Interim Financial Statements

March 31, 2007

(unaudited)

Musicrypt Inc.
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MCT on the TSX Venture Exchange
MCYPF on the OTCBB

Management Discussion and Analysis
<u>For the First Quarter Ended March 31, 2007</u>

Musicrypt Inc. is listed on the TSX Venture Exchange under the symbol MCT and is traded in the USA on the OTCBB under the symbol MCYPF. Additional information on the company is available at www.musicrypt.com and www.sedar.com.

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1) <u>Date of MD&A</u> May 13, 2007.

<u>Note Regarding Forward Looking Statements</u>

This document may contain or refer to certain forward-looking statements relating but not limited to Musicrypt's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan"," intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information is based on current expectations that involve a number of business risks and uncertainties. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur.

2) <u>Description of Business</u>

Musicrypt is focused on becoming the leading enabler of secure, user-friendly media distribution via the Internet. The principal business objective of Musicrypt is the development and marketing of its patented Digital Media Distribution System ("DMDS") technology solution.

DMDS is a web-based delivery system that pioneers secure digital file distribution by incorporating biometrics, high-value encryption and watermarking. DMDS replaces the physical distribution of musical recordings and advertising to radio, media, retailers and other authorized recipients with more accountable, effective and far less costly digital delivery of broadcast quality media via the Internet.

DMDS utilizes Musicrypt's patented Biometric Rights Management ("BRM") technology to authenticate the recipient of, and grant specified access rights to, the media being distributed. BRM is a unique combination of biometrics, high-value encryption and digital rights management. This biometric verification system identifies the recipient by his or her user name, password and distinctive personal characteristics. The biometric technology currently deployed in DMDS is keystroke dynamics, which identifies a user by their typing rhythm. BRM technology works to prevent unauthorized access and password sharing by verifying individual recipients, and requires no additional hardware for either the sender or the recipient, providing completely portable secure access to users.

Record labels have been delivering promotional releases to radio stations using primarily manual methods. In advance of the distribution of a new album to retailers, a single track (or song) is chosen from the album for release to radio. After the track has been selected, several hundred copies of a “radio only” compact disk single (known in the industry as a CD-PRO) are made. These CD-PRO’s are individually packaged, labelled, and couriered or mailed to the radio stations that would potentially play this genre of music. This is time consuming, inefficient, expensive and very insecure.

In recent years leaks of new singles by Britney Spears and Lenny Kravitz, of the entire Radiohead album, the entire U2 album, and most recently, the leak in Europe of the new Madonna single, all before their planned public launch dates underscores the need for improved security for new releases. Also, increasing financial pressures in the record business are leading them to look for ways to reduce costs.

DMDS solves the problems with the current promotional distribution process used in the music industry and significantly reduce the costs of such distribution. The range of external parties that DMDS can distribute tracks to has grown beyond traditional radio to include consultants, managers, artists, satellite radio, internet radio, media and reviewers. DMDS is also used by record labels for securely distributing music internally.

3) <u>Review of Operations</u>

The growth that Musicrypt experienced through 2006 continued into the first quarter of 2007. Revenues for the three month period ended March 31, 2007 were 40% higher than revenues for the first quarter of 2006. During the same period the loss was essentially unchanged.

The Company met the deferral criteria for development costs under generally accepted accounting principles as the Company is generating revenue from the product and technology it has developed. During the first quarter of 2007 $105,000 of product development costs were capitalized and $42,000 was amortized.

At the end of the first quarter of 2007, Musicrypt’s DMDS was the de-facto standard for B2B (business to business) digital delivery of new music files for the record and radio industry in Canada. No competitor’s system was in commercial use at any major record label in Canada to date in 2007. EMI, Sony BMG, Universal and Warner in Canada were all using DMDS commercially and the adoption of DMDS within the fast growing independent music sector was expanding.

Usage of DMDS in the US also continued to grow rapidly through the first quarter. Musicrypt's DMDS has delivered over 7,500 songs from more than 150 record labels to destinations which include radio stations representing over 35 US broadcast chains such as CBS/Infinity, Citadel, Clear Channel, Cox, Cumulus, Emmis, EntreVision, Entercom, Federated Media, Sirius, Journal, DMX, Jones Radio, AOL, Music Choice, Radio One, Salem Communications, Univision, Westwood One, Regent, Premiere Radio, Next Media,

XM Satellite Radio, Waitt Media and many others. DMDS is the only system that can deliver music across both the US and Canada.
In January 2007 Musicrypt and Adstream unveiled Adstream•DMDS at Midem, the major international music conference held annually in Cannes France. Adstream•DMDS will initially be launched in the UK and Ireland, with Europe and Australia to follow. In December 2006 Musicrypt joined forces with London based Adstream Ltd. (www.adstream.com) to market DMDS in the UK, Europe and Australia. Adstream is the leading provider of digital asset management and distribution services for the global advertising market, serving over 5,000 companies in 42 countries supported through 10 regional offices in the UK, USA, Singapore, India, Australia, South Africa, Malaysia, New Zealand, Ireland, and Germany. Adstream will provide its marketing team and customer base to market and support DMDS, initially to the music industry in the UK then on to continental Europe and Australia. “We looked at various competing technologies available to offer to our existing radio and music industry clients and chose Musicrypt’s DMDS, because of its sector-leading features, ease of use and security advantages”, said Andy Hopkinson, Managing Director of Adstream UK. ”We believe DMDS will be the best choice for our customers and provide a substantial additional revenue opportunity for us.”

Also in December, Musicrypt completed a successful pilot for advertising delivery with The Gary Group, the leading advertising agency for the recording industry, based in Los Angeles, California. The intensive three-month program involved the secure digital delivery of radio spots to major market radio stations across the US via DMDS. The 30 and 60-second ad spots included Sheryl Crow’s “Wildflower”, Diamond Rio’s “Greatest Hits II” and Indigo Girls’ “Despite our Differences". This pilot confirmed that DMDS can deliver full broadcast quality advertising spots faster, more securely, and at far less cost than current distribution methods, as well as provide unrivalled online real-time reporting. Agencies and stations can securely access and fully utilize DMDS via the internet from any computer, Mac or PC, globally. “The pilot program just completed with Musicrypt’s DMDS has proved to us, that this patented technology can deliver our client’s advertising in a more timely, effective and efficient manner,” said Dick Gary, Chairman, The Gary Group. "We look forward to using DMDS to securely deliver broadcast quality radio and TV spots for our clients in a way that will no doubt revolutionize our industry. We will continue our work with Musicrypt to further enhance and refine DMDS for the advertising sector.”

In February 2007 Musicrypt reported that deliveries of music tracks via DMDS in the US increased over 500% from the first quarter of 2006 to over 219,000 deliveries in the fourth quarter of 2006. This rapid growth is attributed to the widespread adoption of DMDS by radio stations and major and independent labels throughout the US. In 2006 DMDS delivered songs from superstar artists such as American Idol winner Taylor Hicks, Beyonce, Neil Young, U2, Ludacris, Norah Jones, Dixie Chicks, Tony Bennett, Red Hot Chili Peppers, and hundreds more.

On February 6, 2007 Musicrypt completed a $10 million financing through Sprott Securities Inc. (now Cormark Securities Inc.) with the sale of 40,000,000 common shares at a price of $0.25 per share. As compensation to the Agent, the company paid an aggregate commission of $700,000 and issued 2,800,000 broker warrants, each exercisable at a price of $0.25 to acquire a common share until February 6, 2009. The common shares and the broker warrants may not be traded in Canada until June 7, 2007, except as permitted under applicable laws and stock exchange policies. This financing provides resources for

Musicrypt's European market expansion with Adstream, its US music delivery market growth, its radio and TV advertising delivery initiatives and the expansion and enforcement of its intellectual property rights.

In February 2007 Musicrypt entered into a licensing agreement with Pando Networks, Inc, extending and expanding their relationship following a successful pilot program. Musicrypt proved the concept of integrating Pando's unique technology with DMDS in order to provide the fastest and most secure delivery of large digital content such as television commercials, music videos and audio files via the Internet. Incorporation of Pando Networks' innovative peer-to-peer architecture within DMDS is expected to provide the secure digital delivery of full broadcast-quality music videos and television commercials via the Internet with the fastest downloads available to the music and advertising industries. Currently, large files like these are primarily delivered on DVD, Beta tape, or by satellite, which are comparatively inefficient, insecure, slow and expensive.

In March 2007 Musicrypt entered into an exclusive partnership with IODA, the global leader in digital distribution, marketing, and technology solutions for the independent music industry. IODA will offer DMDS to its 3,500 client labels with over 800,000 tracks to deliver their artists' music and promotional materials directly to radio stations across North America. IODA will offer this service along with their Promonet Pro™ promotional service as part of their digital marketing solution. IODA will integrate DMDS into its acclaimed Rightsholder Dashboard, its web-based digital business management tool for labels, along with Promonet Pro™, IODA's innovative promotional distribution platform. IODA's labels will be able to send their assets to radio stations via the DMDS system and also monitor all key reporting straight from the Rightsholder Dashboard. "Musicrypt's DMDS is the perfect complement to IODA's existing distribution and marketing products," said IODA Vice President of Marketing, Tim Mitchell. "We have built our digital marketing strategy around promotional tools like Promonet Pro™ that are scalable and trackable, and DMDS excels at both." The IODA catalogue ranges from established classics to modern up-and-comers in all genres, including favourites such as Mac Dre, Blackalicious, Lil Jon & The East Side Boyz, London Symphony Orchestra, Jimi Hendrix, Fall Out Boy, Broken Social Scene, Cat Power, Aventura, Jamie Cullum, Heartland, Willie Nelson, Seu Jorge and Ravi Shankar.

In April 2007, Warner Bros. chose DMDS to deliver superstar artist Linkin Park's new single "What I've Done" to radio stations across the United States. This exclusive, historic delivery marks the first time that a major record label in the US has released a significant new single entirely by digital means to radio, thereby eliminating the major expense of producing and shipping physical CDs. The song debuted at #1 on the BDS and Mediabase Alternative charts the same week it was released.

The Warner Bros. promotional staff worked hand in hand with the Musicrypt marketing team for the week leading up to this release. This marketing campaign included a daily electronic notification (eNote) leading up to the release date, a 30-sec stream of the song and exact, to the minute time of availability via DMDS. Because of this collaborative effort, over 95% of Mainstream Rock and Rock Alternative chart-monitored radio stations were simultaneously and securely given access to "What I've Done" in the highest CD broadcast quality.

The success of the Linkin Park release via DMDS led Warner Bros. and Reprise Records to entrust DMDS with the subsequent release of superstar artist Green Day's "Working Class Hero" in a digital only format to radio stations in April.

4) Review of Results of Operations for the Quarter Ended March 31, 2007

Revenue for the first quarter of 2007 was $123,000, 40% higher than the revenue for the first quarter of 2006. This increase in revenue is primarily the result of new customers and the increasing use of DMDS by existing customers, especially in the independent sector. Revenue is expected to continue to increase as these customers increase their usage of DMDS and US source revenues increase. The loss for the first quarter of 2007 was $529,000, slightly less ($1,400) than last year's first quarter.

The largest expense item increase in the quarter was in marketing and promotion expense of $41,000 (61%), which primarily reflects higher conference exhibition, related travel costs and advertising. The second largest expense item increase for 2007 was in amortization of $27,000 (55%) as a result of the increased deferred development costs. Technology development expense was $12,000 (124%) higher due to greater investment in product development. Royalty expense was $22,000 (59%) lower, as a result of the final minimum royalty payment required under the technology license having been made in 2006. General and administrative expense declined by $34,000 (11%), largely due to the higher interest revenue earned from the funds received from the financing completed in February 2007.

The commercial acceptance of the company's product (DMDS) by the marketplace indicates that expenditures for product development should be recognized as an asset because these are expected to yield future economic benefits. Accordingly, in the first quarter of 2007 $105,000 of product development costs were capitalized and $42,000 was amortized.

The company uses equity to compensate and motivate its staff and suppliers. In the first quarter of 2007 $32,000 of the expense recognized for salaries and consulting was for the non-cash expense recognized for options, compared to $56,000 for the same period last year.

5) Summary of Quarterly Results

The following table sets out selected quarterly results of the Corporation for the eight quarters prior to the effective date of this report. The information contained herein is drawn from the interim and annual financial statements of the Corporation.

	Fiscal 2007 ($)	**Fiscal 2006 ($)**				**Fiscal 2005 ($)**		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	122,808	124,441	106,465	111,488	87,748	75,997	70,029	78,503
Loss for the period	528,693	489,405	524,314	569,753	530,115	660,847	604,515	352,930
Loss per share (basic & diluted)	.01	.01	.02	.02	.02	.04	.02	.01

These figures illustrate the successful development and ongoing marketing of DMDS in Canada and then the US, the obtaining of customers and the associated initial revenues, and the growth in usage resulting in increased revenues into 2007.

6) Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2007 increased to $8,382,000 from $72,000 at December 31, 2006. The main reason for this change was the financing completed in February 2007 described below. During the period the company invested $36,000 in equipment, $8,000 in patents, $9,000 in technology licenses and $105,000 in product development.

On February 6, 2007, Musicrypt completed a $10 million financing through Sprott Securities Inc. (now Cormark Securities Inc.) with the sale of 40,000,000 common shares at a price of $0.25 per share. As compensation to the Agent, the company paid an aggregate commission of $700,000 and issued 2,800,000 broker warrants, each exercisable at a price of $0.25 to acquire a common share until February 6, 2009. The common shares and the broker warrants may not be traded in Canada until June 7, 2007, except as permitted under applicable laws and stock exchange policies.

The company will continue to invest funds in building its business to achieve key market and growth targets. The company's operations are not yet generating positive cash flow, so it may need to source additional funds in order to carryout its business plan.

7) Share Capital

At March 31, 2007 Musicrypt had 74,816,815 common shares, 3,629,625 options, and 10,808,800 warrants outstanding. At December 31, 2006 Musicrypt had 34,766,815 common shares, 3,629,625 options, and 8,183,800 warrants outstanding. The change is due to the financing completed in February 2007 described above. 1,250,000 of the company's outstanding shares are not tradable currently as these are subject to the litigation described in note 13(d) of the financial statements.

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

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. For quarterly reporting periods and annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. In particular, the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and we have:

(a) designed such DC&Ps, or caused them to be designed under our supervision, to provide reasonable assurance that material information is made known to us during the period in which the annual filings are being prepared; and

(b) designed such ICFRs, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP; and

(c) evaluated the design and effectiveness of the Company's DC&Ps as of the year ended December 31, 2006, and have evaluated the design of the Company's ICFRs for the year ended December 31, 2006; and

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies with limited staff; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the year ended December 31, 2006; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, DMCT, LLP audit the annual statements, in accordance with Canadian generally accepted auditing standards, and provide a report of their findings to the Audit Committee. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

Musicrypt Inc.

Interim Financial Statements

March 31, 2007

(unaudited)

Notice to Reader

The accompanying unaudited interim financial statements have been prepared by the company's management and the company's independent auditors have not performed a review of these financial statements.

Musicrypt Inc.
Interim Balance Sheets
(unaudited - See Notice to Reader)

	Note	March 31 2007	December 31 2006 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 8,382,694**	$ 72,447
Accounts receivable		**159,654**	90,732
Prepaid expenses and other assets		**165,597**	47,283
		8,707,945	210,462
Property, plant and equipment		**83,726**	59,655
Patents		**30,709**	22,994
Investment in technology		**596,578**	611,271
Deferred development costs		**799,139**	736,049
		$ 10,218,097	$ 1,640,431
Liabilities			
Current			
Operating loan		**$ -**	$ 15,000
Accounts payable and accrued liabilities		**208,106**	263,168
Deferred revenue		**7,411**	-
		215,517	278,168
Shareholders' Equity			
Capital stock	4	**20,953,694**	12,322,261
Contributed surplus		**677,993**	645,844
Warrants		**505,428**	-
Deficit		**(12,134,535)**	(11,605,842)
		10,002,580	1,362,263
		$ 10,218,097	$ 1,640,431

Commitments and Contingencies (Note 6)

Approved by the Board **"Cliff Hunt"** Director **"John Heaven"** Director

(Signed) (Signed)

See accompanying notes.

Musicrypt Inc.

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

	2007	2006
Revenue	**$ 122,808**	$ 87,748
Expenses		
Salaries and consulting	**381,886**	372,450
Marketing and promotion	**108,007**	67,145
General and administrative	**46,355**	80,683
Technology development	**22,342**	9,967
Royalties	**15,452**	37,500
Amortization	**77,459**	50,118
	651,501	617,863
Net loss for the period	**(528,693)**	(530,115)
Deficit at beginning of period	**(11,605,842)**	(9,492,255)
Deficit at end of period	**$ (12,134,535)**	$ (10,022,370)
Basic and diluted loss per share	**$ (0.01)**	$ (0.02)
Weighted average number of shares outstanding	**58,789,037**	26,605,866

See accompanying notes.

Musicrypt Inc.

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

	2007	2006
Cash flows from operating activities		
Loss for the period	$ (528,693)	$ (530,115)
Add items not affecting cash		
Amortization	77,459	50,118
Stock based compensation	32,149	56,045
	(419,085)	(423,952)
Changes in non-cash working capital items		
Accounts receivable	(68,922)	(6,058)
Prepaids and other assets	(118,314)	(50,470)
Accounts payable and accrued liabilities	(55,063)	77,453
Deferred revenue	7,411	4,301
	(653,973)	(398,726)
Cash flows from investing activities		
Purchase of property, plant and equipment	(36,176)	(12,661)
Purchase of patents	(7,715)	-
Investment in technology licence	(8,816)	-
Deferred development costs	(104,934)	(109,037)
	(157,641)	(121,698)
Cash flows from financing activities		
Issuance of common shares, net of issue costs	9,136,861	-
Operating loan	(15,000)	-
	9,121,861	-
Increase (decrease) in cash during the period	8,310,247	(520,424)
Cash at beginning of period	72,447	641,541
Cash at end of period	$ 8,382,694	$ 121,117

See accompanying notes.

1. BASIS OF PRESENTATION

Musicrypt Inc. ("Musicrypt" or the "Company") is a technology company that is targeted to become the leading enabler of user-friendly and secure distribution of media via the internet. The Company was incorporated on July 28, 1999 under the laws of Ontario as Musicrypt.com Inc. and changed to its present name on December 22, 2000.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2006, except for Note 3. These financial statements should be read in conjunction with those audited financial statements.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.

Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

3. CHANGE IN ACCOUNTING POLICY (Cont'd)

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and deferred revenue are classified as other liabilities, all of which are measured at amortized cost. The Company does not have any derivatives or embedded derivatives and has maintained its policy not to use hedge accounting.

The adoption of these new standards had no impact on the financial statements of the Company.

4. CAPITAL STOCK

Authorized: unlimited common shares

Issued and outstanding

	Number of Shares	**Value**
Balance,December 31, 2006	34,766,815	**$ 12,322,261**
Issued for cash (i)	40,000,000	**9,121,861**
Less: Proceeds allocated to warrants	-	**(505,428)**
Issued on exercise of warrants (ii)	50,000	**15,000**
Balance, March 31, 2007	74,816,815	**$ 20,953,694**

(i) The Company issued 40,000,000 common shares for gross proceeds of $10,000,000 by way of a private placement.

(ii) The Company issued 50,000 common shares for proceeds of $15,000 pursuant to the exercise of warrants.

5. STOCK OPTIONS AND WARRANTS

The Company had the following stock options outstanding at March 31, 2007:

Number of Options	Exercise Price	Expiry Date
50,000	$ 0.75	June 7, 2007
175,000	$ 0.10	June 7, 2007
249,625	$ 0.75	June 12, 2007
210,000	$ 0.75	May 7, 2008
75,000	$ 0.10	May 7, 2008
15,000	$ 0.88	May 28, 2008
25,000	$ 0.47	September 24, 2008
50,000	$ 1.04	January 1, 2009
400,000	$ 0.47	January 1, 2009
100,000	$ 0.86	August 9, 2009
25,000	$ 0.47	August 25, 2009
25,000	$ 0.52	September 14, 2009
135,000	$ 0.47	November 24, 2009
60,000	$ 0.44	February 3, 2010
500,000	$ 0.44	March 7, 2010
665,000	$ 0.42	May 19, 2010
110,000	$ 0.42	October 3, 2010
125,000	$ 0.25	November 22, 2010
450,000	$ 0.25	April 11, 2011
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
3,629,625		

The Company had the following warrants outstanding at March 31, 2007:

Number of Warrants		Purchase Price	Expiry Date
3,750,000	(a)	$ 0.90	April 21, 2007
340,800	(b)	$ 0.20	May 12, 2007
8,000	(b)	$ 0.20	May 25, 2007
210,000	(b)	$ 0.20	June 7, 2007
1,630,000	(c)	$ 0.30	May 12, 2008
75,000	(c)	$ 0.30	May 25, 2008
1,995,000	(c)	$ 0.30	June 7, 2008
2,800,000	(d)	$ 0.25	February 6, 2009
10,808,800			

(a) These warrants were issued in connection with a private placement. Each warrant entitles the holder to acquire one common share at a price of $0.80 per share for a period of twelve months from issuance (April 21, 2005) and increasing to $0.90 per share for twelve months thereafter. These expired unexercised subsequent to the quarter-end.

5. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) These warrants were issued to agents in connection with a private placement. Each warrant entitles the holder to acquire one unit at a price of $0.20 per unit for a period of twelve months from issuance. Each unit consists of one common share and one-half of a warrant to purchase one common share at a price of $0.30 per share for a period of twenty four months from issuance of the original warrant. 240,800 of these warrants were exercised and the remainder expired unexercised subsequent to the quarter-end.

(c) These warrants were issued in connection with a private placement. Each warrant entitles the holder to acquire one common share at a price of $0.30 per share for a period of twenty four months from issuance.

(d) These warrants were issued to agents in connection with a private placement. Each warrant entitles the holder to acquire one common share at a price of $0.25 per share for a period of twenty four months from issuance.

6. COMMITMENTS AND CONTINGENCIES

(a) Equity Compensation Plan

Pursuant to the equity compensation plan for 2006, 450,000 options were granted as potential performance bonuses for two participating executives in 2006. These options vest subject to certain performance targets being met. The Company expects the performance targets for 225,000 options will not be met and have accordingly not recorded an expense for these items.

(b) Technology License Agreement

The Company acquired a license (the “License”) to use a patented biometric technology (the “Intellectual Property”). The License gives the Company an exclusive worldwide license for the Intellectual Property until July 31, 2006, and a non-exclusive licence until July 31, 2013, thereafter automatically renewing for successive one year term subject to termination on 180 days notice prior to the renewal date by either the Licensor or the Company. The non-exclusive licence continues for a two year transition period from the date of expiry or termination (other than from default by the Company or Licensor).

6. COMMITMENTS AND CONTINGENCIES (Cont'd)

(b) Technology License Agreement (cont'd)

The Licence provides Musicrypt with the exclusive worldwide rights to use the Intellectual Property in connection with the communication of digitized audio content (including musical recordings, advertising, dialogue, sound effects and other audio recordings) within, to and among entities engaged in the creation, production and broadcast of music content, such as record companies, music producers, recording studios and radio broadcasters. The License also provides non-exclusive worldwide rights to use the Intellectual Property as described in the preceding sentence, in connection with the communication of content associated with digitized audio content (such as track title, artist name, and album covers), music videos and advertising, within, to and among entities involved in the review and/or approval of digitized audio content (including critics, journalists, charting companies, concert promoters and consultants, music video television stations, advertising agencies and their clients, and other advertisers).

Consideration for the License includes 750,000 common shares of the Company and a royalty of 5% of gross revenues received in connection with use of the Intellectual Property. 375,000 of the common shares were issued in December 2003, 187,500 were issued on March 29, 2004 and 187,500 were issued on March 24, 2005. After June 15, 2004, the Licensor may not sell more than 50,000 shares in any 30 day period. The Licensor may offer no more than 10,000 shares for sale in any one day.

Minimum royalties of $50,000, $100,000 and $150,000 are payable respectively at the end of each of the first three years of the agreement. The Company has paid all of the minimum royalties.

(c) Litigation

On November 14, 2000, the Company filed a claim against a former employee and shareholder, and related shareholders, seeking a rescission of their 1,250,000 common shares and damages in the amount of $100,000. A counterclaim was brought against the Company by these defendants for various relief including damages of approximately $850,000, a declaration that the defendants are shareholders and orders that they be bought out or the Company be wound up. In May 2001, the Company successfully defeated a motion by the defendants that sought interim costs and security for costs. The Company was awarded its costs for this motion. The Company continues to vigorously defend the action. The outcome is not determinable and therefore no provision is recorded.

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

6. COMMITMENTS AND CONTINGENCIES (Cont'd)

(d) Patent Infringement

On July 25, 2005, the Company sent a letter to a competitor and its partners demanding that they cease infringement of the Company's Content Distribution System and Method patent number 2,407,774 in Canada. On March 7, 2006, the competitor filed a claim with the Federal Court of Canada requesting a ruling that the technology of the competitor and its partners does not infringe on this patent and that the patent was invalid. In June 2006, the Company filed with the Federal Court a statement of defence and counterclaim seeking $15 million in damages for infringement from the competitor and its partners. In May 2007, the competitor sued the company for defamation and interference with their business claiming $25 million in damages. Management is of the opinion that the suit is a meritless attempt to deflect attention from the company's patent infringement claim against the competitor.

DMDS

Digital Media Distribution System

by MUSICRYPT INC