANGAROO Inc.
95 Mural Street, Suite 600
Richmond Hill, Ontario, Canada L4B 3G2
Phone: 905-763-3553   Fax: 905-763-1180
www.yangaroo.com

YOO on the TSX Venture Exchange
YOOIF on the OTCBB

Management Discussion and Analysis
For the Second Quarter Ended June 30, 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.

YANGAROO's address is: Suite 600, 95 Mural Street
Richmond Hill, Ontario L4B 3G2
Phone: 905-763-3553 Fax: 905-763-1180

1) Date of MD&A August 18, 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 television broadcasters, 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 broadcast quality music videos and for both audio and video advertising content. DMDS can put the control of when and to whom ads are distributed directly in the hands of the advertising firm or production house. 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 significant additional market opportunities for the company.

3) <u>Review of Operations for the Second Quarter Ended June 30, 2009</u>

Revenues for the second quarter ended June 30, 2009 grew 48% over revenues for the second quarter of 2008, as a result of increased use of DMDS by a greater number of customers. The loss for the second quarter of 2009 was 29% ($295,000) lower compared to the second quarter of 2008. EBITDA (Earnings before interest, taxes, depreciation and amortization) for the second quarter of 2009, calculated as the loss for the quarter before amortization and interest income, improved by 35% ($330,000) over the same period in 2008.

The increase in revenues, combined with a 22% ($264,000) decrease in total expenses, accounted for the lower loss compared to the second quarter of 2008. The decrease in salaries and consulting expense of $247,000 (37%) accounted for most of the reduction in total expenses. Lower expenses for technology development of $21,000 (73%) and marketing and promotion of $12,000 (16%) also contributed to the reduced total expenses. An increase in general and administrative expenses of $18,000 (6%) plus the reduction in interest income of $36,000 (94%), due to lower interest rates and investment balances, partially offset these lower operating expenses.

The decrease in salaries and consulting expense was primarily due to reduced human resources in the sales and marketing and the technology departments, where this expense fell by 58% ($134,000) and 64% ($96,000) respectively in the second 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 was completed in the second quarter of 2009, the company reduced these expenditures. The balance of the decrease in salaries and consulting expense was in the general and administration department, where it was 11% ($28,000) lower than in the second quarter of 2008. These decreases were slightly offset by an increase in the salaries and consulting expense for the operations department of $10,000 (26%), reflecting increased staffing to support a greater number of customers and usage of DMDS.

General and administrative expense includes expenses related to the protection of the company's Canadian and U.S. intellectual property rights, which were $159,000 in the second quarter of 2009 compared to $170,000 in the second quarter of 2008, a 6% ($11,000) reduction. The costs for the second quarter included the filing of a claim for infringement of the company's United States patent #7,529,712 titled "Content Distribution System and Method" in United States Federal District Court in Wisconsin requesting that the court issue an injunction against Destiny Media Technologies Inc. (OTC:DSNY), Destiny Software Productions, Inc., and MPE Distribution, Inc. ("Destiny") to cease the use of their system in the United States. The claim also requests the payment of unspecified damages for patent infringement and other costs to be determined at trial. This new U.S. action is in addition to the ongoing prosecution of the Canadian suit including Destiny in which the company has claimed $15 million in damages for infringement of the company's Canadian patent #2,407,774, also titled "Content Distribution System and Method".

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. Costs associated with filing the Shareholder Rights Plan, higher co-location costs for increased system capacity, and foreign exchange loss contributed to the $18,000 (6%) increase in general and administrative expense.

Marketing and promotion expense for the second quarter of 2009 was $12,000 (16%) lower than for the same period of 2008 primarily because of reduced advertising and public relations costs. Stock based compensation of $10,000 was included in the salaries and consulting expense for the second quarter of 2009, which was a decrease of 70% ($22,000) from 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 due to the decline in the value of the Canadian dollar relative to the U.S. dollar through the first half of 2009 compared to the first half of 2008.

Total expenditures on technology development were $188,000 in the second quarter of 2009. $8,000 of this amount was expensed as technology development, $53,000 was included in salaries and consulting expense and $127,000 was capitalized as deferred development costs. During the period technology development expense decreased $21,000 (73%) over the same period in 2008 primarily due to recognition of an investment tax credit of $17,000. 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. Deferred development costs were also reduced by recognition of an investment tax credit of $22,000 in the second quarter of 2009. Amortization expense of deferred development costs in the amount of $81,000 was recognized in the second quarter of 2009, a decrease of $2,000 (2%) compared to last year's second quarter.

4) <u>Review of Results of Operations for the Six Month Period Ended June 30, 2009</u>

Revenues for the first six months ended June 30, 2009 grew 46% over revenues for the first half of 2008, as a result of increased use of DMDS by a greater number of customers. The loss for the first half of 2009 was 27% ($492,000) lower compared to the first half of 2008. EBITDA (Earnings before interest, taxes, depreciation and amortization) for the first half of 2009, calculated as the loss for the quarter before amortization and interest income, improved by 35% ($574,000) over the same period in 2008.

The increase in revenues, combined with a 21% ($455,000) decrease in total expenses, accounted for the lower loss compared to the first half of 2008. The decrease in salaries and consulting expense of $341,000 (29%) accounted for the majority of the reduction in total expenses. In addition, marketing and promotion expense decreased $48,000 (29%), technology development expense decreased $27,000 (46%), and general and administrative expense was lower by $38,000 (7%). A reduction in interest income of $84,000 (90%), due to lower interest rates and investment balances, partially offset these lower operating expenses.

The decrease in salaries and consulting expense was primarily due to reduced human resources in the technology and sales and marketing departments, where this expense fell by 54% ($174,000) and 37% ($136,000) respectively in the first half 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 through the first half of 2009, the company reduced these expenditures. The balance of the decrease in salaries and consulting expense was in the general and administration department, where it was 12% ($48,000) lower than in the first half of 2008. These decreases were slightly offset by an increase in the salaries and consulting expense for the operations department of $17,000 (21%), reflecting increased staffing to support a greater number of customers and usage of DMDS.

General and administrative expense includes expenses related to the protection of the company's Canadian and U.S. intellectual property rights, which were $218,000 in the first half of 2009 compared to $256,000 in the first half of 2008, a 15% ($38,000) reduction. These costs included the filing of a claim in the second quarter for infringement of the company's United States patent #7,529,712 titled "Content Distribution System and Method" as described in section 3 above. 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 matters under litigation are resolved. Recruiting expense was $38,000 lower in the first half of 2009, contributing to the $38,000 (7%) decrease in general and administrative expense.

Total expenditures on technology development were $471,000 in the first half of 2009. $32,000 of this amount was expensed as technology development, $150,000 was included in salaries and consulting expense and $289,000 was capitalized as deferred development costs. During the period technology development expense decreased $27,000 (46%) over the same period in 2008 primarily due to recognition of an investment tax credit of $17,000. 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. Deferred development costs were also reduced by recognition of an investment tax credit of $22,000 in the first half of 2009. Amortization expense of deferred development costs in the amount of $163,000 was recognized in the first half of 2009, a decrease of $4,000 (3%) compared to last year's first half.

Marketing and promotion expense for the first half of 2009 was $48,000 (29%) lower than for the same period of 2008 primarily because of reduced advertising, conference attendance and travel costs. Stock based compensation of $13,000 was included in the salaries and consulting expense for the first half of 2009, which was a decrease of 79% ($47,000) from the same period in 2008.

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, 2009 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 the second quarter of 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.

In July 2009 the company’s continuation patent application no. 12/398,238 entitled “Content Distribution System and Method” was published by the United States Patent and Trademark Office under publication no. US-2009-0171966-A1. As noted above the company has already obtained U.S. and Canadian patents for its Content Distribution System and Method. A continuation patent application is a mechanism available under the U.S. patent system to pursue additional claims in a second patent application. YANGAROO’s continuation patent application no. 12/398,238 contains 29 claims and benefits from the same 2002 priority date as the original patent application. In summary, the claims in the continuation patent application are directed to distributing digital music to registered recipients who request access to the server and who are included in a distribution list specifying which registered users can access the digital music. The system enables content providers to control which recipients are included in the distribution list for a particular digital music file and what release conditions can be set for that file.

These "Content Distribution System and Method" patents and the U.S. continuation patent application augment YANGAROO'S intellectual property portfolio, which also includes U.S. patent number 7,003,670 titled "Biometric Rights Management System", which is 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.

In May 2009, following the grant of U.S. patent #7,529,712, 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.

Also in May 2009, Dean Ernst joined YANGAROO as a consultant to market the company's newly launched state of the art digital delivery system, DMDS 5.0. Dean was one of the original founders of what is known today as the Play MPE system and former Vice President of Operations for Destiny Media Technologies Inc. (OTC: DSNY), a competitor of the company. "DMDS 5.0 is clearly a superior product in every way," said Dean Ernst. "I visited YANGAROO's Development Center in Toronto and saw DMDS 5.0 for myself. I met their development team as well as their fine customer service people and was extremely impressed to say the least. My credibility and reputation is very important to me. I chose to work with YANGAROO because I am confident that DMDS 5.0 is the best product available for my music industry associates. It does everything I wanted Destiny's Play MPE system to do and much more. It has the added ability to deliver full broadcast quality video with all the same features currently available for audio file delivery. This will truly revolutionize the music industry. I'm happy to be a part of this outstanding team."

In June 2009 the company signed a commercial agreement with a U.S. based multi-national, NYSE-listed Fortune 500 company to use DMDS to securely deliver pre-release music and audio files from the company's television shows to custom lists of internal recipients and external destinations. For each show or segment of a show, DMDS will allow a custom group of recipients, including producers, editors, choreographers, dancers, actors, and others, to be selected and securely sent music and/or audio from specific segments or scenes. These recipients can then either stream or download the audio for preparation, pre-production, production, or post-production. The use of DMDS in television show production opens an attractive new market for the company.

In July 2009 the company was named to the Canadian Business "The Tech 100" 2009 list, an annual list ranking Canada's 100 leading technology companies. Canadian Business' key criteria for including a company in the Tech 100 are:

- conducts own meaningful advanced technology R&D
- develops advanced hardware or software technology of its own for an end market
- provides advanced IT services or manufactures advanced IT products
- business model rests on a value proposition of in-house advanced technological knowledge and ingenuity
- headquartered in Canada

The top 100 companies that meet these criteria are then ranked by factors including performance measures, such as sales growth and one-year total return figures, and market capitalization to provide a more rounded perspective of the contribution the selected firms make to Canada's technology sector. The full list appears in the July 20, 2009 print edition of the magazine and is available online at: www.canadianbusiness.com/tech100.

In August 2009 the company announced that, subject to regulatory approval, Horizon Media Inc. will acquire warrants to purchase 750,000 YANGAROO common shares. The warrants will become exercisable after various phases of a digital media workflow solution are successfully completed. These warrants will have an exercise price as permitted by the TSX Venture Exchange policies at the time of issuance and an expiry date of five years from the date of issuance. Founded in 1989, Horizon Media, Inc. is the largest U.S. independent media services company. Dedicated to helping clients sell products and build brands through insightful marketing counsel, media-neutral strategic planning and effective negotiation and placement. Horizon's exceptional holistic approach to brand marketing and development has resulted in estimated billings of $2 billion and established the company as the fastest growing agency in the industry. Headquartered in New York City with a full service office in Los Angeles, Horizon also has offices in San Diego, and Amsterdam, Netherlands. Horizon is also a founding member of Columbus Media International, a multi-national partnership of independent media agencies.

Also in August 2009 the company announced that it had delivered the first full broadcast-quality music video utilizing DMDS 5.0 in Canada. Sony Music Entertainment Canada used DMDS to successfully deliver the video for Shakira's "She Wolf" to Montreal-based MusiquePlus (an Astral Media Television Network) in a full, broadcast-ready format. YANGAROO's team worked closely with both Sony Music and MusiquePlus to refine the process for digitally distributing broadcast-quality music videos utilizing DMDS 5.0, a process that includes the enabling of the file for online availability across YANGAROO's DMDS network for streaming and a frame-accurate preview quality version of the file with time-code burned in. The DMDS delivered file can be easily integrated into Online Editing Suites, On-Air Playback Servers and stored in a Digital Archive Server. The files are 50mbit

IMX in an MXF OP1a container that maintain both time-code and closed captioning for the underlying video.

YANGAROO's DMDS 5.0 is now the "one stop shop" for music labels to distribute new broadcast quality audio and video releases. No other solution provides this convenience and flexibility for the music industry. The investment in DMDS 5.0 has provided the flexibility to support secure distribution of broadcast quality music video and audio, as well as television advertising, award shows, and TV program production.

5) <u>Summary of Quarterly Results</u>

The following table sets out 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

($)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2009	2009	2008	2008	2008	2008	2007	2007
Sales	204,842	181,386	138,023	175,767	137,946	127,077	137,650	133,858
Loss for the period	725,650	610,021	760,455	675,672	1,020,724	807,192	851,609	652,295
Loss per share (basic & diluted)	.01	.01	.01	.01	.01	.01	.01	.01

6) <u>Liquidity and Capital Resources</u>

Cash and cash equivalents at June 30, 2009 were $1,332,000 compared to $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 before changes in non-cash working capital items was $1,065,000 for the first half of 2009, a decrease of 29% ($441,000) from the first half of 2008. Changes in non-cash working capital items used $299,000 of cash in the period, largely due to an increase in accounts receivable. During the first half of 2009 the company invested $289,000 in deferred development costs, $33,000 in property plant and equipment, and $17,000 in patents.

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) <u>Share Capital</u>

At June 30, 2009 the company had 75,517,615 common shares and 3,120,000 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 June 30, 2009 , and have evaluated the design of the Company's ICFRs for the quarter ended June 30, 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 June 30, 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) International Financial Reporting Standards

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

June 30, 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)

	Note	**June 30 2009**	December 31 2008 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 1,332,045**	$ 3,030,099
Accounts receivable		**316,395**	157,798
Prepaid expenses and other assets		**120,773**	50,418
		1,769,213	3,238,315
Property, plant and equipment		**156,244**	166,136
Patents		**118,905**	105,855
Investment in technology		**404,270**	452,330
Deferred development costs		**1,426,361**	1,300,433
Other assets		**78,030**	78,030
		$ 3,953,023	$ 5,341,099
Liabilities			
Current			
Operating loan		**$ 5,000**	$ -
Accounts payable and accrued liabilities		**368,326**	443,453
Deferred revenue		**20,063**	14,989
		393,389	458,442
Shareholders' Equity			
Capital stock		**21,043,889**	21,043,889
Contributed surplus		**1,386,460**	868,384
Warrants		**-**	505,428
Deficit		**(18,870,715)**	(17,535,044)
		3,559,634	4,882,657
		$ 3,953,023	$ 5,341,099

Commitments and Contingencies (Note 5)

Approved by the Board **"John Heaven"** Director **"Clifford Hunt"** Director
(signed) **(signed)**

See accompanying notes.

YANGAROO Inc.

Interim Statements of Operations and Deficit
(unaudited - See Notice to Reader)

	Six Months Ended June 30		Three Months Ended June 30	
	2009	2008	**2009**	2008
Revenue	**$ 386,228**	$ 265,023	**$ 204,842**	$ 137,946
Expenses				
Salaries and consulting	**829,610**	1,170,620	**418,316**	665,798
Marketing and promotion	**116,057**	163,652	**62,392**	74,418
General and administrative	**495,333**	532,997	**315,679**	297,881
Technology development	**31,747**	58,480	**7,760**	28,814
Amortization of capital assets	**43,193**	36,726	**21,928**	20,788
Amortization of intangible assets	**215,059**	223,559	**106,520**	108,679
	1,730,999	2,186,034	**932,595**	1,196,378
Loss before undernoted item	**(1,344,771)**	(1,921,011)	**(727,753)**	(1,058,432)
Interest income	**9,099**	93,096	**2,103**	37,708
Loss for the period	**(1,335,672)**	(1,827,915)	**(725,650)**	(1,020,724)
Deficit at beginning of period	**(17,535,043)**	(14,271,002)	**(18,145,065)**	(15,078,193)
Deficit at end of period	**$(18,870,715)**	$(16,098,917)	**$(18,870,715)**	$(16,098,917)
Basic and diluted loss per share	**$ (0.02)**	$ (0.02)	**$ (0.01)**	$ (0.01)
Weighted average number of shares	**75,517,615**	75,517,615	**75,517,615**	75,517,615

See accompanying notes.

YANGAROO Inc.

Interim Statements of Cash Flows

(unaudited - See Notice to Reader)

	Six Months Ended June 30		Three Months Ended June 30	
	2009	2008	**2009**	2008
Cash flows from operating activities				
Loss for the period	**$ (1,335,672)**	$ (1,827,915)	**$ (725,650)**	$ (1,020,724)
Add items not affecting cash				
Amortization	**258,252**	260,285	**128,447**	129,467
Gain on disposal of capital assets	**(266)**	1,094	**(266)**	-
Stock based compensation	**12,648**	60,113	**9,912**	32,141
	(1,065,038)	(1,506,423)	**(587,557)**	(859,116)
Changes in non-cash working capital items				
Accounts receivable	**(158,597)**	(39,391)	**(94,816)**	(15,661)
Prepaids and sundry assets	**(70,355)**	(29,610)	**(19,119)**	(4,787)
Accounts payable and accrued liabilities	**(75,126)**	(42,188)	**(50,244)**	(113,845)
Deferred revenue	**5,074**	7,566	**1,561**	4,132
	(1,364,042)	(1,610,046)	**(750,175)**	(989,277)
Cash flows from investing activities				
Purchase of property plant and equipment	**(33,414)**	(110,761)	**(26,911)**	(106,302)
Proceeds from disposition of property, plant and equipment	**379**	1,650	**379**	-
Other assets	**-**	(10,000)	**-**	-
Patent	**(16,663)**	(23,784)	**(2,751)**	(17,615)
Deferred development costs	**(289,314)**	(278,657)	**(126,766)**	(159,682)
	(339,012)	(421,552)	**(156,049)**	(283,599)
Cash flows from financing activities				
Advances (repayment) of operating loan	**5,000**	10,000	**(10,000)**	10,000
	5,000	10,000	**(10,000)**	10,000
Decrease in cash during the period	**(1,698,054)**	(2,021,598)	**(916,224)**	(1,262,876)
Cash at beginning of period	**3,030,099**	6,496,563	**2,248,269**	5,737,841
Cash at end of period	**$ 1,332,045**	$ 4,474,965	**$ 1,332,045**	$ 4,474,965

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.

To continue with its current rate of growth, the Company will require additional funding within the next twelve months and would likely seek to obtain this in the form of equity financing. Under the current economic environment, access to the capital markets to obtain equity financing is uncertain, and might not be available to the Company on a timely basis.

2. CHANGE IN ACCOUNTING POLICIES

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 June 30, 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
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
60,000	$ 0.35	April 12, 2012
400,000	$ 0.32	May 24, 2012
50,000	$ 0.27	June 25, 2012
120,000	$ 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
25,000	$ 0.13	April 17, 2014
3,120,000		

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.

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, warrants and debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the six month period ended June 30, 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 June 30, 2009 are as follows:

	USD$
Accounts receivable	$63,000
Accounts payable and accrued liabilities	$99,180

(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 June 30, 2009, approximately 42% (December 31, 2008 - 37%) of accounts receivable and 35% (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 0.5% of total expenses. A 1.0% change in interest rates would not have a significant impact on the Company's interest income.

(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 June 30, 2009, the Company has accounts payable and accrued liabilities of $368,326 due within 12 months and has cash and cash equivalents of $1,332,045 to meet its current obligations. As a result the Company has minimal liquidity risk.

DMDS

Digital Media Distribution System