

YANGAROO Inc.

Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of YANGAROO Inc.

Opinion

We have audited the financial statements of YANGAROO Inc., (the Company), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017 and the statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management discussion and analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Jakovcic.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 24, 2019
Toronto, Ontario

YANGAROO Inc.

Statements of Financial Position

As at

(Expressed in Canadian dollars)

	December 31 2018	December 31 2017
Assets		
Current		
Cash	\$ 1,421,620	\$ 1,215,554
Accounts receivable (note 5)	1,682,277	1,661,115
Prepaid and sundry assets	313,595	311,274
Contract assets	124,528	-
	3,542,020	3,187,943
Non-current		
Property and equipment (note 6)	170,642	222,122
	\$ 3,712,662	\$ 3,410,065
Liabilities		
Current		
Trade and other payables (note 7)	\$ 618,820	\$ 882,534
Contract liabilities	68,488	14,844
Finance lease obligation (note 8)	50,675	64,536
Contractual severance payable (note 9)	79,594	265,188
	817,577	1,227,102
Non-current		
Debentures (note 11)	482,666	469,656
Accrued interest on debentures (note 11)	92,222	42,222
Finance lease obligation (note 8)	37,953	71,815
Contractual severance payable (note 9)	-	79,594
	612,841	663,287
	1,430,418	1,890,389
Equity		
Share capital (note 12)	32,558,445	32,545,388
Warrant capital (note 14)	203,824	203,824
Contributed surplus	6,366,932	6,130,476
Deficit	(36,846,957)	(37,360,012)
	2,282,244	1,519,676
	\$ 3,712,662	\$ 3,410,065

Commitments and contingencies (note 20)

Subsequent events (note 21)

Approved by the Board of Directors

"Gerry Hurlow"

Director

"Anthony Miller"

Director

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

YANGAROO Inc.

Statements of Net Income and Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	2018	2017
Revenue (note 18)	\$ 7,487,784	\$ 7,655,166
Commission	332,403	398,078
Post-production costs	69,929	68,685
	402,332	466,763
Revenue, net of commission and production costs	7,085,452	7,188,403
Expenses		
Salaries and consulting (notes 13 & 19)	5,060,404	5,342,586
Marketing and promotion	415,156	396,658
General and administrative	926,520	865,893
Technology development (note 16)	153,891	164,568
Depreciation of property and equipment (note 6)	113,410	115,437
	6,669,381	6,885,142
Income from operations	416,071	303,261
Other income (expenses)		
Interest income	17,800	1,107
Interest expense	(72,240)	(70,319)
Foreign exchange gain (loss)	158,006	(152,913)
	103,566	(222,125)
Net income before income tax	519,637	81,136
Corporate income tax (note 17)	(6,582)	(3,908)
Net income and comprehensive income	\$ 513,055	\$ 77,228
Basic income per share (note 15)	\$ 0.01	\$ 0.00
Diluted income per share (note 15)	\$ 0.01	\$ 0.00

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, 2018 and 2017
(Expressed in Canadian dollars)

	Share capital	Warrant capital	Contributed surplus	Deficit	Total
Balance at January 1, 2017	\$32,532,328	\$173,873	\$6,030,469	\$(37,437,240)	\$1,299,430
Issuance of warrants (notes 11 & 14)	-	29,951	-	-	29,951
Share-based payments (note 13)	-	-	105,067	-	105,067
Exercise of options (notes 12 & 13)	13,060	-	(5,060)	-	8,000
Income for the year	-	-	-	77,228	77,228
Balance at December 31, 2017	\$32,545,388	\$203,824	\$6,130,476	\$(37,360,012)	\$1,519,676
Share-based payments (note 13)	-	-	242,013	-	242,013
Exercise of options (notes 12 & 13)	13,057	-	(5,557)	-	7,500
Income for the year	-	-	-	513,055	513,055
Balance at December 31, 2018	\$32,558,445	\$203,824	\$6,366,932	\$(36,846,957)	\$2,282,244

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

YANGAROO Inc.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	2018	2017
Cash flow from (used in) operating activities		
Net income for the year	\$ 513,055	\$ 77,228
Items not affecting cash:		
Depreciation of property and equipment	113,410	115,437
Bad debt expense	156,000	120,889
Share-based payments (note 13)	242,013	105,067
Accretion of contractual severance payable (note 9)	2,397	1,756
Accrued contractual severance payable (note 9)	(267,585)	343,027
Unrealized foreign exchange gain (loss)	(131,627)	90,280
Accrued interest on debentures (note 11)	63,010	51,949
Changes in non-cash operating working capital:		
Accounts receivable	(91,896)	(229,757)
Prepaid and sundry assets	(2,321)	(90,075)
Contract assets	(124,528)	-
Trade and other payables	(270,736)	281,581
Deferred revenue	(11,540)	(73,512)
Contract liabilities	65,184	-
Net cash from operating activities	254,836	793,870
Cash flow used in investing activities		
Acquisition of property and equipment (note 6)	(42,578)	(93,135)
Net cash used in investing activities	(42,578)	(93,135)
Cash flow from financing activities		
Proceeds from issuance of debentures, net of issuance costs (note 11)	-	489,880
Payment of finance lease obligation	(67,075)	(71,421)
Repayment of loan payable	-	(200,000)
Exercise of options (notes 12 & 13)	7,500	8,000
Net cash from (used in) financing activities	(59,575)	226,459
Net increase in cash	152,683	927,194
Effect of foreign exchange on cash	53,383	(66,219)
Cash at January 1	1,215,554	354,579
Cash at December 31	\$ 1,421,620	\$ 1,215,554
Cash interest paid	\$ 6,833	\$ 16,613
Finance lease additions	\$ 19,351	\$ 132,793

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

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

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 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 67 Mowat Avenue, Suite 535, Toronto, Ontario, M6K 3E3.

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") and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were authorized for issue by the Board of Directors on April 23, 2019.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except certain financial instruments which are measured at fair value as determined at each reporting period.

(c) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign currency translation differences are recognized in profit or loss.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(d) Significant accounting judgements and sources of estimation uncertainty

The preparation of 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 the financial statements and the reported amounts of revenues and expenditures during the period reported.

The most significant judgements and estimates made by management in preparing the Company's consolidated 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 (notes 13 & 14).

(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) Functional currency

The Company uses judgement to determine the Company's functional currency.

(v) 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).

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies

The accounting policies set below have been applied consistently to all years presented in these financial statements, except as otherwise noted.

(a) Cash

Cash in the statements of financial position is comprised of cash held at a major financial institution.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise of accounts receivable, cash, trade and other payables, finance lease obligation, loan payable, debentures and contractual severance payable. Non-derivative financial instruments are recognized initially at the fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, accounts receivable, cash, trade and other payables, finance lease obligation, loan payable, debentures and contractual severance payable are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Fair value

The Company's accounting policies and disclosures may 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.

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.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(c) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured initially at cost and subsequently 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.

(iii) Depreciation

Depreciation is calculated based on the cost of the asset less its estimated 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

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

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(d) Impairment

(i) Financial assets

Beginning January 1, 2018, upon the initial adoption of IFRS 9, the Company prospectively estimates the expected credit losses associated with the financial assets accounted for at amortized cost. The impairment methodology used depends on whether there is a significant increase in the credit risk or not. For accounts receivable, the Company measures loss allowances at an amount equal to the lifetime ECL under the simplified method. The Company recognized in income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal thereof) that is required to adjust the loss allowance at the reporting date to the required amount.

(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 of disposal, 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 the statement of comprehensive loss 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.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(e) Research and development (continued)

Investment tax credits (“ITCs”) arising from research and development are recognized when their realization is reasonably assured and are recorded in prepaid and sundry assets on the statement of financial position. ITCs earned with respect to current expenditures for qualified research and development activities are included in the statement of comprehensive loss as a reduction of research and development costs. ITCs associated with capital expenditures are reflected as reductions in the carrying amounts of the assets.

(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 net income on a straight-line basis over the lease term.

(g) 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.

(h) 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. Upon exercise of the warrant, consideration received, together with the amount previously recognized in warrant capital, is recorded as an increase to share capital. Upon expiry of the warrant, the amount previously recognized in warrant capital is transferred to contributed surplus.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(i) 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 a 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.

(j) Revenue

Identification of the contract, or contracts, with the customer

The Company considers the terms and conditions of written contracts and its customary business practices in identifying its contracts under IFRS 15. In general, contract terms will be reflected in a written document that is signed by both parties.

Identification of the performance obligations in the contract

Performance obligations are promises in a contract to transfer distinct products or services to a customer and is the unit of account under IFRS 15. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized when the performance obligation is satisfied. A product or service is a distinct performance obligation if the customer can both benefit from the product or service either on its own or together with other resources that are readily available to the customer, and it is separately identifiable from other items within the context of the contract. Performance obligations are satisfied by transferring control of the product or service to the customer. Control of the product or service is transferred either at a point in time or over time depending on the performance obligation.

The Company generates revenue primarily from usage fees for the Company's digital media distribution service. Usage fees are generally recognized as they are billed based on volume and size of distribution services provided in a given month. The Company's other performance obligations include maintenance services, email and phone support, and unspecified software updates released when, and if, available.

Hosting is considered a separate performance obligation which is satisfied over time; however, such activities are immaterial at any given point in time.

Determination of the transaction price

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for providing services to the customer. Digital media distribution services have fixed pricing. A significant financing component generally does not exist under the Company's standard contracting and billing practices.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(j) Revenue (continued)

Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company recognizes revenue when the services are delivered to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. The Company is principally responsible for the satisfaction of its distinct performance obligations, which are satisfied either at a point in time or over a period of time.

Performance obligations satisfied at a point in time

DMS - Advertising and Entertainment (Music)

Distribution of media comprise all of the distinct performance obligations that are satisfied at a point in time, and revenue is recognized at the point in which the distribution service has been delivered to the end user.

Licensing – Entertainment

Revenue from licensing contracts are recognized at the time of usage which is typically on a monthly basis over the term of the contract.

Performance obligations satisfied over a period of time

Awards Management - Entertainment

Customization, support and maintenance, and hosting comprise three performance obligations that are satisfied over a period of time. These performance obligations are not distinct in the context of each contract. Any hosting and support and maintenance activities are provided concurrent with the performance of customization within the billing period and are not considered material. Revenue is recognized over time, based on milestones of the awards management contract.

Contract Costs

Contract costs consists customer acquisition costs to fulfill a contract. Customer acquisition costs are capitalized only if the costs are incrementally incurred to obtain a customer contract and may consist of sales commissions paid to sales personnel or third-party resellers. The Company elected the practical expedient approach and expenses costs of obtaining a contract when incurred.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(j) Revenue (continued)

Contract Costs (continued)

Contract modifications may create new, or change existing, enforceable rights and obligations of the parties to the contract. The Company generally modifies an existing contract using an addendum or signed change order. A contract modification is accounted for as a new contract if it reflects an increase in scope that is regarded as distinct from the original contract and is priced in-line with the standalone selling price for the related product or services obligated. If a contract modification is not considered a new contract, the modification is combined with the original contract and the impact on the revenue recognition profile depends on whether the remaining products and services are distinct from the original contract. If the remaining goods or services are distinct from those in the original contract, all remaining performance obligations will be accounted for on a prospective basis with unrecognized consideration allocated to the remaining performance obligations. If the remaining goods or services are not distinct, the modification will be treated as if it were a part of the existing contract, and the effect that the contract modification has on the transaction price, and on our measure of progress toward satisfaction of the performance obligations, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification on a cumulative catch-up basis.

Remaining performance obligations

The Company's contracts are for delivery of goods within the next following 12 months of a contract's execution; therefore, the Company uses the practical expedient allowed in Paragraph 121(a) of IFRS 15. Following Paragraph 121(a), the Company does not disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period.

(k) Other income and expenses

Other expenses comprise of interest expense on borrowings, foreign exchange gains and losses, and accretion on debentures and contractual severance payable.

(l) 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.

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(l) Income taxes (continued)

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.

(m) Income (loss) per share

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

(n) 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.

(o) Statement of cash flows

The Company prepares its Statements 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.

YANGAROO Inc.

Notes to the Financial Statements
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3. Significant Accounting Policies (continued)

(p) 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.

(q) New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are applicable for accounting periods beginning after December 31, 2018, are as follows:

- Effective for annual periods beginning on or after January 1, 2019, *IFRS 16 Leases* was issued by the IASB in January 2016 and will replace *IAS 17 Leases*. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted only if the Company early adopts IFRS 15.

The Company adopted the new standard beginning January 1, 2019 on a modified retrospective basis. The Company is currently finalizing the review of its contracts with suppliers to assess the impact of the new standard and to collect data necessary for

adoption of the new standard. The Company expects that the new standard will result in an increase in assets and liabilities, as well as a corresponding increase in amortization and finance expense. The Company also expects that cash flow from operating activities will increase under the new standard because lease payments for most leases will be recorded as cash outflows from financing activities in the statement of cash flows. The magnitude of these impacts of adopting the new standard have not yet been determined.

(r) New standards and interpretations adopted during the year ended December 31, 2018:

i) IFRS 9, Financial Instruments

The Company adopted IFRS 9 *Financial Instruments*, effective January 1, 2018, which supersedes IAS 39, *Financial Instruments: recognition and measurement* (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance.

YANGAROO Inc.

Notes to the Financial Statements
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3. Significant Accounting Policies (continued)

(r) New standards and interpretations adopted during the year ended December 31, 2018: (continued)

i) IFRS 9, Financial Instruments (continued)

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and fair value through profit or loss (FVTPL).

The Company has elected to adopt IFRS 9 using the modified retrospective approach as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 9 did not have a material impact on the financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

Where financial assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (FVTPL) or recognized in other comprehensive income (fair value through other comprehensive income, FVTOCI). For debt instruments, the FVTOCI classification is mandatory for certain assets unless the fair value option is elected. For equity investments not held for trading, the FVTOCI classification is an irrevocable election.

Furthermore, the requirements for reclassifying gains or losses recognized in other comprehensive income are different for debt instruments and equity investments. The classification of a financial asset is made at the time it is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. If certain conditions are met, the classification of an asset may subsequently need to be reclassified. A debt instrument that meets both the business model test and cash flow characteristics test must be measured at amortized cost (net of any write down for impairment) unless the asset is designated at FVTPL under the fair value option.

IFRS 9 requires a forward-looking ECL impairment model be applied to all debt instruments carried at amortized cost or FVOCI. The ECL model requires recognition of expected credit losses using judgement determined on a probability weighted basis. For trade receivables the Company applies the simplified approach permitted by IFRS 9, which requires lifetimes expected credit losses to be recognized from initial recognition of the receivables.

YANGAROO Inc.

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3. Significant Accounting Policies (continued)

(r) New standards and interpretations adopted during the year ended December 31, 2018: (continued)

(i) IFRS 9, Financial Instruments (continued)

Below is a summary showing the classification and measurement basis of the Company's financial instruments as at January 1, 2018 as a result of adopting IFRS 9 (along with a comparison to IAS 39).

Financial instrument	IAS 39	IFRS 9
Financial assets		
Cash	Fair value through profit or loss	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Trade and other payables	Other financial liabilities	Amortized cost
Finance lease obligation	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
Contractual severance payable	Other financial liabilities	Amortized cost

(ii) Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers, effective January 1, 2018. IFRS 15 supersedes previous accounting standards for revenue, including IAS 18, Revenue (IAS 18) and IFRIC 13, Customer loyalty programmes (IFRIC 13).

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

YANGAROO Inc.

Notes to the Financial Statements
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3. Significant Accounting Policies (continued)

(r) New standards and interpretations adopted during the year ended December 31, 2018: (continued)

(ii) Revenue from Contracts with Customers (continued)

The Company has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have a material impact on the financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

Under the cumulative effect method, the Company chose to apply the requirements of the new standard to only contracts that were open (not considered completed contracts as defined under the new standard) at the date of initial application. The application of IFRS 15 impacted the Awards Management - Entertainment revenue stream. Under IAS 18, the Company recognized revenue related to Awards Management – Entertainment projects based on the percentage of completion of certain milestones during the project. These milestones were mutually set by the Company and its customers based on billing schedules. Under IFRS 15, revenue is recognized upon satisfying performance obligations, which include the transfer of promised goods and/or services to a customer, such that the customer obtains control of the goods and/or services. The performance obligations include successfully developing and implementing customized awards management solutions, which include but are not limited to awards submission sites and awards judging sites, getting the sites ready for use, and providing customer support services during the submission and/or judging periods.

The other revenue stream, DMDS – Advertising & Entertainment, was not impacted by the application of IFRS 15 as the performance obligations were fulfilled within a short period of time or at the point of sale with customers.

IFRS 15 affected the statements of financial position as at December 31, 2018, by the recognition of new assets and liabilities. Specifically, a contract asset and contract liability is recognized to account for any timing differences between the revenue recognized and the amounts billed to the customer.

4. Capital 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.

YANGAROO Inc.

Notes to the Financial Statements
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4. Capital Management (continued)

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, 2018.

5. 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 is exposed to foreign exchange risk from various currencies, primarily United States dollars. Foreign exchange risk arises from purchase and sales transactions as well as recognized financial assets and liabilities denominated in foreign currencies. A 5% change in foreign exchange would result in a \$63,635 impact on net income and comprehensive income.

Balances in foreign currencies at December 31, 2018 are as follows:

	USD
Cash	\$ 255,879
Accounts receivable	\$ 1,155,442
Trade and other payables	\$ 138,628

(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. Debentures owed by the Company are fixed rate instruments. The Company considers this risk to be immaterial.

YANGAROO Inc.

Notes to the Financial Statements
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5. Financial Instruments and 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 and during the year ended December 31, 2018, approximately 51% (2017 - 28%) of accounts receivable and 29% (2017 - 24%) of revenue are from four customers (2017 - three 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:

	December 31 2018	December 31 2017
0 to 30 days past due	\$ 433,661	\$ 380,813
31 to 60 days	208,656	241,022
Over 60 days ⁽ⁱ⁾	839,256	637,574
Total past due	\$ 1,481,573	\$ 1,259,409

⁽ⁱ⁾ This balance consists mainly of four customers, of which two have payment plans in place (2017 – four customers, of which two have payment plans in place).

Continuity of allowance for doubtful accounts:

	December 31 2018	December 31 2017
Balance, beginning of year	\$ 144,000	\$ 48,000
Less: Accounts written off to bad debt expense	(2,451)	(15,000)
Charge during the year	158,451	111,000
Balance, end of year	\$ 300,000	\$ 144,000

The Company has increased its allowance for bad debts to \$300,000 (December 31, 2017 - \$144,000) to address any anticipated collectability issues based on payment history and a simplified approach for ECL.

YANGAROO Inc.

Notes to the Financial Statements
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5. Financial Instruments and 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).

	Severance payable	Debentures	Finance leases	Trade and other payables	Total
Less than 1 year	\$ 79,824	\$ -	\$ 53,266	\$ 618,820	\$ 751,910
1- 3 years	-	650,000	38,447	-	688,447
Balance at December 31, 2018	\$ 79,824	\$ 650,000	\$ 91,713	\$ 618,820	\$ 1,440,357

	Severance payable	Debentures	Finance leases	Trade and other payables	Total
Less than 1 year	\$ 267,585	\$ -	\$ 71,275	\$ 882,534	\$ 1,221,394
1- 3 years	79,824	650,000	73,150	-	802,974
Balance at December 31, 2017	\$ 347,409	\$ 650,000	\$ 144,425	\$ 882,534	\$ 2,024,368

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 Financial Statements
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6. Property and Equipment

	Office Equipment	Computer Equipment	Computer Software	Leasehold Improvements	Total
Cost	\$	\$	\$	\$	\$
Balance, January 1, 2017	37,903	566,922	227,903	14,791	847,519
Additions	7,118	145,492	62,675	8,247	223,532
Disposals	(10,654)	(128,389)	(35,940)	(14,792)	(189,775)
Balance, December 31, 2017	34,367	584,025	254,638	8,246	881,276
Additions	-	39,786	20,114	2,029	61,929
Disposals	-	(6,373)	-	-	(6,373)
Balance, December 31, 2018	34,367	617,438	274,752	10,275	936,832
Accumulated depreciation					
Balance, January 1, 2017	33,591	484,736	200,372	14,791	733,490
Depreciation expense	2,301	80,131	32,330	675	115,437
Disposals	(10,654)	(128,388)	(35,940)	(14,791)	(189,773)
Balance, December 31, 2017	25,238	436,479	196,762	675	659,154
Depreciation expense	2,854	79,142	29,443	1,971	113,410
Disposals	-	(6,374)	-	-	(6,374)
Balance, December 31, 2018	28,092	509,247	226,205	2,646	766,190
Carrying amounts					
December 31, 2017	9,129	147,546	57,876	7,571	222,122
December 31, 2018	6,275	108,191	48,547	7,629	170,642

Included in property and equipment are computer equipment under finance leases with a cost of \$463,187 (2017 - \$443,837). Accumulated depreciation for items under finance leases is \$380,041 (2017 - \$314,812).

7. Trade and Other Payables

	December 31 2018	December 31 2017
Trade payables	\$ 181,715	\$ 185,584
Non-trade payables	437,105	696,950
	\$ 618,820	\$ 882,534

YANGAROO Inc.

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8. Finance Lease Obligation

The Company has assumed finance lease obligations until 2021 with purchase options at the end of each lease term. The monthly lease payments consist of principal repayment and interest and the weighted average imputed interest rate is 8.10%. The minimum payments under the finance lease are as follows:

2019	\$	53,266
2020		33,384
2021		5,063
		91,713
Less: imputed interest		(3,085)
		88,628
Less: current portion		(50,675)
Long term portion	\$	37,953

9. Contractual Severance Payable

During 2017, the Company incurred a contractual severance payable of \$432,888, to be paid over 22 months, which commenced August 2017. This consists of an undiscounted bonus accrual of \$60,525 and a principal severance payable amount of \$372,363, which was discounted using a risk-free interest rate of 1.26%, resulting in a fair value of \$367,981. As at December 31, 2018, the balance of contractual severance payable was \$79,594 (December 31, 2017 - \$344,782), of which \$79,594 (December 31, 2017 - \$204,663) of the severance payable and \$Nil (December 31, 2017 - \$60,525) of the bonus accrual were current, and the remaining payable amount of \$Nil (December 31, 2017 - \$79,594) classified as long term. The accretion expense for the year ended December 31, 2018 was \$2,397 (2017 - \$1,756).

10. 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. As of December 31, 2018, the Company had a balance outstanding of \$Nil (December 31, 2017 - \$Nil) on this line of credit.

YANGAROO Inc.

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11. Debentures

On February 24, 2017, the Company completed a non-brokered debenture offering (the "Offering") of secured, non-convertible debentures (the "Debentures") for aggregate gross proceeds of \$500,000 (the "Principal Amount"). The net proceeds of the Offering were used to repay a previously existing credit facility with the balance used for general working capital purposes. The Debentures mature three years from the closing (the "Closing Date") of the Offering (the "Maturity Date"), or on February 24, 2020, but the Company is entitled to repay the Principal Amount and all accrued interest in full, without penalty, at any time following the two year anniversary of the Closing Date ("Early Repayment"), subject to the mutual approval of the Company and the holders of the Debentures. The Debentures bear interest at a rate of 10% per annum, which accrues and becomes due on the Maturity Date, subject to Early Repayment.

The Company also issued to the lenders one share purchase warrant (each the "Bonus Warrant", collectively the "Bonus Warrants") for each dollar of the Principal Amount to purchase one common share of the Company at an exercise price of \$0.15 per share for a period of three years from the Closing Date. The Company issued 500,000 Bonus Warrants with a fair value of \$29,951 during the year ended December 31, 2017 (notes 14). The accretion expense was \$13,010 for the year ended December 31, 2018 (2017 - \$9,727). The securities issued pursuant to the Offering are subject to a 4-month hold period. Neither the Debentures nor the Bonus Warrants are listed on any stock exchange. The Debentures are secured against all personal property of the Company.

The following Debentures were outstanding as at December 31, 2018:

Maturity Date	Carrying Value	Face Value	Stated Interest Rate	Effective Interest Rate
February 24, 2020	\$ 482,666	\$ 500,000	10%	13%

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 from January 1, 2017 to December 31 2018:

	Number of shares	Value
Balance at January 1, 2017	61,208,140	\$ 32,532,328
Exercise of options on October 6, 2017 ^(a)	80,000	13,060
Balance at December 31, 2017	61,288,140	\$ 32,545,388
Exercise of options on July 20, 2018 ^(b)	51,000	13,057
Balance at December 31, 2018	61,339,140	\$ 32,558,445

YANGAROO Inc.

Notes to the Financial Statements
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12. Share Capital (continued)

- (a) Exercise of 80,000 stock options at a price of \$0.10 per unit for gross proceeds of \$8,000. The initial value of \$5,060 related to the options' original issuance was reclassified from contributed surplus to share capital.
- (b) Exercise of 30,000 stock options at a price of \$0.18 per unit for gross proceeds of \$5,400 and exercise of 21,000 options at a price of \$0.10 per unit for gross proceeds of \$2,100. The initial value of \$5,557 related to the options' original issuances was reclassified from contributed surplus to share capital.

13. Share-Based Payments

The Company has a 12% fixed stock option plan (the "Plan"), in which the total number of options shall not exceed 7,344,976, which is 12% of the issued and outstanding number of shares, as of the date of approval. The Plan was approved at the Company's Annual Meeting of the Shareholders held on June 28, 2017.

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, 2017	\$ 0.310	4,114,274	3,943,274	2.26
Granted	0.110	1,855,000		
Forfeited	0.170	(130,000)		
Expired	1.000	(350,274)		
Exercised	0.100	(80,000)		
Balance at December 31, 2017	\$ 0.200	5,409,000	4,300,500	2.26
Granted	0.280	1,392,500		
Forfeited	0.240	(209,000)		
Expired	0.250	(1,535,000)		
Exercised	0.150	(51,000)		
Balance at December 31, 2018	\$ 0.210	5,006,500	4,199,500	2.45

For the year ended December 31, 2018, the fair value of the options granted was \$277,282 (2017 - \$131,679).

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 contributed surplus relating to the stock options for the year ended December 31, 2018 was \$242,013 (2017 - \$105,067).

YANGAROO Inc.

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13. Share-Based Payments (continued)

The fair value of all the Company's stock options was estimated using the Black-Scholes option pricing model. Stock options granted during the years ended December 31, 2018 and 2017 used the following weighted average assumptions:

	December 31 2018	December 31 2017
Volatility (based on historical share prices)	92%	94%
Risk-free interest rate	1.89%	1.09%
Expected life (years)	5.00	5.00
Dividend yield	Nil	Nil
Forfeiture rate	12%	12%
Underlying share price	\$0.28	\$0.10

The Company had the following stock options outstanding at December 31, 2018:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
750,000	-	750,000	\$0.340	March 3, 2019
25,000	-	25,000	\$0.300	May 28, 2019
27,000	-	27,000	\$0.350	June 20, 2019
32,500	-	32,500	\$0.280	September 2, 2019
2,500	-	2,500	\$0.120	November 21, 2019
922,500	-	922,500	\$0.180	January 26, 2020
237,500	-	237,500	\$0.150	January 11, 2021
5,000	-	5,000	\$0.115	September 6, 2021
1,120,000	-	1,120,000	\$0.100	January 10, 2022
500,000	-	500,000	\$0.140	May 1, 2022
75,000	22,500	52,500	\$0.120	August 25, 2022
1,309,500	784,500	525,000	\$0.275	January 4, 2023
5,006,500	807,000	4,199,500	\$0.210	

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14. Warrants

During the year ended December 31, 2018 the Company issued Nil warrants (December 31, 2017 – 500,000) to acquire common shares of the Company. Warrants continuity is as follows:

	Number of warrants	Amount	Weighted average exercise price
Balance at January 1, 2017	2,509,845	\$ 173,873	\$ 0.20
Warrants issued	500,000	29,951	0.15
Balance at December 31, 2017	3,009,845	\$ 203,824	\$ 0.19
Warrants issued	-	-	-
Balance at December 31, 2018	3,009,845	\$ 203,824	\$ 0.19

The Company had the following warrants outstanding and exercisable at December 31, 2018:

Number of warrants	Exercise price	Expiry date
1,872,345 (i)	\$0.20	July 8, 2019
637,500 (ii)	\$0.20	July 20, 2019
500,000 (iii)	\$0.15	February 24, 2020
3,009,845		

- (i) These warrants were issued as part of the private placement of units. 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 93%; (III) a risk free interest rate of 0.48% and (IV) an expected life of 3 years.
- (ii) These warrants were issued as part of the private placement of units. 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 93%; (III) a risk free interest rate of 0.57% and (IV) an expected life of 3 years.
- (iii) These bonus warrants were issued to lenders in connection with the issuance of debentures (notes 11). 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 88%; (III) a risk free interest rate of 0.87% and (IV) an expected life of 3 years.

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.

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15. Basic and Diluted Income per Share

The income and weighted average number of common shares used in the calculation of basic and diluted income per share for the years ended December 31, 2018 and 2017 were as follows:

	December 31 2018	December 31, 2017
Numerator:		
Net income and comprehensive income for the year	\$ 513,055	\$ 77,228
Denominator:		
Weighted average number of common shares - basic	61,311,195	61,227,208
Adjustments for calculation of diluted income per share:		
Options and warrants in the money	1,180,000	6,450,845
Weighted average number of common shares - diluted	62,491,195	67,678,053
Basic income per share	\$ 0.01	\$ 0.00
Diluted income per share	\$ 0.01	\$ 0.00

16. Technology Development

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, 2018, the Company incurred technology development expenses of \$261,451 (2017 - \$240,326), recognized ITCs of \$107,560 (2017 - \$75,758) resulting in a net expense of \$153,891 (2017 - \$164,568).

YANGAROO Inc.

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17. 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 2018	December 31 2017
Income before income taxes	\$ 519,637	\$ 81,136
Statutory rate	26.5%	26.5%
Expected income tax expense	\$ 138,000	\$ 22,000
Amounts not deductible for tax and other	73,000	39,000
Deferred tax assets not utilized	(200,000)	(453,000)
Changes in non-capital losses and credit carry forwards	(11,000)	392,000
Other	(6,582)	(3,908)
Income tax expense	\$ (6,582)	\$ (3,908)

(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 2018	December 31 2017
Amounts related to tax loss and credit carry forwards	\$ 6,523,000	\$ 6,733,000
Share issuance costs	5,000	30,000
Capital and intangible assets	916,000	904,000
Reserves	114,000	91,000
Net deferred tax asset	\$ 7,558,000	\$ 7,758,000
Deferred tax assets not recognized	(7,558,000)	(7,758,000)
	\$ -	\$ -

YANGAROO Inc.

Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
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17. Income Taxes (continued)

(b) Deferred income taxes: (continued)

The Company has ITCs of approximately \$1,859,000 and unused expenditures of approximately \$6,430,000 related to scientific research and experimental development costs. The Company also has non-capital losses of approximately \$17,476,000 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2027	\$ 1,801,000
2028	2,907,000
2029	2,450,000
2030	2,998,000
2031	3,470,000
2032	1,369,000
2033	1,011,000
2034	1,025,000
2035	205,000
2036	240,000
	\$ 17,476,000

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

18. Segmented Information

The Company provides DMDS and Awards Management 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.

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18. Segmented Information (continued)

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

For the year ended December 31, 2018	Canada	US	Other	Total
Advertising	\$ 635,474	\$ 3,841,463	\$ -	\$ 4,476,937
Entertainment				
Music ⁽ⁱ⁾	664,276	999,339	193	1,663,808
Awards management ^(a)	247,486	1,053,107	-	1,300,593
Licensing ⁽ⁱⁱ⁾	-	-	46,446	46,446
	911,762	2,052,446	46,639	3,010,847
Total revenue	\$ 1,547,236	\$ 5,893,909	\$ 46,639	\$ 7,487,784
Property and equipment	\$ 164,529	\$ 6,113	\$ -	\$ 170,642

(a) Revenue was derived using IFRS 15 Revenue from Contracts with Customers for the year ended December 31, 2018 and impacted the awards management revenue stream as revenue is recognized over a period of time.

For the year ended December 31, 2017	Canada	US	Other	Total
Advertising	\$ 571,196	\$ 4,141,129	\$ -	\$ 4,712,325
Entertainment				
Music ⁽ⁱ⁾	616,196	1,044,776	11,778	1,672,750
Awards management	209,831	1,051,472	-	1,261,303
Licensing ⁽ⁱⁱ⁾	-	-	8,788	8,788
	826,027	2,096,248	20,566	2,942,841
Total revenue	\$ 1,397,223	\$ 6,237,377	\$ 20,566	\$ 7,655,166
Property and equipment	\$ 214,175	\$ 7,947	\$ -	\$ 222,122

⁽ⁱ⁾ Music includes audio/video delivery and subscription fees.

⁽ⁱⁱ⁾ Licensing includes revenues from licensing DMDS to other territories outside of Canada and US.

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19. 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 13).

Key management personnel compensation is as follows:

	December 31 2018	December 31 2017
Salaries and short-term employee benefits ⁽ⁱ⁾	\$ 1,453,026	\$ 1,055,490
Share-based payments	210,711	88,870
Contractual severance ⁽ⁱⁱ⁾	-	428,506
	\$ 1,663,737	\$ 1,572,866

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

(ii) Contractual severance includes the discounted value of salary continuance to be paid over 22 months. As of December 31, 2018 \$348,911 (December 31, 2017 – \$83,723) has been paid out (note 9).

During the year ended December 31, 2017, the Company issued debentures with a principal amount of \$100,000 and issued 100,000 bonus warrants to a director of the Company (notes 11 & 14).

20. Commitments and Contingencies

(a) Litigation

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 litigation and claims during the year ended December 31, 2018.

(b) Leases

Total future non-cancellable annual lease payments for the Company's office premises are as follows:

	Real Estate	Total	Subleases
2019	\$ 234,147	\$ 234,147	\$ (70,440)
2020	234,147	234,147	(41,090)
2021	234,147	234,147	-
2022	136,586	136,586	-
	\$ 839,027	\$ 839,027	\$ (111,530)

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21. Subsequent Events

On January 10, 2019, the Company announced a grant of stock options in accordance with the terms and conditions of the Plan to certain officers, directors, employees, and consultants of the Company, to purchase an aggregate of 2,155,000 common shares in the capital stock of the Company. The stock options are exercisable for a period of five years from the date of the grant at a price of \$0.155 per share. Following 10% of the stock options vesting on the date of the grant, the remaining 90% will vest as to a third on each 6-month anniversary following the date of the grant.

On February 20, 2019, the Company announced a grant of stock options in accordance with the terms and conditions of the Plan to an officer of the Company, to purchase an aggregate of 100,000 common shares in the capital stock of the Company. The stock options are exercisable for a period of five years from the date of the grant at a price of \$0.150 per share. Following 10% of the stock options vesting on the date of the grant, the remaining 90% will vest as to a third on each 6-month anniversary following the date of the grant.