YANGAROO Inc.

Audited Financial Statements

For the Years Ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

Collins Barrow

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of YANGAROO Inc.

We have audited the accompanying financial statements of YANGAROO Inc. which comprise the statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of YANGAROO Inc. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(c) in the financial statements which indicates that the Company has material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
April 8, 2014
Toronto, Ontario

YANGAROO Inc.

Statements of Financial Position
As at
(Expressed in Canadian dollars)

	December 31 2013	December 31 2012
Assets		
Current		
Cash and cash equivalents	**$ 764,760**	$ 493,427
Accounts receivable	**825,210**	562,470
Prepaid and sundry assets	**144,826**	149,957
	1,734,796	1,205,854
Property and equipment (note 4)	**127,524**	131,651
	$ 1,862,320	$ 1,337,505
Liabilities		
Current		
Trade and other payables (note 6)	**$ 442,122**	$ 595,637
Deferred revenue	**12,938**	13,095
Finance lease obligation (note 4)	**35,666**	17,355
	490,726	626,087
Finance lease obligation (note 4)	**47,110**	27,509
Accrued interest on debentures (note 7)	**75,772**	191,600
Debentures (note 7)	**2,021,538**	5,451,733
	2,635,146	6,296,929
Shareholders' Deficiency		
Share capital (note 8)	**27,984,047**	23,828,456
Warrant capital (note 11)	**2,177,455**	1,060,551
Contributed surplus	**3,076,340**	2,531,803
Deficit	**(34,010,668)**	(32,380,234)
	(772,826)	(4,959,424)
	$ 1,862,320	$ 1,337,505

Going concern (note 2(c))
Commitments and contingencies (note 13)
Subsequent event (note 19)

Approved by the Board **"Cliff Hunt"** Director **"Howard Atkinson"** Director

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

YANGAROO Inc.

Statements of Comprehensive Loss
For the years ended December 31
(Expressed in Canadian dollars)

	2013	2012
Revenue	**$ 3,494,490**	$ 2,690,214
Expenses		
Salaries and consulting (note 10)	**3,016,595**	2,532,430
Marketing and promotion	**359,218**	213,445
General and administrative	**791,204**	829,314
Technology development (recovery) (note 18)	**(23,443)**	14,275
Depreciation of property and equipment	**75,902**	69,465
	4,219,476	3,658,929
Loss from operations	**(724,986)**	(968,715)
Finance income (expenses)		
Interest income	**2,596**	1,766
Interest expense	**(705,673)**	(1,268,103)
Loss on extinguishment of debt (note 7)	**(202,371)**	-
	(905,448)	(1,266,337)
Net loss and comprehensive loss	**$ (1,630,434)**	$ (2,235,052)
Loss per share (note 12)	**$ (0.074)**	$ (0.161)

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

YANGAROO Inc.

Statements of Changes in Equity
For the years ended December 31
(Expressed in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Deficit	Total
Balance at December 31, 2011	$23,285,199	$873,455	$1,726,650	$(30,145,182)	$(4,259,878)
Private placement (notes 8&9)	543,257	741,449	-	-	1,284,706
Issuance of warrants in connection with amendment of debentures (note 7)	-	154,437	-	-	154,437
Expiry of warrants (note 11)	-	(708,790)	708,790	-	-
Share-based payments (note 10)	-	-	96,363	-	96,363
Loss for the period	-	-	-	(2,235,052)	(2,235,052)
Balance at December 31, 2012	$23,828,456	$1,060,551	$2,531,803	$(32,380,234)	$(4,959,424)
Private placement (notes 8&9)	377,349	917,441	-	-	1,294,790
Expiry of warrants (note 11)	-	(112,157)	112,157	-	-
Cancellation of warrants (note 7)	-	(154,437)	154,437	-	-
Share-based payments (note 10)	-	-	277,943	-	277,943
Conversion and amendment of debenture (note 7)	3,778,242	466,057	-	-	4,244,299
Income for the period	-	-	-	(1,630,434)	(1,630,434)
Balance at December 31, 2013	**$27,984,047**	**$2,177,455**	**$3,076,340**	**$(34,010,668)**	**$ (772,826)**

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

YANGAROO Inc.

Statements of Cash Flows
For the years ended December 31
(Expressed in Canadian dollars)

	2013	2012
Cash flow from operating activities		
Cash flow used in operating activities:		
Net loss for the period	**$ (1,630,434)**	$ (2,235,052)
Items not affecting cash:		
Depreciation of property and equipment	**75,902**	69,465
Bad debt expense	**24,327**	8,032
Share-based payments	**277,943**	96,363
Accretion interest	**36,956**	387,010
Accrued interest on debentures	**75,772**	191,600
Debentures issued for settlement of accrued interest	**589,366**	687,301
Loss on extinguishment of debt	**202,371**	-
Changes in non-cash operating working capital:		
Accounts receivable	**(287,067)**	(290,033)
Prepaid and sundry assets	**5,131**	80,313
Trade and other payables	**(153,515)**	(47,027)
Deferred revenue	**(157)**	(3,172)
Net cash used in operating activities	**(783,405)**	(1,055,200)
Cash flow from investing activities		
Acquisition of property and equipment	**(11,715)**	(46,204)
Net cash used in investing activities	**(11,715)**	(46,204)
Cash flow from financing activities		
Proceeds from issuance of common shares, net of issuance costs	**1,294,790**	1,284,706
Debt restructuring costs	**(206,189)**	-
Payment of finance lease obligation	**(22,148)**	(6,592)
Net cash received from financing activities	**1,066,453**	1,278,114
Net increase in cash and cash equivalents	**271,333**	176,710
Cash and cash equivalents at January 1	**493,427**	316,717
Cash and cash equivalents at December 31	**$ 764,760**	$ 493,427

Cash interest paid	**$ 4,585**	$ 3,045
Capital lease additions	**$ 60,060**	$ 31,560

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

1. Nature of Operations

YANGAROO Inc. ("Company") is a technology company that is the provider of user friendly and secure business to business distribution of media via the Internet. The Company's patented Digital Media Distribution System (DMDS) is a secure B2B digital media management solution for the entertainment and advertising industries. DMDS is an end to end technology solution that provides a fully integrated work flow based digital distribution and data management solution. DMDS provides audio and video content for music, music videos, and advertising to television, radio, media, retailers, award shows and other authorized recipients with more accountable, effective, and far less costly digital distribution of broadcast quality media via the Internet.

YANGAROO Inc. is a publicly listed company incorporated on July 28, 1999 under the laws of Ontario as Musicrypt.com Inc. and changed to its present name on July 17, 2007. YANGAROO trades on the TSX Venture Exchange (TSX-V) under the symbol YOO and in the U.S. under OTCBB: YOOIF.

The address of the Company's corporate office and principal place of business is 18 Mowat Avenue, Toronto, Ontario M6K 3E8.

2. Basis of Preparation

(a) Basis of compliance

These audited financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on April 8, 2014.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except certain financial instruments recorded at fair value through profit and loss. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes:

2. Basis of Preparation (continued)

(b) Basis of measurement (continued)

(i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants to the extent that they are not measured at the fair value of the services received are based on the fair value at the date of the award. These share-based payments are valued using Black-Scholes option pricing model.

(ii) Fair value of financial instruments

The Company estimated the fair value of the amended debentures using an estimated market interest rate derived from comparable companies.

(iii) Revenue recognition

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

(c) Going concern

The Company may have to raise additional capital to fund operations until such point that revenues from their technology are able to fund operations. If the Company is not able to raise sufficient capital then there is the risk that the Company will not be able to realize the value of its assets and discharge its liabilities.

At December 31, 2013, the Company had working capital of $1,244,070 and shareholders' deficiency of $772,826. To date, the Company has been successful raising capital (notes 7 & 9).

3. Significant Accounting Policies

The accounting policies set below have been applied consistently to all years presented in these financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents includes demand deposits with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

3. Significant Accounting Policies (continued)

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise of accounts receivable, cash and cash equivalents, trade and other payables, accrued interest on debentures, debentures and finance lease obligation. Non-derivatives financial instruments are recognized initially at the fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

(ii) Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents as fair value through profit and loss.

(iii) Other

Other non-derivative financial instruments, such as accounts receivable, trade and other payables, accrued interest on debentures, debentures, operating line of credit and finance lease obligation are measured at amortized cost using the effective interest method, less any impairment losses.

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(iii) Other (continued)

Financial assets and liabilities:

In establishing fair value, the Company uses a fair value hierarchy based on the levels as defined below:

- Level 1 fair value measurements are based on unadjusted quoted market prices.
- Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.
- Level 3 fair value measurements are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are classified as Level 1 in the fair value hierarchy.

(c) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within general and administrative expenses in the statement of comprehensive loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of comprehensive loss as incurred.

3. Significant Accounting Policies (continued)

(c) Property and equipment (continued)

(iii) Depreciation

Depreciation is calculated as the cost of the asset less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives for the current and comparative periods are as follows:

- Office furniture and equipment - 5 years
- Computer equipment - 3 years
- Computer software - 3 years
- Leasehold improvements - over the term of the lease
- Website and other technology - 3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of comprehensive loss.

3. Significant Accounting Policies (continued)

(d) Impairment (continued)

(ii) Non-financial assets

Other non-financial assets, comprised of property and equipment, are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of its value in use and fair value less costs to sell, the asset is written down to its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss in respect of other assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) Research and development

Research costs are charged to income when incurred. Development costs are expensed in the year incurred unless they meet the criteria under IFRS for deferral and amortization. Amortization commences with the successful commercial production or use of the product or process.

3. Significant Accounting Policies (continued)

(f) Leases

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance expenses in the statement of comprehensive loss.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

(g) Convertible debentures

The Company accounts for its convertible debentures in accordance with the substance of the contractual arrangement on initial recognition. Therefore, as a result of the conversion feature of the debentures, the Company's convertible instruments have been segregated between debt and equity based on the fair value of the debt components. The difference between the estimated fair value of the debt at issuance and the face amount is reflected as "Equity portion of convertible debentures" in shareholders' equity and as a discount in that amount to the liability portion of the debenture. This discount is being accreted to the principal face amount as additional interest expense over the term of the liability using the effective interest rate method.

(h) Share capital – common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. When the Company issues equity units, the proceeds are allocated among equity components using the residual method in which the proceeds are allocated first, based on the fair value of the warrants and the remainder allocated to the shares.

(i) Warrants

For transactions involving the issuance of warrants, the Company measures these transactions at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted.

3. Significant Accounting Policies (continued)

(j) Share-based payments

The grant date fair value of options awarded to employees, directors, and service providers who perform employee-like services is measured using the Black-Scholes option pricing model and recognized in the statement of comprehensive loss, with corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(k) Revenue

(i) Audio/video delivery

Revenue is recorded when persuasive evidence of an agreement exists, usually in the form of an executed sales agreement, the significant risks and rewards of ownership have been transferred to the buyer, price is fixed and determinable, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, the distribution of the media has occurred and collectability is reasonably assured and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

(ii) Awards management

The Company recognizes revenue related to awards management projects based on the percentage of completion of certain milestones during the project. These milestones are mutually set by the Company and its customers. Due to percentage of completion of certain milestones, there could be differences between the timing of billings and the amount of work completed at a point in time. Work performed on contracts where the contract milestones have not been met are recognized as work in process or unbilled revenue. Billings which exceed the amount of work performed at a point in time are recognized as deferred revenue. Deferred revenue consists of customer advances for Company services to be rendered that will be recognized as income in future periods.

(l) Finance income and expenses

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

3. Significant Accounting Policies (continued)

(m) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except for items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net earnings in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(n) Loss per share

Basic loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the period.

Diluted loss per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. When there is a loss, no potential shares are included in the computation as they are anti-dilutive.

3. Significant Accounting Policies (continued)

(o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(p) Contingent liability

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or a present obligation that arises from past events (and therefore exists), but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

(q) Statement of cash flows

The Company prepares its Statement of Cash Flows using the indirect method. The Company classifies interest received and paid as part of operating activities in the statement of cash flows.

(r) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in the statement of income.

(s) Change in accounting policy

Effective January 1, 2013, the Company has applied the guidance provided by IFRS 13 – Fair Value Measurements (“IFRS 13”). IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

3. Significant Accounting Policies (continued)

(s) Change in accounting policy (continued)

Fair value measurements recognized in the statement of financial position accounts or disclosed in the notes are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

As at December 31, 2013, the adoption of IFRS 13 had no impact on the Company's financial statements.

(t) New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are applicable for accounting periods beginning after December 31, 2013, as follows:

- IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The mandatory effective date for IFRS 9, which is to be applied retrospectively, has not yet been determined.

(Expressed in Canadian dollars)

4. Property and Equipment

	Office furniture and equipment	Computer equipment	Computer software	Leasehold improvements	Website and other technology	Total
Carrying amount - end of year - December 31, 2011	$ 14,494	$ 67,840	$ 37,034	$ 2,120	$ 1,864	$ 123,352
Additions	1,407	45,581	30,776	-	-	77,764
Depreciation expense	(4,372)	(36,049)	(25,859)	(2,120)	(1,065)	(69,465)
Carrying amount - end of year - December 31, 2012	$ 11,529	$ 77,372	$ 41,951	$ -	$ 799	$ 131,651
Additions	-	63,398	8,377	-	-	71,775
Depreciation expense	(4,078)	(46,950)	(24,075)	-	(799)	(75,902)
Carrying amount – end of year – December 31, 2013	**$ 7,451**	**$ 93,820**	**$ 26,253**	**$ -**	**$ -**	**$ 127,524**

December 31, 2013	**Cost**	**Accumulated Amortization**	**Net**
Office furniture and equipment	**$ 44,611**	**$ 37,160**	**$ 7,451**
Computer equipment	**559,532**	**465,712**	**93,820**
Computer software	**151,935**	**125,682**	**26,253**
Leasehold improvements	**14,791**	**14,791**	**-**
Website and other technology	**18,176**	**18,176**	**-**
	$ 789,045	**$ 661,521**	**$ 127,524**

December 31, 2012	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 44,611	$ 33,082	$ 11,529
Computer equipment	496,135	418,763	77,372
Computer software	143,558	101,607	41,951
Leasehold improvements	14,791	14,791	-
Website and other technology	18,176	17,377	799
	$ 717,271	$ 585,620	$ 131,651

(Expressed in Canadian dollars)

4. Property and Equipment (continued)

Obligation under finance lease

The Company has assumed finance lease obligations until 2016. The monthly lease payments consist of principal repayment and interest and the weighted average imputed interest rate is 8.4%. The minimum payments under the finance lease are as follows:

2014	$	41,230
2015		33,892
2016		16,932
		92,054
Less: imputed interest		(9,278)
		82,776
Less: current portion		(35,666)
Long term portion	**$**	**47,110**

Included in property and equipment are items under finance leases with a cost of $112,484 (2012 -$52,424). Accumulated depreciation for items under finance lease is $32,415 (2012-$10,069).

5. Operating Line of Credit

The Company has available an operating line of credit of $20,000. Borrowings under the operating line of credit are due on demand and bear interest at prime plus 2.5% per annum and are secured by a general security agreement. For the year ended December 31, 2013, the Company had a balance outstanding of $Nil (December 31, 2012 - $Nil) on this line of credit.

6. Trade and Other Payables

	December 31 2013	December 31 2012
Trade payables	**$ 179,303**	$ 292,275
Non-trade payables	**262,819**	303,362
	$ 442,122	$ 595,637

7. Debentures

(a) On June 23, 2011, the Company issued $2,500,000 principal amount of senior secured 18% non-convertible debentures (the “New Debenture”). As well on June 23 2011, the Company amended its previously issued $818,000 principal amount 12% convertible debentures maturing March 31, 2012 (the “March 2012 Debentures”) and $1,125,000 principal amount convertible debentures maturing July 31, 2012 to reflect the terms of the New Debentures (the “July 2012 Debentures” and together with the March 2012 Debentures, the “Amended Debentures”). $44,911 of interest that accrued on the March 2012 Debentures was added to the principal amount of the amended March 2012 Debentures.

Pursuant to their terms, the New Debentures and the Amended Debentures (collectively, the “Debentures”) are, among other things, non-convertible and repayable upon demand, after the first anniversary of their issuance, subject to the requisite determination of the holders of the outstanding Debentures to make demand for repayment. In addition, in the event of an asset sale in excess of $3,000,000, the Company would be required to offer to repurchase a minimum of 50% of the outstanding Debentures, plus all accrued and unpaid interest due. Debenture holders would also have a right of first refusal to participate in future offerings by the Company, subject to the satisfaction of certain conditions. In turn, the Company may redeem the Debentures in the event that it has first raised a minimum of $4 million of “net new cash”, which would include the proceeds raised from the issuance of the New Debentures but would exclude, among other things, the proceeds from the repayment of any debentures that, in turn, are used to fund the purchase of new securities of the Company. The non-convertible debentures are secured by all tangible and intangible assets of the Company.

The Company incurred cash financing costs of $374,969, “Bonus” common shares of $946,505 and 2,066,000 warrants with a fair value of $78,281 in connection with the June 23, 2011 transaction. These costs were allocated between the New Debentures and the previously issued convertible debentures on a pro rata basis resulting in $606,011 of these costs being included in the loss on extinguishment of debentures and $793,744 recorded against the carrying value of the New Debentures.

The New Debentures were being accreted to their face value at a weighted average effective interest rate of 39.72%. The amendment to the debentures was accounted for as an extinguishment of the previously issued convertible debentures as they had yet to mature when the terms were modified on June 23, 2011. Also, the terms between current debentures and the previously issued convertible debentures were considered to be substantially different.

7. Debentures (continued)

(b) As a result of closing the Private Placement on October 3, 2012 and achieving the minimum threshold of $1,250,000 in financing, the existing debenture holders of the Company have consented to the amendment of their existing debenture agreements. The key amendments include lowering the interest rate from 18% to 14% and extending the repayment date of the existing debentures for an additional three years, all as of the closing date of the Private Placement. Accrued interest recorded up to the date of the amendment of $687,301 was added to the principle of the Amended Debentures. The remaining interest will accrue at 14% throughout the amended term and is payable with the redemption of the principal portion of the debenture.

As part of the amended debenture agreement, the Company was required to issue bonus warrants to the debenture holders as soon as practicable following the execution of the agreement and receipt of approval from the TSX Venture Exchange. The amended agreement also outlined that there was to be approximately 8,900,000 bonus warrants issued to the debenture holders. However, only 3,600,000 warrants were actually approved for issuance. The Company issued 3,600,000 bonus warrants to the holders of the debentures as of December 31, 2012. As of December 31, 2013, these warrants were cancelled (note 11).

The amendment to the debentures is accounted for as an extinguishment since the amendments to the debt terms has resulted in a change in value of more than 10%. The difference between the fair value of the debentures and its face amount was $154,437 which was ascribed to the bonus warrants. The debentures are being accreted to its face amount of $5,598,692 using an effective interest rate of 15%.

The amended debenture agreement includes a cash sweep whereby the Company is to repay the debenture holders if the cash balance in any fiscal quarter end exceeds certain thresholds. In the event that the cash balance of the Company exceeds $1,000,000, the Company is required to repay 25% of the amount over $1,000,000 up to $250,000. If the cash balance at any quarter end exceeds $2,000,000, then in addition to the $250,000 payable above, the Company is also required to pay to the debenture holders 50% of the amount over $2,000,000.

As outlined in the amended debenture agreement, because the TSX Venture Exchange did not approve the bonus warrants, the Company was required to increase the percentage used to estimate the cash sweep over $1,000,000 to be 35% up to a maximum of $350,000.

7. Debentures (continued)

(c) On September 12, 2013, the Company issued amended debenture agreements to two of three classes of debenture holders who provided the requisite consent. Upon approval of the TSX Venture Exchange, the Company would offer a one-half of one warrant for every $1.00 of current indebtedness to the debenture holders as consideration for amending the debenture agreements to reflect more favourable terms, as described below. Each whole warrant will be exercisable for a period of 36 months from the date of issuance at a price equal to $0.25. 2,382,726 warrants were issued on October 7, 2013 (note 11).

The amended debentures provide for the reduction of the interest rate from 14% to 10%, an extension of the term by an additional 12 months to October 3, 2016, and the waiver of the cash sweeps, as defined above. The cash sweeps have been eliminated in connection with the private placement and all future debt, equity, and equity-like financings pursuant to the amended debentures.

The amendment to the debentures is accounted for as an extinguishment since the amendments to the debt terms has resulted in a change in value of more than 10%.

(d) On September 19, 2013, the Company announced that it had entered into shares for debt agreements with a majority of its current debenture holders whereby, of the current outstanding indebtedness of the Company equal to $6,379,656.84, a total of $4,245,128 will be converted into post-consolidation common shares of the Company at a fair value of $0.25 per common share. 16,980,514 shares were issued on October 7, 2013 (notes 8 & 9).

(e) The Company entered into an advisory agreement with Fraser Mackenzie Merchant Capital Partnership ("FMMC") with respect to the services provided by FMMC in connection with the shares for debt transaction and the debenture amendment and, under such agreement, FMMC was entitled to receive 384,281 common shares and 336,364 non-transferable warrants for a period of 36 months. Each warrant entitles the holder to purchase one common share at a price of $0.25 per unit within the first year of the warrant exercise period, and at a price of $0.35 per unit within the second and third years of the warrant exercise period. Both common shares and warrants were issued on October 7, 2013 (notes 8 &11).

As a result of the transactions described above in (c), (d), and (e), the Company recorded a charge of $202,371 relating to the debenture amendments, conversions and related costs.

(Expressed in Canadian dollars)

7. Debentures (continued)

The following debentures were outstanding at December 31, 2013:

Maturity Date	Face Value	Carrying Value	Stated Interest Rate	Effective Interest Rate
October 3, 2015	$1,415,669	$1,392,282	14%	15%
October 3, 2016	718,860	629,256	10%	15%
Balance at December 31, 2013	$2,134,529	**$2,021,538**		

The following debentures were outstanding at December 31, 2012:

Maturity Date	Face Value	Carrying Value	Stated Interest Rate	Effective Interest Rate
October 3, 2015	$5,598,692	$5,451,733	14%	15%

8. Share Capital

The Company is authorized to issue an unlimited number of common shares.

The following is a summary of changes in common share capital from January 1, 2012 to December 31, 2013:

	Number of shares	Value
Balance at January 1, 2012	131,569,119	$ 23,285,199
Issued for cash on September 7, 2012 (a)	6,875,652	160,050
Issued for cash on October 3, 2012 (b)	18,500,000	268,708
Issued for cash on December 13, 2012 (c)	6,300,000	114,499
Balance at December 31, 2012	163,244,771	$ 23,828,456
Effect of share consolidation (d)	(146,920,287)	-
Balance at September 19, 2013, date of share consolidation **(d)**	16,324,484	$ 23,828,456
Issued for cash on September 30, 2013(e)	6,400,000	377,349
Issued in connection with conversion of debentures (f)	16,980,514	3,693,700
Issued in connection with conversion of debentures and amendment of debt(g)	384,281	84,542
Balance at December 31, 2013	**40,089,279**	**$ 27,984,047**

8. Share Capital (continued)

(a) The Company issued 6,875,652 units at a price of $0.05 per unit for gross proceeds of $343,783 by way of a private placement. Each unit consists of one common share and one warrant entitling the holder to purchase one additional common share at $0.10 per share within 36 months of closing. Share issuance costs of $32,469 have been netted against share capital and $151,264 has been allocated to warrants (notes 9 & 11).

(b) The Company issued 18,500,000 units at a price of $0.05 per unit for gross proceeds of $925,000 by way of a private placement. Each unit consists of one common share and one warrant entitling the holder to purchase one additional common share at $0.10 per share within 36 months of closing. Share issuance costs of $260,207 have been netted against share capital and $396,085 has been allocated to warrants (notes 9 & 11). Included in share issuance costs is $11,624 which represents the value of 738,000 warrants issued to agents in connection with the private placement.

(c) The Company issued 6,300,000 units at a price of $0.05 per unit for gross proceeds of $315,000 by way of a private placement. Each unit consists of one common share and one warrant entitling the holder to purchase one additional common share at $0.10 per share within 36 months of closing. Share issuance costs of $22,211 have been netted against share capital and $178,290 has been allocated to warrants (notes 9 & 11). Included in share issuance costs is $4,186 which represents the value of 184,000 warrants issued to agents in connection with the private placement.

(d) On September 19, 2013, the Company completed the consolidation of its issued and outstanding common shares. Effective on this date, the Company's common shares were consolidated on a basis of ten pre-consolidation shares for each one post-consolidation share. After the consolidation, the Company's common shares were reduced by 146,920,287, resulting in 16,324,484 common shares outstanding, prior to the issuance of the common shares underlying the subscription receipts. The shareholders of the Company approved the share consolidation at its Annual and Special Meeting of the Shareholders held on August 15, 2013.

(e) The Company issued 6,400,000 units at a price of $0.25 per unit for gross proceeds of $1,600,000 by way of a private placement. Each unit consists of one post-consolidation common share and one warrant entitling the holder to purchase one additional common share within 36 months of closing, at a price of $0.25 per share within the first year of the warrant exercise period, and at a price of $0.35 per share within the second and third years of the warrant exercise period. Share issuance costs of $369,851 have been netted against share capital and $852,800 has been allocated to warrants (notes 9 & 11). Included in share issuance costs is $64,641, which represents the value of 443,200 warrants to be issued to agents in connection with the private placement. Each warrant will be exercisable at a price of $0.25 per common share for a period of 36 months. These warrants were issued on October 7, 2013 (notes 9 & 11).

8. Share Capital (continued)

(f) The Company issued 16,980,514 shares in connection with the shares for debt agreements entered into on September 19, 2013. A total of $4,245,128 indebtedness was converted into post-consolidated common shares of the Company at the fair value of $0.25 per common share (notes 7 & 9). The issuance costs totaled $551,428.

(g) The Company issued 384,281 common shares in connection with the advisory agreement entered into with FMMC with respect to the services provided by FMMC in connection with the shares for debt transaction and debenture amendment (notes 7 & 9).

9. Share Issuance

On April 17, 2012, the Company announced a Private Placement of a minimum of $1,250,000 and up to a maximum of $2,000,000 in units. Each unit consists of one common share in the capital stock of the Company and one warrant, entitling the subscriber to purchase an additional share at $0.10 per share within 36 months of closing. The Company would issue the units at $0.05 per unit, resulting in the issue of a minimum of 25,000,000 shares and up to a maximum of 40,000,000 shares upon closing, non-diluted.

The Company closed the first phase of the above mentioned Private Placement on September 7, 2012 and the second and final phase on October 3, 2012, raising aggregate gross proceeds of $1,268,783 with 25,375,652 units between Phase 1 and Phase 2, with $375,000 invested by the Company's insiders. Fraser Mackenzie Limited acted as the agent for the Private Placement and received in consideration for its services a cash commission and advisory fees equal to $91,900 and 738,000 warrants entitling them to purchase 738,000 common shares at an exercise price of $0.10 per share, for a period of two years from the closing date of Phase 2.

As a result of closing the Private Placement on October 3, 2012 and achieving the minimum threshold of $1,250,000, the existing debenture holders of the Company have consented to the amending of their existing debenture agreements (note 7).

On December 6, 2012, the Company announced that it had received additional commitments to the above mentioned Private Placement and would issue the units with the same terms. On December 13, 2012, the Company closed the additional Private Placement, raising $315,000 with 6,300,000 units, of which $140,000 was invested by the Company's insiders. Fraser Mackenzie Limited acted as the agent for this additional Private Placement and received in consideration for its services a cash commission of $9,200 and 184,000 warrants entitling them to purchase 184,000 common shares at an exercise price of $0.10 per share, for a period of two years from the closing date of this additional Private Placement.

9. Share Issuance (continued)

On September 5, 2013, the Company announced that it had completed the brokered private placement financing of subscription receipts sold at a price of $0.25 per subscription receipt, based on the post-consolidation share price. Each unit consists of one post-consolidation common share at a price of $0.25 per unit and one warrant entitling the holder to purchase one additional common share within 36 months of closing, at a price of $0.25 per unit within the first year of the warrant exercise period, and at a price of $0.35 per unit within the second and third years of the warrant exercise period. The Company raised gross proceeds of $1,600,000, the majority of which were deposited into escrow with Equity Financial Trust Company, an escrow agent to be held until their release upon the satisfaction by the Company of the release conditions. The escrow release conditions were satisfied on September 30, 2013 and 6,400,000 shares and 6,400,000 warrants were issued on this date (notes 8 & 11). Fraser Mackenzie Limited acted as the agent for this Private Placement and received in consideration for its services a cash commission of $110,800 and 443,200 warrants. Each warrant will be exercisable at a price of $0.25 per common share for a period of 36 months. These warrants were issued on October 7, 2013 (note 11).

On October 7, 2013, the Company issued 16,980,514 common shares in connection with the shares for debt agreements entered into on September 19, 2013 (notes 7 & 8). The Company also issued 384,281 common shares in connection with the advisory agreement entered into with FMMC on September 19, 2013 (notes 7 & 8).

10. Share-Based Payments

On October 1, 2013, the Company announced that it had amended its "fixed" stock option plan (the "Old Plan") to a 10% "rolling" plan (the "Amended Plan").

Under the Old Plan, the Company had reserved a fixed number of 11,804,761 (pre-consolidation) common shares for the grant of stock options. Under the Amended Plan, the Company is entitled to grant stock options to purchase up to 10% of the issued capital of the Company at the time of an applicable option grant.

The Amended Plan was approved by the TSX Venture Exchange on September 25, 2013 as well as the Company’s shareholders at the Annual and Special Meeting of the Shareholders held on August 15th, 2013.

(Expressed in Canadian dollars)

10. Share-Based Payments (continued)

The Company had issued stock options to acquire common shares as follows:

		Weighted average exercise price	Outstanding options	Vested options	Weighted average remaining life (years)
Balance at January 1, 2012	$	0.11	11,539,761	3,553,310	3.57
Granted		0.10	3,577,742		
Cancelled		0.10	(3,915,035)		
Forfeited		0.10	(1,054,468)		
Expired		0.28	(595,000)		
Balance at December 31, 2012	$	0.10	9,553,000	3,885,513	3.58
Cancelled		0.10	(666,667)		
Expired		0.20	(350,000)		
Effect of share consolidation (note 8)		-	(7,682,700)		
Balance at September 19, 2013, date of share consolidation	$	1.01	853,633	768,633	3.04
Granted		0.26	2,244,998		
Expired		1.00	(36,000)		
Forfeited		1.00	(38,333)		
Cancelled		0.25	(9,000)		
Balance at December 31, 2013	**$**	**0.46**	**3,015,298**	**893,548**	**4.08**

For the year ended December 31, 2013, the fair value of the options granted was $423,003 (December 31, 2012 - $146,652).

The estimated fair value of the options is expensed over the vesting period. The compensation expense and charge to contributed surplus relating to the stock options for the year ended December 31, 2013 was $277,943 (December 31, 2012 - $96,363). The fair value of all the Company's stock options was estimated using the Black-Scholes option pricing model. Stock options granted in fiscal 2013 and fiscal 2012 used the following assumptions:

	December 31 2013	December 31 2012
Volatility (based on historical share prices)	**129%**	134%
Risk-free interest rate	**1.80%**	1.38%
Expected life (years)	**4.71**	5
Dividend yield	**Nil**	Nil
Forfeiture rate	**9%**	0%
Underlying share price	**$0.23**	$0.05

(Expressed in Canadian dollars)

10. Share-Based Payments (continued)

The Company had the following stock options outstanding at December 31, 2013, as adjusted for the share consolidation:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
2,500	-	2,500	$1.00	August 19, 2014
45,000	-	45,000	$1.10	November 18, 2014
40,000	-	40,000	$1.00	April 20, 2015
148,000	85,000	63,000	$1.00	February 11, 2016
186,026	-	186,026	$1.00	August 18, 2016
60,000	-	60,000	$1.00	December 13, 2017
276,828	-	276,828	$1.00	December 20, 2017
20,946	-	20,946	$1.00	December 21, 2017
1,901,000	1,710,000	191,000	$0.25	October 1, 2018
320,000	320,000	-	$0.35	October 15, 2016
7,500	6,750	750	$0.25	November 1, 2018
7,498	-	7,498	$0.25	November 18, 2016
3,015,298	2,121,750	893,548	$0.46	

The weighted average exercise price of vested options at December 31, 2013 is $0.84 (December 31, 2012 - $0.11).

(Expressed in Canadian dollars)

11. Warrants

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

	Number of warrants	Amount	Weighted average exercise price
Balance at January 1, 2012	33,379,000	$ 873,455	$ 0.10
Warrants issued	32,597,652	741,449	0.10
Bonus warrants (note 7)	3,600,000	154,437	0.10
Warrants expired	(29,963,000)	(708,790)	0.10
Balance at December 31, 2012	39,613,652	$ 1,060,551	$ 0.10
Warrants expired	(2,666,000)	(112,157)	0.10
Bonus warrants cancelled (note 7)	(3,600,000)	(154,437)	0.10
Effect of share consolidation (note 8)	(30,012,887)	-	-
Balance at September 19, 2013, date of share consolidation	3,334,765	$ 793,957	$ 1.00
Warrants issued (note 9)	6,400,000	852,800	0.25
Warrants issued (note 9)	443,200	64,641	0.25
Warrants issued (note 7)	2,382,726	429,057	0.25
Warrants issued (note 7)	336,364	37,000	0.25
Balance at December 31, 2013	**12,897,055**	**$ 2,177,455**	**$ 0.44**

The Company had the following warrants outstanding and exercisable at December 31, 2013, as adjusted for the share consolidation:

Number of warrants		Exercise price	Expiry date
75,000	(i)	$1.00	August 24,2014
687,565	(ii)	$1.00	September 7, 2015
1,850,000	(iii)	$1.00	October 3, 2015
73,800	(iv)	$1.00	October 3, 2014
630,000	(v)	$1.00	December 13, 2015
18,400	(vi)	$1.00	December 13, 2014
6,400,000	(vii)	$0.25 in Year 1 & $0.35 in Years 2 & 3	September 30, 2016
443,200	(viii)	$0.25	October 7, 2016
2,382,726	(ix)	$0.25	October 7, 2016
336,364	(x)	$0.25 in Year 1 & $0.35 in Years 2 & 3	October 7, 2016
12,897,055			

11. Warrants (continued)

(i) These warrants were issued for services related to digital media workflow solutions. The warrants became exercisable after various phases of digital media workflow solution were completed.

(ii) These warrants were issued as part of the private placement of units (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 119%; (III) a risk free rate of 1.25%; and (IV) an expected life of 3 years.

(iii) These warrants were issued as part of the private placement of units (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 116%; (III) a risk free rate of 1.14%; and (IV) an expected life of 3 years.

(iv) These warrants were issued to agents in connection with the issuance of the private placement (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 115%; (III) a risk free interest rate of 1.08% and (IV) an expected life of 2 years.

(v) These warrants were issued as part of the private placement of units (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 114%; (III) a risk free rate of 1.19%; and (IV) an expected life of 3 years.

(vi) These warrants were issued to agents in connection with the issuance of the private placement (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 118%; (III) a risk free interest rate of 1.12% and (IV) an expected life of 2 years.

(vii) These warrants were issued as part of the private placement of units (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 114%; (III) a risk free rate of 1.4%; and (IV) an expected life of 3 years.

(viii) These warrants were issued to agents as part of the private placement of units (note 8). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 114%; (III) a risk free interest rate of 1.40% and (IV) an expected life of 3 years.

(ix) These warrants were issued as part of the amended debenture agreements (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 115%; (III) a risk free interest rate of 1.39% and (IV) an expected life of 3 years.

(Expressed in Canadian dollars)

11. Warrants (continued)

(x) These warrants were issued to advisors in connection with the shares for debt transaction and debenture amendment (note 7). The fair value of the warrants issued was based on the advisory agreement with FMMC.

Except where noted above, warrants issued to agents and related to financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable.

12. Loss per Share

	December 31 2013	December 31 2012
Numerator:		
Net loss and comprehensive loss for the year	**$ (1,630,434)**	$ (2,235,052)
Denominator:		
Weighted average number of common shares	**22,046,600**	13,862,452
Basic and diluted loss per share	**$ (0.074)**	$ (0.161)

For the above-mentioned periods, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of dilutive net loss per share in the periods presented, as their effect would have been anti-dilutive. Such outstanding securities consist of the following:

	December 31 2013	December 31 2012
Options	**3,015,298**	9,553,000
Warrants	**12,897,055**	39,613,652

13. 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 by either party upon 180 days' notice prior to the renewal date of the agreement. The Company must pay an additional annual maintenance fee based on the number of annual users, which at the Company's current usage results in a fee of $5,400 per year.

(Expressed in Canadian dollars)

13. Commitments and Contingencies (continued)

(b) Litigation

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

(c) Leases

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

2014	$ 84,495
2015	84,495
2016	84,495
2017	63,371
	$ 316,856

14. Capital Risk Management

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

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further develop and market its digital media distribution systems, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2013.

15. Financial Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), credit 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:

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market risk is comprised of two types of risk applicable to the Company:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily United States dollars and Australian 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 December 31, 2013 are as follows:

	USD	AUD
Accounts receivable	654,164	18,080
Accounts payable and accrued liabilities	212,558	-

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions and potential increases on the prime rate applied on the line of credit available to the Company. The Company considers this risk to be immaterial. Interest on the debentures is not subject to cash flow interest rate risk as these instruments bear interest at fixed rates. The Company is however exposed to fair value risk on debentures.

(Expressed in Canadian dollars)

15. Financial Risk Management (continued)

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of non-payment of accounts receivable. The Company mitigates this risk by monitoring the credit worthiness of its customers and by offering an ecommerce service to smaller customers. As at December 31, 2013, approximately 41% (December 31, 2012 - 24%) of accounts receivable and 27% (December 31, 2012 - 22%) of revenue are from three customers (2012 - one customer).Aging of trade receivables that are past due, but not impaired:

	December 31 2013	December 31 2012
0 to 30 days past due	**$ 189,208**	$ 109,122
31 to 60 days	**117,358**	78,312
Over 60 days	**217,498**	97,760
Total past due	**$ 524,064**	$ 285,194

Continuity of allowance for doubtful accounts:

	December 31 2013	December 31 2012
Balance, beginning of year	**$ 8,175**	$ 18,113
Less: Accounts written off to impairment loss	**(499)**	(14,703)
Charge during the year	**28,499**	9,108
Less: Amounts previously provided, recovered during the year	**(8,175)**	(4,343)
Balance, end of year	**$ 28,000**	$ 8,175

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

(Expressed in Canadian dollars)

15. Financial Risk Management (continued)

(c) Liquidity risk: (continued)

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

As at December 31, 2013, the Company has trade and other payables of $442,122 (December 31, 2012 - $595,637), due within 12 months, and has cash and cash equivalents and accounts receivable of $1,589,970 (December 31, 2012 - $1,055,897) to meet its current obligations. As disclosed in note 2(c), the Company may have to raise additional capital to fund further development of their product and operations.

(d) Fair value:

The Company has determined that the carrying value of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable, trade and other payables and accrued interest on debentures and debentures, approximate their fair value because of the relatively short period to maturity of the instruments. The fair value of the debentures approximate its carrying value due to the effective interest rates implicit in the debt.

16. Income Taxes

(a) Income tax expense:

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in these financial statements:

	December 31 2013	December 31 2012
Loss before income taxes	**$ (1,630,434)**	$ (2,235,052)
Statutory rate	**26.5%**	26.5%
Expected income tax recovery	**$ (432,000)**	$ (592,000)
Amounts not deductible for tax and other	**(22,000)**	(14,000)
Share issue costs	**(136,000)**	-
Deferred tax assets not recognized	**590,000**	1,239,000
Change in expected tax rates	**-**	(633,000)
Income tax expense	**$ -**	$ -

(Expressed in Canadian dollars)

16. Income Taxes (continued)

(b) Deferred income taxes:

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	December 31 2013	December 31 2012
Amounts related to tax loss and credit carryforwards	**$ 7,629,000**	$ 7,084,000
Share issuance costs	**225,000**	176,000
Capital and intangible assets	**827,000**	840,000
Debentures	**(30,000)**	(39,000)
Net deferred tax asset	**$ 8,651,000**	$ 8,061,000
Deferred tax assets not recognized	**(8,651,000)**	(8,061,000)
	$ -	$ -

The Company has ITCs of approximately $901,000 and unused expenditures of approximately $2,989,000 related to scientific research and experimental development costs. The Company also has non-capital losses of approximately $23,303,000 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2014	$ 2,630,000
2015	1,389,000
2026	1,861,000
2027	2,618,000
2028	2,885,000
2029	2,425,000
2030	2,998,000
2031	3,470,000
2032	1,369,000
2033	1,658,000
	$ 23,303,000

The potential tax benefit relating to these losses has not been reflected in these financial statements.

(Expressed in Canadian dollars)

17. Related Party Transactions

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's share option program (note 10).

Key management personnel compensation is as follows:

	December 31 2013	December 31 2012
Salaries and short-term employee benefits (i)	**$ 946,870**	$ 970,409
Share-based payments	**229,928**	88,761
	$ 1,176,798	$ 1,059,170

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

Legal fees of $258,370 (December 31, 2012 - $234,650) were incurred to a law firm of which one partner became a Director of the Company during 2012.

18. Technology Development (Recovery)

Investment Tax Credits ("ITCs") earned as a result of incurring Scientific Research and Experimental Development ("SRED") expenditures are recorded as a reduction of the related current period expense. Management records ITCs when there is reasonable assurance of collection. In the year ended December 31, 2013, the Company incurred technology development expense of $87,892 (2012 - $110,910), and recognized ITCs of $111,335 (2012 - $96,635) resulting in a net recovery of $23,443 (2012 – net expense of $14,275). The reduction of technology development expense of $111,335 relating to ITCs includes $78,000, which was accrued for fiscal 2013 and was included in prepaid and sundry assets and $33,335 was an adjustment for 2012 ITCs received in the third quarter of fiscal 2013. Included in prepaid and sundry assets as at December 31, 2012, management had recorded $60,000 relating to ITCs which has been recorded as a reduction to technology development expense in fiscal 2012.

19. Subsequent Event

On March 5, 2014, the Company announced that it had granted a total of 852,500 stock options effective March 3, 2014 to certain directors, officers and employees of the Company pursuant to the Company's stock option plan. The options are exercisable at a price of $0.34 per share. The options will expire five years following the date of grant.