

# **YANGAROO Inc.**

Condensed Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022 and 2021

(Expressed in US Dollars)

(Unaudited)

# YANGAROO Inc.

Condensed Interim Statements of Financial Position (Unaudited)  
(Expressed in US dollars)

	As at	
	September 30 2022	December 31 2021 (see Note 3)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 346,744	\$ 768,251
Accounts receivable	1,440,990	1,737,028
Prepaid and sundry assets	411,872	427,720
Contract assets	106,380	90,730
	<b>2,305,986</b>	<b>3,023,729</b>
<b>Non-current</b>		
Property and equipment (note 6)	466,771	682,066
Intangible assets (note 7)	1,588,799	1,403,582
Goodwill (note 8)	3,845,576	3,845,576
	<b>\$ 8,207,132</b>	<b>\$ 8,954,953</b>
<b>Liabilities</b>		
<b>Current</b>		
Trade and other payables (note 9)	\$ 880,750	\$ 851,026
Contract liabilities	41,941	68,000
Line of Credit (note 11)	926,166	-
Current portion of lease obligations (note 10)	224,541	275,522
Current portion of term loan facility (note 11)	1,933,810	420,215
Current portion of contingent consideration (note 5)	-	497,108
	<b>4,007,208</b>	<b>2,111,871</b>
<b>Non-current</b>		
Lease obligations (note 10)	93,668	255,063
Term loan facility (note 11)	-	2,004,037
Contingent consideration (note 5)	-	1,616,780
	<b>4,100,876</b>	<b>5,987,751</b>
<b>Equity</b>		
Share capital (note 12)	27,811,885	27,554,260
Share based payment reserve	5,983,256	6,149,388
Currency translation reserve	1,157,622	1,157,622
Deficit	(30,846,507)	(31,894,068)
	<b>4,106,256</b>	<b>2,967,202</b>
	<b>\$ 8,207,132</b>	<b>\$ 8,954,953</b>

Commitments and contingencies (note 18)

Subsequent event (note 19)

Approved by the Board of Directors

"Anthony Miller"

Director

"Phil Benson"

Director

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

# YANGAROO Inc.

Condensed Interim Statements of Net (Loss) Income and Comprehensive (Loss) Income (Unaudited)  
 Three and Nine Months Ended September 30, 2022 and 2021  
 (Expressed in US dollars)

	Three Months Ended September 30 2021 (see Note 3)		Nine Months Ended September 30 2021 (see Note 3)	
	2022		2022	
<b>Revenue (note 15)</b>	<b>\$ 1,733,140</b>	\$ 2,429,867	<b>\$ 5,637,490</b>	\$ 5,421,874
<b>Expenses</b>				
Salaries and consulting (notes 13, 16 & 17)	<b>1,333,498</b>	1,737,414	<b>4,637,859</b>	3,491,804
Marketing and promotion	<b>57,435</b>	4,891	<b>192,307</b>	35,850
General and administrative	<b>205,304</b>	178,809	<b>633,266</b>	371,448
Technology development	<b>135,624</b>	236,956	<b>517,725</b>	376,033
Depreciation and amortization of long-term assets (note 6 & 7)	<b>183,929</b>	206,394	<b>592,154</b>	372,789
Acquisition fees (note 5)	-	40,714	-	350,076
Restructuring expense	<b>71,801</b>	-	<b>165,366</b>	-
	<b>1,987,591</b>	2,405,178	<b>6,738,677</b>	4,998,000
<b>(Loss) income from operations</b>	<b>(254,451)</b>	24,689	<b>(1,101,187)</b>	423,874
<b>Other (expenses) income</b>				
Interest income	<b>115</b>	(139)	<b>156</b>	478
Interest expense	<b>(71,389)</b>	(64,813)	<b>(178,161)</b>	(92,908)
Foreign exchange gain (loss)	<b>181,269</b>	98,749	<b>212,866</b>	(54,645)
Fair value gain on contingent consideration (note 5)	-	-	<b>2,113,887</b>	-
	<b>109,995</b>	33,797	<b>2,148,748</b>	(147,075)
<b>Total net and comprehensive (loss) income</b>	<b>\$ (144,456)</b>	\$ 58,486	<b>\$ 1,047,561</b>	\$ 276,799
<b>Basic income per share (note 14)</b>	<b>\$ (0.00)</b>	\$ 0.00	<b>\$ 0.02</b>	\$ 0.00
<b>Diluted income per share (note 14)</b>	<b>\$ (0.00)</b>	\$ 0.00	<b>\$ 0.02</b>	\$ 0.00

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

# YANGAROO Inc.

Condensed Interim Statements of Changes in Equity (Unaudited)

Nine months ended September 30, 2022 and 2021

(Expressed in US dollars)

	Number of Shares	Share Capital	Share-based payments reserve	Foreign Currency Translation Reserve	Deficit	Total
Balance at December 31, 2020 (see Note 3)	60,472,140	\$27,520,839	\$5,982,586	\$ -	\$(31,840,138)	\$1,663,287
Share based payments (note 13)	-	-	78,004	-	-	78,004
Exercise of options (note 12)	87,000	10,951	(4,934)	-	-	6,017
Net income for the period	-	-	-	-	276,799	276,799
Balance at September 30, 2021	60,559,140	\$27,531,790	\$6,055,657	\$ -	\$(31,563,339)	\$2,024,108
Balance at December 31, 2021	60,697,140	\$27,554,260	\$6,149,388	\$ 1,157,622	\$(31,894,068)	\$2,967,202
Share-based payments (note 13)	-	-	45,904	-	-	45,904
Exercise of options (note 12)	580,000	74,423	(28,834)	-	-	45,589
Exercise of RSUs (note 12)	1,010,000	183,202	(183,202)	-	-	-
Net income for the period	-	-	-	-	1,047,561	1,047,591
<b>Balance at September 30, 2022</b>	<b>62,287,140</b>	<b>\$27,811,885</b>	<b>\$5,983,256</b>	<b>\$ 1,157,622</b>	<b>\$(30,846,507)</b>	<b>\$4,106,256</b>

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

# YANGAROO Inc.

Condensed Interim Statements of Cash Flows (Unaudited)

Nine months ended September 30, 2022 and 2021

(Expressed in US dollars)

	Nine Months Ended September 30	
	2022	2021 (see Note 3)
<b>Cash flow from (used in) operating activities</b>		
Net income for the period	\$ 1,047,561	\$ 276,799
Items not affecting cash:		
Depreciation of property and equipment and amortization of intangible assets (note 6 and 7)	592,154	372,789
Amortization of deferred financing costs	46,767	19,367
Expected credit loss (recovery) expense and write-off of account receivables	17,599	(22,782)
Accrued severance payable	-	(206,173)
Share-based payments (note 13)	45,904	78,004
Fair value gain on contingent consideration (note 5)	(2,113,887)	-
Changes in non-cash operating working capital:		
Accounts receivable	278,439	596,658
Prepaid and sundry assets	15,848	(80,466)
Contract assets	(15,650)	13,246
Trade and other payables	29,723	(11,200)
Contract liabilities	(26,058)	51,236
<b>Net cash from (used in) operating activities</b>	<b>(81,600)</b>	<b>1,087,478</b>
<b>Cash flow used in investing activities</b>		
Acquisition of property and equipment (note 6)	(91,766)	(116,651)
Additions to product development assets (note 7)	(470,245)	(426,895)
Acquisition of Digital Media Services (note 5)	-	(3,160,776)
<b>Net cash used in investing activities</b>	<b>(562,011)</b>	<b>(3,704,322)</b>
<b>Cash flow from financing activities</b>		
Payment of lease obligations (note 10)	(222,548)	(159,756)
Proceeds from (repayment of) term loan	(346,469)	2,420,134
Exercise of options (note 12)	45,587	6,017
Proceeds from line of credit (note 11)	926,166	-
<b>Net cash from financing activities</b>	<b>402,736</b>	<b>2,266,395</b>
<b>Net (decrease) in cash</b>	<b>(240,875)</b>	<b>(350,449)</b>
<b>Effect of foreign exchange on cash</b>	<b>(180,632)</b>	<b>160,477</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>768,251</b>	<b>1,461,870</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 346,744</b>	<b>\$ 1,271,898</b>
<b>Cash interest paid</b>	<b>\$ 178,149</b>	<b>\$ 74,249</b>

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

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2022 and 2021  
(Expressed in US dollars, unless otherwise noted)

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## 1. Nature of Operations

YANGAROO Inc. (“YANGAROO” or “the Company”) is a software company that is the provider of workflow management solutions within the media and entertainment ecosystem. The Company's Digital Media Distribution System (DMDS) platform is a patented cloud-based technology that provides customers with a fully integrated workflow and broadcaster connected managed network for digital content delivery and related data management across the advertising, music, and entertainment award show markets.

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 OTCBK: YOOIF.

The address of the Company's corporate office and principal place of business is 360 Dufferin Street, Suite 203, Toronto, Ontario, M6K 3G1.

## 2. Basis of Preparation

### (a) Basis of compliance

These condensed interim financial statements are in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), have been omitted. The preparation of these unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2021.

These condensed interim financial statements were authorized for issue by the Board of Directors on November 22, 2022.

### (b) Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except certain financial instruments recorded at fair value.

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

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2022 and 2021  
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## 2. Basis of Preparation (continued)

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts and the valuation of assets and liabilities and the disclosure of contingent assets and liabilities at the date of these condensed interim financial statements and the reported amounts of revenues and expenditures during the periods reported.

The most significant judgements and estimates made by management in preparing the Company's condensed interim financial statements are described as follows:

(i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants granted to agents and debenture holders, 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 the Black-Scholes option pricing model, which includes inputs that require management's estimates and assumptions.

(ii) Revenue recognition

To the extent a contract includes multiple performance obligations, the Company applies judgement to determine whether these performance obligations are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation. Additionally, recognition of revenue requires significant judgement to determine if revenue is recognized at a point in time or over time.

(iii) Investment tax credits

The Company uses judgement to determine the reasonable assurance of collection and estimates the valuation of investment tax credits to be accrued.

(iv) Collectability of accounts receivable

The Company applies the simplified method to measure loss allowance on accounts receivable at an amount equal to the lifetime expected credit loss ("ECL").

(v) Leases

The Company uses judgement to determine the incremental borrowing rate used to calculate the initial liability and corresponding asset. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
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## 2. Basis of Preparation (continued)

### (vi) Capitalized development costs

The Company uses judgement to determine when internally generated development costs are available for intended use and assess if expenditures meet the criteria for capitalization under IAS 38.

### (vii) Business combinations

On initial recognition, the assets and liabilities of the acquired business and consideration paid for them are included in the statement of financial position at their fair value. In measuring fair value, management uses estimates of future cash flows and discount rates.

### (viii) Contingent consideration

The Company measures the contingent consideration payable in a business combination at the estimated fair value at each reporting date. The fair value is estimated using a Black-Scholes probability weighted approach, which includes inputs that require management's estimates and assumptions.

### (ix) Going concern

Management has applied judgement in the assessment of the Company's ability to continue as a going concern when preparing its condensed interim financial statements for the three and nine months ended September 30, 2022. Management prepares the financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. In making this significant judgement, the Company has prepared income and cash flow forecasts and has considered a wide range of factors relating to current and expected profitability and sources of financing including its ability to renegotiate its term loan facility. As a result of management's assessment, the Company believes that it has sufficient available resources to meet its minimum obligations as they come due for a period of at least 12 months from September 30, 2022 and has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## 3. Significant Accounting Policies

These condensed interim financial statements follow the same accounting policies and methods of their application as the Company's December 31, 2021 annual audited financial statements except for the following:



# YANGAROO Inc.

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

### Change in accounting policy - change in presentation currency

On January 1, 2022, the Company changed presentation currency from Canadian dollars (CAD) to U.S. dollars (USD). The presentation currency of a Company is the currency in which the company chooses to present its financial reports. The Company has changed its presentation currency for financial reporting from CAD to USD, which is also the functional currency of the Company, in order to better align the presentation of the Company's financial position and financial performance with its operations.

In order to derive USD comparatives for the condensed consolidated interim financial statements, the Company has accounted for this change in presentation currency retrospectively which involves translation of equity, assets, liabilities and revenue and expense as follows:

- Revenue and expenses for the nine months ended September 30, 2021 - rate CAD\$1 = USD\$0.80 average rates for the period, approximating actual exchange rates for the date of the transactions;
- Statement of Financial Position as at December 31, 2021 – rate CAD\$1 = US\$0.789, being the exchange rate of December 31, 2021; and
- Statements of Changes in Equity has been restated using historical rates, approximating the date of transaction, rate CAD\$1 = USD\$0.637 to USD\$1.03; and
- Foreign Currency Translation Reserve was a translation effect related to share capital, share based payment reserve and deficit as equity was translated using the USD/CAD closing rate applicable for each date.

## 4. Risk Management

### Capital Risk Management

The Company includes equity comprised of share capital, share based payment reserves, 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 platform services, 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 has covenants in relation to the Term Loan facility (see note 11) during the period ended September 30, 2022.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2022 and 2021  
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## 4. Risk Management (continued)

### Financial Instruments and 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 the US Dollar is the presentation currency. The Company, however, does have revenues, expenses, assets, and liabilities denominated in currencies other than USD, primarily CAD. The principal foreign currency risk as at September 30, 2022 is therefore the CAD.

A 5% change in exchange rates would result in a \$12,008 impact on profit or loss.

Balances in foreign currencies at September 30, 2022 are as follows:

		<b>USD</b>
Cash	\$	29,416
Accounts receivable	\$	99,681
Trade and other payables	\$	369,253

##### (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 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's term loan is a floating interest rate facility. A 5% increase in the floating rate would result in a \$84,561 impact on profit or loss.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
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## 4. 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 the platform service to numerous smaller customers. As at and during the year ended September 30, 2022, approximately 13% (December 31, 2021 - 15%) of accounts receivable and 11% (December 31, 2021 - 13%) of revenue are from two customers (2021 - two customers), respectively.

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 30 to 60 days.

Aging of trade receivables that are past due, but not impaired are as follows:

	September 30 2022	December 31 2021
0 to 30 days past due	\$ 403,369	\$ 484,348
31 to 60 days	91,061	281,568
Over 60 days	765,283	460,559
Total past due	\$ 1,259,713	\$ 1,226,475

Continuity of allowance for doubtful accounts:

	September 30 2022	December 31 2021
Balance, beginning of period	\$ 91,181	\$ 127,677
Less: Arising on acquisition	-	(13,592)
Less: Accounts written off to bad debt expense	24,185	-
Net remeasurement of loss allowance	(6,891)	(22,904)
Balance, end of period	\$ 108,475	\$ 91,181

The Company's allowance for doubtful accounts as at September 30, 2022 is \$108,475 (December 31, 2021 - \$91,181) to address any anticipated collectability issues based on payment history and a simplified approach for the ECL.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2022 and 2021  
(Expressed in US dollars, unless otherwise noted)

## 4. Risk Management (continued)

### (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.

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 manages liquidity risk on the basis of expected maturity dates.

The following tables analyze financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

	Lease obligation	Contract Liabilities	Term Loan Facility	Trade and other payables	Line of Credit	Total
Less than 1 year	\$ 224,541	\$ 41,941	\$1,933,810	\$ 880,750	\$ 926,166	\$ 4,007,208
1- 3 years	\$ 93,668	\$ -	\$ -	\$ -	\$ -	\$ 93,668
<b>Balance at September 30, 2022</b>	<b>\$ 318,209</b>	<b>\$ 41,941</b>	<b>\$1,933,810</b>	<b>\$ 880,750</b>	<b>\$ 926,166</b>	<b>\$ 4,100,876</b>

	Lease obligation	Contract Liabilities	Term Loan Facility	Trade and other payables	Line of Credit	Total
Less than 1 year	\$ 275,522	\$ 68,000	\$ 420,215	\$ 851,026	\$ -	\$ 1,641,763
1- 3 years	\$ 255,063	\$ -	\$2,004,037	\$ -	\$ -	\$ 2,259,100
<b>Balance at December 31, 2021</b>	<b>\$ 530,585</b>	<b>\$ 68,000</b>	<b>\$2,424,252</b>	<b>\$ 851,026</b>	<b>\$ -</b>	<b>\$ 3,873,863</b>

At present, the Company expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments, the Company expects the operating activity to generate sufficient cash inflows.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2022 and 2021  
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## 5. Business Combination

On May 21, 2021, the Company completed the acquisition of certain assets and liabilities of Digital Media Services Inc. ("DMS") for cash and contingent consideration. The Company purchased DMS to utilize synergies to expand the existing business lines and improve cash flow generation. DMS is a provider of broadcast advertising and content management solutions located in New York City, United States of America.

As part of the acquisition, the Company acquired DMS' customer lists and contracts, and working capital, along with a highly skilled team of employees located in the United States.

The purchase price consisted of cash consideration of \$3,387,840 and contingent consideration with a fair value of \$2,113,888, resulting in total consideration of \$5,501,728. The contingent consideration consists of additional cash payments as a result of the following:

Earn-out criteria 1: 75% of 2019 revenue of the DMS business

Earn-out criteria 2: 100% of 2019 revenue of the DMS business.

Measurement periods: Annual periods ending on the 1st, 2nd, and 3rd anniversary period of closing date of May 21, 2021.

Cash consideration due: \$500,000 due and payable if actual realized revenue from the DMS business exceeds earn-out criteria 1, and an additional USD \$500,000 due and payable if actual realized revenue from the DMS business exceeds earn-out criteria 2.

Total potential cash consideration is \$3,000,000 if all earn-out criteria were triggered. The valuation of the contingent consideration was determined using a Black-Scholes probability approach under different scenarios based on likelihood of the revenue condition being met. Inputs used in the calculation include management estimates and assumptions as well as public data from comparable companies. The fair value as at the acquisition date was \$2,113,888.

The first annual anniversary payment payable to the vendors of DMS was calculated on May 19, 2022, per the agreement. Based on the Company's calculations, the Company does not have a cash payable amount with respect to the first of four tests on the earn-out contingent consideration. As of September 30, 2022, the fair value of the consideration is \$nil. No payments were made during the period.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2022 and 2021  
(Expressed in US dollars, unless otherwise noted)

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## 5. Business Combination (continued)

The following table presents the purchase price allocation at the acquisition date:

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Fair value of assets and liabilities recognized:	
Trade receivables	\$ 756,818
Prepaid expenses	26,433
Customer relationships	969,000
Brands and trademarks	62,000
Trade payables and accrued liabilities	(158,099)
Fair value of net assets acquired	\$ 1,656,152
Goodwill	\$ 3,845,576
Total consideration	\$ 5,501,728

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The fair value of acquired receivables was \$756,818, which were collected subsequent to the acquisition date.

The acquisition has been accounted for as a business combination under the purchase method. The results of the operations of the DMS business since the date of the acquisition have been consolidated in these financial statements. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill.

The goodwill is attributable mainly to the skills and technical talent of DMS' work force and the synergies expected to be achieved from integrating DMS into the Company's existing advertising business.

In connection with the DMS acquisition, the Company incurred fees, including legal and professional costs, of \$350,076 in 2021 that were recognized in the profit or loss.

Goodwill is tested at least annually for impairment or more frequently when impairment indicators are identified. The goodwill impairment analysis performed by the Company concluded there was no impairment of goodwill as at September 30, 2022, as the fair value of its CGUs exceeded its carrying value.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
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(Expressed in US dollars, unless otherwise noted)

## 6. Property and Equipment

	Office equipment	Computer equipment	Computer software	Right-of-use office property	Leasehold improvements	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$
Balance, January 1, 2021	30,262	596,111	337,026	403,834	12,187	1,379,420
Additions	679	109,234	18,425	569,658	12,316	710,312
Balance, December 31, 2021	30,941	705,345	355,451	973,492	24,503	2,089,732
Additions	1,561	18,318	50,836	-	21,116	91,831
<b>Balance, September 30, 2022</b>	<b>32,502</b>	<b>723,663</b>	<b>406,287</b>	<b>973,492</b>	<b>45,619</b>	<b>2,181,563</b>
<b>Accumulated depreciation</b>						
Balance, January 1, 2021	26,860	547,946	268,182	225,396	6,959	1,075,343
Depreciation expense	1,911	45,534	45,674	235,284	3,920	332,323
Balance, December 31, 2021	28,771	593,480	313,856	460,680	10,879	1,407,666
Depreciation expense	1,227	45,620	33,297	223,352	3,630	307,126
<b>Balance, September 30, 2022</b>	<b>29,998</b>	<b>639,100</b>	<b>347,153</b>	<b>684,032</b>	<b>14,509</b>	<b>1,714,792</b>
<b>Carrying amounts</b>						
December 31, 2021	2,170	111,865	41,595	512,812	13,624	682,066
<b>September 30, 2022</b>	<b>2,504</b>	<b>84,563</b>	<b>59,134</b>	<b>289,460</b>	<b>31,110</b>	<b>466,771</b>

Included in property and equipment are computer equipment and computer software under leases with a cost of \$467,610 (December 31, 2021 - \$457,063). Accumulated depreciation for these assets under leases is \$458,479 (December 31, 2021 - \$450,368).

## 7. Intangible Assets

	Brand	Customer relationships	Development costs	Total
<b>Cost</b>	\$	\$	\$	\$
Balance, January 1, 2021	-	-	-	-
Additions	62,000	969,000	578,165	1,609,165
Balance, December 31, 2021	62,000	969,000	578,165	1,609,165
Additions	-	-	470,245	470,245
<b>Balance, September 30, 2022</b>	<b>62,000</b>	<b>969,000</b>	<b>1,048,410</b>	<b>2,079,410</b>
<b>Accumulated amortization</b>				
Balance, January 1, 2021	-	-	-	-
Amortization expense	12,056	188,417	5,110	205,583
Balance, December 31, 2021	12,056	188,417	5,110	205,583
Amortization expense	15,500	242,250	27,278	285,028
<b>Balance, September 30, 2022</b>	<b>27,556</b>	<b>430,667</b>	<b>32,388</b>	<b>490,611</b>
<b>Carrying amounts</b>				
December 31, 2021	49,944	780,583	573,055	1,403,582
<b>September 30, 2022</b>	<b>34,444</b>	<b>583,333</b>	<b>1,016,022</b>	<b>1,588,799</b>

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Notes to the Condensed Interim Financial Statements (Unaudited)  
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## 7. Intangible Assets (continued)

During the nine months ended September 30, 2022, the Company capitalized product development costs of \$470,246 (September 30, 2021 - \$426,895). Depreciation expense of \$27,278 (September 30, 2021 - \$nil) was capitalized to development costs during the nine-months ended September 30, 2022. The significant new projects for the nine-month period ended September 30, 2022 consisted of new features in the Awards platform, improvements in the user interface in the Music and Advertising platforms, and significant new enhancements to its core technology infrastructure.

## 8. Goodwill

	September 30, 2022	December 31, 2021
Balance, beginning of period	\$ 3,845,576	\$ -
Acquisition of DMS (note 5)	-	3,845,576
	<b>\$ 3,845,576</b>	<b>\$ 3,845,576</b>

## 9. Trade and Other Payables

	September 30, 2022	December 31, 2021
Trade payables	\$ 500,712	\$ 514,016
Accrued expenses	380,038	337,010
	<b>\$ 880,750</b>	<b>\$ 851,026</b>

## 10. Lease Obligations

The Company has lease obligations until 2022 with purchase options at the end of each lease term. All of these lease agreements had 3-5 year terms at inception and carry a weighted average incremental borrowing rate of 4.53% per annum (2021 – 3.25%).

	Computer Equipment	Software	Property	Total Lease Liability
	\$	\$	\$	\$
Balance at January 1, 2022	10,462	5,911	514,212	530,585
Additions during the period	10,172	-	-	10,172
Principal payments	(7,021)	(5,911)	(209,616)	(222,548)
<b>Balance at September 30, 2022</b>	<b>13,613</b>	<b>-</b>	<b>304,596</b>	<b>318,209</b>
Current lease obligation	6,463	-	218,078	224,541
Long-term lease obligation	7,150	-	86,518	93,668
<b>Balance at September 30, 2022</b>	<b>13,613</b>	<b>-</b>	<b>304,596</b>	<b>318,209</b>
Effective annual rate of interest	6.52%	0%	4.45%	4.52%
Amount of interest recognized in profit or loss	331	-	3,774	4,105



# YANGAROO Inc.

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## 11. Credit Facility

On May 21, 2021, in conjunction with the acquisition of DMS (see Note 5 – Business Combination), the Company settled its then existing CAD \$1,000,000 revolving credit facility and entered into a credit agreement (the “Credit Facility”) with a tier-1 Canadian financial institution (the “Bank”). The Credit Facility is secured by a first ranking security over all present and future assets and property of the Company.

The Credit Facility includes a new revolving credit facility in the amount of CAD \$1,750,000 and a term loan facility in the amount of CAD \$3,250,000.

### *Line of Credit*

The revolving credit facility of CAD \$1,750,000 is available by loan advances and is subject to standard borrowing base calculations and margining against trade accounts receivable. Interest payments are based on the Bank’s prime rate plus 1.95% per annum. As at September 30, 2022, the Company has drawn CAD \$1,348,966 (USD \$984,144) (December 31, 2021 - \$nil) of the revolving credit facility.

### *Term Loan Facility*

The term loan facility of CAD \$3,250,000 was fully advanced on May 21, 2021 and was used for the purchase of DMS and for general corporate purposes. The term of the loan is 42 months, amortized over 72 months, and has an initial 6-months interest only payment component. Interest payments are based on the Bank’s prime rate plus 2.45%.

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	<b>September 30 2022</b>	December 31 2021
Term loan facility	<b>\$ 2,011,801</b>	\$ 2,524,655
Less: unamortized deferred financing costs	<b>(77,991)</b>	(100,403)
<b>Balance at September 30, 2022</b>	<b>1,933,810</b>	2,424,252
Current portion of term loan	<b>1,933,810</b>	420,215
Long-term portion of term loan	-	2,004,037
<b>Balance at September 30, 2022</b>	<b>\$ 1,933,810</b>	\$ 2,424,252
<b>Line of Credit balance at September 30, 2022</b>	<b>\$ 926,166</b>	\$ -

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## 11. Credit Facility (continued)

The Company incurred \$163,181 of transaction fees and has recorded these as deferred financing costs that are being amortized over the expected duration of the term loan facility. During the three and nine months ended September 30, 2022, \$15,589 and \$46,767 of deferred financing fees were amortized.

In accordance with the terms of the loan facility, on a rolling four-quarter basis, the Company must maintain a minimum Fixed Charge Coverage Ratio of not less than 1.20:1.00 and an Interest-Bearing Debt to EBITDA ratio of no more than 2.75 times between closing to December 31, 2022. The Company was not in compliance with the covenants as of September 30, 2022. Accordingly, the term loan facility has been presented as current on the condensed interim statement of financial position as at September 30, 2022. See note 19.

## 12. 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:

	Number of shares	Value
Balance at January 1, 2021	60,472,140	\$ 27,520,839
Exercise of options	225,000	33,421
Balance at December 31, 2021	60,697,140	\$ 27,554,260
Exercise of options <sup>(a)</sup>	580,000	74,423
Exercise of RSUs	1,010,000	183,202
<b>Balance at September 30, 2022</b>	<b>62,287,140</b>	<b>\$ 27,811,885</b>

(a) During the nine months ended September 30, 2022:

- a. Exercise of 409,500 stock options at a price of CAD \$0.10 per share for gross proceeds of \$32,140. The share price at the date of exercise was \$0.13. The initial value of \$20,329 related to the options' original issuances was reclassified from share based payment reserves to share capital.
- b. Exercise of 170,500 stock options at a price of CAD \$0.10 per share for gross proceeds of \$13,447. The share price at the date of exercise was \$0.13. The initial value of \$8,505 related to the options' original issuances was reclassified from share based payment reserves to share capital.

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## 13. Share-Based Payments

### Securities Based Compensation Plan

The Company had a Predecessor Plan that was replaced by an Omnibus Incentive Plan (the “Omnibus Equity Incentive Plan”), which was approved on June 29, 2021 at the Company’s Annual General and Special Meeting of the shareholders. The Omnibus Equity Incentive Plan permits the grant of stock options as well as restricted share units, deferred share units, performance share units and share appreciation rights (all awards other than options referred to as the “Non-Option Awards”). Pursuant to the terms of the Omnibus Equity Incentive Plan, the maximum number of common shares issuable pursuant to new options together with options granted under the Predecessor Plan cannot exceed 6,651,935 in the aggregate, being 11% of the issued and outstanding common shares of the Company at the time of implementation and the maximum number of common shares issuable pursuant to the Non-Option Awards common shares could not exceed 1,814,164 in the aggregate, being 3% of the issued and outstanding common shares of the Company at the time of implementation, for an unchanged aggregate maximum of 8,466,099 common shares (14%).

The Non-Option Awards may be settled, if and when vested, in common shares of the Company or the cash equivalent, at the election of the Company.

### Stock Options

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

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	Weighted average price (CAD)	Outstanding options	Vested options	Weighted average remaining life (years)
Balance at December 31, 2020	\$ 0.156	6,860,500	6,188,500	2.58
Forfeited	0.14	(41,000)		
Expired	0.15	(185,000)		
Exercised	0.11	(225,000)		
Balance at December 31, 2021	\$ 0.16	6,409,500	6,399,000	1.68
Expired	0.13	(762,500)		
Exercised	0.10	(580,000)		
<b>Balance at September 30, 2022</b>	<b>\$ 0.17</b>	<b>5,067,000</b>	<b>5,067,000</b>	<b>1.33</b>

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For the period ended September 30, 2022, the fair value of options granted was \$nil (September 30, 2021 - \$nil).

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## 13. Share-Based Payments (continued)

The estimated fair value of the options is expensed over the vesting period. The options vest 10% on the date of grant, and the remaining 90% vest as to a third on each 6-month anniversary following the date of grant. The compensation expense and charge to share based payment reserves relating to the stock options for the three and nine months ended September 30, 2022 was \$38 (2021 - \$6,364 and \$17,529).

The following table shows the stock options outstanding at September 30, 2022:

Number of options	Number of unvested options	Number of vested options	Exercise price (CAD)	Expiry date
1,162,500	-	1,162,500	\$0.275	January 8, 2023
2,105,000	-	2,105,000	\$0.155	January 4, 2024
775,000	-	775,000	\$0.120	June 18, 2024
989,500	-	989,500	\$0.115	February 4, 2025
35,000	-	35,000	\$0.105	September 15, 2025
<b>5,067,000</b>	-	<b>5,067,000</b>	<b>\$0.17</b>	

### Restricted Share Units

The Company may grant Restricted Share Units ("RSUs") to any participant under the Omnibus Equity Incentive Plan.

On August 10, 2021, the Company issued 1,115,000 restricted share units to directors, officers, employees and consultants, of which 600,000 were issued to directors and officers. These restricted share units are expected to be settled through the issuance of 1,115,000 common shares of the Company. These restricted share units vested fully on January 31, 2022. These restricted share units have been fair valued based on the quoted market price on the date of issuance of \$0.23 per common share.

On December 1, 2021, the Company issued 150,000 RSUs to employees. These restricted share units are expected to be settled through the issuance of 150,000 common shares of the Company. These restricted share units vest fully on December 1, 2022. These restricted share units have been fair valued based on the quoted market price on the date of issuance of \$0.13 per common share.

The compensation expense and credit to share-based payments reserve relating to the restricted share units for the three and nine months ended September 30, 2022 was \$3,586 and \$45,866 (2021 - \$63,495 and \$nil).

# YANGAROO Inc.

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## 13. Share-Based Payments (continued)

The following table shows the RSUs outstanding as at September 30, 2022:

Number of units	September 30, 2022	December 31, 2021
Balance beginning of the period	1,232,500	-
Granted	-	1,265,000
Forfeited	(72,500)	(32,500)
Exercised	(1,010,000)	-
Balance end of the period	150,000	1,232,500

## 14. Basic and Diluted Income (Loss) per Share

The income (loss) and weighted average number of common shares used in the calculation of basic and fully diluted income (loss) per share for the three and nine months ended September 30, 2022 and 2021 were as follows:

For the three-months ended September 30, 2022	September 30 2022	September 30 2021
Numerator:		
Net income (loss)	\$ (144,156)	\$ 58,486
Denominator:		
Weighted average number of common shares – basic	62,287,140	60,500,794
Adjustments for calculation of diluted income per share:		
Options in the money	-	2,051,770
Weighted average number of common shares – fully diluted	62,287,140	62,552,564
<b>Basic income (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ 0.00</b>
<b>Fully diluted income (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ 0.00</b>

For the nine-months ended September 30, 2022	September 30 2022	September 30 2021
Numerator:		
Net income (loss)	\$ 1,047,561	\$ 276,799
Denominator:		
Weighted average number of common shares – basic	62,287,140	60,500,794
Adjustments for calculation of diluted income per share:		
Options in the money	582,902	2,051,770
Weighted average number of common shares – fully diluted	62,870,042	62,552,564
<b>Basic income (loss) per share</b>	<b>\$ 0.02</b>	<b>\$ 0.00</b>
<b>Fully diluted income (loss) per share</b>	<b>\$ 0.02</b>	<b>\$ 0.00</b>

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## 15. Segmented Information

The Company has only one reportable segment and provides Advertising, Entertainment and Awards Management software workflow solutions to customers across multiple geographic regions. It considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the Chief Executive Officer of the Company. For revenues, the amounts included are from the originating country.

Below is the breakdown of revenue and long-term assets by operating segment:

<b>For the nine-months ended September 30, 2022</b>	Canada	US	Total
Advertising	\$ 158,896	\$ 3,623,241	\$ 3,782,137
Music	317,018	666,339	983,357
Awards management	81,725	790,271	871,996
<b>Total revenue</b>	<b>\$ 557,639</b>	<b>\$ 5,079,851</b>	<b>\$ 5,637,490</b>
<b>Property and equipment</b>	<b>\$ 92,541</b>	<b>\$ 374,230</b>	<b>\$ 466,771</b>
<b>Intangible assets</b>	<b>\$ 1,016,022</b>	<b>\$ 572,777</b>	<b>\$ 1,588,799</b>
<b>Goodwill</b>	<b>\$ -</b>	<b>\$ 3,845,576</b>	<b>\$ 3,845,576</b>

  

<b>For the nine-months ended September 30, 2021</b>	Canada	US	Total
Advertising	\$ 152,123	\$ 3,276,983	\$ 3,429,106
Music	383,642	762,610	1,146,252
Awards management	97,209	749,307	846,516
<b>Total revenue</b>	<b>\$ 632,974</b>	<b>\$ 4,788,900</b>	<b>\$ 5,421,874</b>
<b>Property and equipment</b>	<b>\$ 198,947</b>	<b>\$ 539,539</b>	<b>\$ 738,487</b>
<b>Intangible assets</b>	<b>\$ 426,895</b>	<b>\$ 1,396,445</b>	<b>\$ 1,823,340</b>
<b>Goodwill</b>	<b>\$ -</b>	<b>\$ 3,175,480</b>	<b>\$ 3,175,480</b>

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## 16. 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 stock option program (note 13).

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

	September 30 2022	September 30 2021
Salaries and short-term employee benefits <sup>(i)</sup>	\$ 562,389	\$ 934,451
Share based payments	19,564	38,689
	\$ 581,953	\$ 973,140

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

## 17. Government Assistance

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a global pandemic. The COVID-19 pandemic had an adverse impact on advertising and entertainment industry which resulted in a negative impact to the Company's revenues since the onset of the COVID-19 pandemic.

For the current period the Company received government assistance funds from the Canadian Federal Government's Canada Emergency Wage Subsidy ("CEWS") and the U.S. Small Business Administration's Payment Protection Program ("PPP"). During the nine-months ended September 30, 2022, the Company recognized government assistance of \$nil (2021 - \$629,759).

## 18. Commitments and Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. There were no material litigation and claims during the nine-months ended September 30, 2022.

## 19. Subsequent Event

The Company was in breach of the Fixed Charge Cover Ratio and Interest-Bearing Debt to EBITDA ratio covenants as of September 30, 2022 as it relates to the Term Facility. Subsequent to September 30, 2022, the Company received a waiver from its lender as it relates to this breach of financial covenants. The Company is currently in discussions with the lender on a possible amendment to the Term Facility agreement.