YANGAROO Inc.

Unaudited Interim Financial Statements

For the Three Months Ended March 31, 2011

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of YANGAROO Inc. is responsible for the preparation of the accompanying unaudited interim financial statements. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These unaudited financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

"Scott Wambolt"
Scott Wambolt
Chief Executive Officer

"Michael Galloro"
Michael Galloro
Acting Chief Financial Officer

June 28, 2011

YANGAROO Inc.

Unaudited Interim Statement of Financial Position
As at March 31, 2011
(Expressed in Canadian dollars)

	March 31, 2011	December 31 2010 (Note 16)	January 1 2010 (Note 16)
Assets			
Current			
Cash and cash equivalents	**$ 280,295**	$ 202,604	$ 259,603
Accounts receivable	**178,772**	162,751	193,581
Prepaid and sundry assets	**152,696**	176,398	196,204
	611,763	541,753	649,388
Property, plant and equipment	**127,681**	140,322	133,345
Patents	**-**	-	138,438
Investment in Technology	**-**	-	356,209
Deferred Development Costs	**-**	-	1,343,238
	127,681	140,322	1,971,230
	$ 739,444	$ 682,075	$ 2,620,618
Liabilities			
Current			
Operating line of credit (note 5)	**$ -**	$ 20,000	$ 5,000
Trade and other payables (note 6)	**1,152,172**	833,409	538,666
Deferred revenue	**14,460**	33,572	17,134
Convertible debentures (note 7)	**683,505**	-	-
	1,850,137	886,981	560,800
Convertible debentures	**937,635**	655,202	-
	2,787,772	1,542,183	560,800
Shareholders' Deficiency			
Share capital (note 8)	**22,338,694**	22,338,694	21,043,889
Contributed surplus (note 10)	**1,606,678**	1,541,896	1,425,436
Warrant capital (note 11)	**795,174**	761,298	31,883
Equity portion of convertible debentures	**99,583**	29,890	-
Deficit	**(26,888,457)**	(25,531,886)	(20,441,390)
	(2,048,328)	(860,108)	2,059,818
	$ 739,444	$ 682,075	$ 2,620,618

Going concern (note 1)
Commitment and contingencies (note 12)
Subsequent event (note 15)

Approved by the Board **"Cliff Hunt"** Director **"Scott Wambolt"** Director

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

YANGAROO Inc.

Unaudited Interim Statement of Comprehensive Income
For the three month period ended March 31
(Expressed in Canadian dollars)

	March 31 2011	March 31 2010 (Note 16)
Revenue	**$ 275,799**	$ 185,290
Expenses		
Salaries and consulting	**693,830**	394,465
Marketing and promotion	**29,804**	44,676
General and administrative	**176,953**	232,587
Technology development	**23,250**	26,867
Settlement of lawsuit (Note 12(c))	**600,000**	-
Amortization of intangibles	**-**	157,519
Amortization of property, plant and equipment	**25,592**	23,532
	1,549,429	879,646
Loss from operations	**(1,273,630)**	(694,356)
Finance income (expenses)		
Interest income	**374**	404
Interest expense	**(83,315)**	-
	(82,941)	404
Net comprehensive loss for the period	**(1,356,571)**	(693,952)
Loss per share		
Basic and diluted	**$ (0.01)**	$ (0.01)
Weighted average number of common shares	**118,047,615**	75,517,615

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

YANGAROO Inc.

Unaudited Interim Statement of Changes in Equity
For the three month period ended March 31
(Expressed in Canadian dollars)

	Number of common shares	Share capital	Warrants	Contributed surplus	Equity Portion of Convertible Debentures	Deficit	**Total**
Balance at January 1, 2010 (Note 16)	75,517,615	$21,043,889	$ 31,883	$1,425,436	$ -	$(20,441,390)	**$ 2,059,818**
Issuance of warrants	-	-	51,206	-	-	-	**51,206**
Share-based payments	-	-	-	21,682	-	-	**21,682**
Equity portion of convertible debenture	-	-	-	-	24,100	-	**24,100**
Loss for the period	-	-	-	-	-	(693,952)	**(693,952)**
Balance at March 31, 2010 (Note 16)	75,517,615	21,043,889	83,089	1,447,118	24,100	(21,135,342)	**1,462,854**
Issuance of common shares	42,530,000	2,126,500	-	-	-	-	**2,126,500**
Share issuance costs	-	(831,695)	-	-	-	-	**(831,695)**
Issuance of warrants	-	-	678,209	-	-	-	**678,209**
Share-based payments	-	-	-	94,778	-	-	**94,778**
Equity portion of convertible debenture	-	-	-	-	5,790	-	**5,790**
Loss for the period	-	-	-	-	-	(4,396,544)	**(4,396,544)**
Balance at December 31, 2010 (Note 16)	118,047,615	22,338,694	761,298	1,541,896	29,890	(25,531,886)	**(860,108)**
Issuance of warrants	-	-	33,876	-	-	-	**33,876**
Share-based payments	-	-	-	64,782	-	-	**64,782**
Equity portion of convertible debenture	-	-	-	-	69,693	-	**69,693**
Loss for the period	-	-	-	-	-	(1,356,571)	**(1,356,571)**
Balance at March 31, 2011	118,047,615	$22,338,694	$795,174	$1,606,678	$ 99,583	$(26,888,457)	**$(2,048,328)**

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

YANGAROO Inc.

Unaudited Interim Statement of Cash Flows
For the three month period ended March 31
(Expressed in Canadian dollars)

	March 31 2011	March 31 2010
Cash flow from operating activities		
Net comprehensive loss for the period	**$ (1,356,571)**	$ (693,952)
Adjustment for:		
Amortization	**25,592**	181,051
Accretion interest	**59,075**	-
Share based payments	**64,782**	21,682
Change in accounts receivables	**(13,971)**	33,739
Change in prepaid and sundry assets	**21,653**	14,597
Change in trade and other payables	**318,763**	83,166
Change in deferred revenue	**(19,112)**	(308)
Net cash used in operating activities	**(899,789)**	(360,025)
Cash flow from investing activities		
Acquisition of property, plant and equipment	**(12,591)**	(1,224)
Investment in technology (net of tax credit)	**-**	(100,158)
Net cash used in investing activities	**(12,951)**	(101,382)
Cash flow from financing		
Proceeds from issue of convertible debentures, net of issue costs	**1,010,431**	532,902
Line of credit	**(20,000)**	(5,000)
Net cash used financing activities	**990,431**	527,902
Net increase in cash and cash equivalents	**77,691**	66,495
Cash and cash equivalents at January 1	**202,604**	259,603
Cash and cash equivalents at March 31	**$ 280,295**	$ 326,098

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

1. Incorporation and Nature of Operations

YANGAROO Inc. (the "Company") 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 TCBB: YOOIF. The head office, principal and registered address of the Company is located at 18 Mowat Avenue, Toronto, ON M6K 3E8.

YANGAROO Inc. is a technology company that is targeted to become the leading enabler of user friendly and secure business to business distribution of media via the internet. YANGAROO's patented Digital Media Distribution System (DMDS) is a leading secure B2B digital delivery solution for the music and advertising industries. 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 audio and video content for music, music videos, and advertising to television, radio, media, retailers, award shows and other authorized recipients with more accountable, effective, and far less costly digital delivery of broadcast quality media via the Internet.

The Company will have to raise additional capital to fund operations until such point that revenues from their technology are able to fund operations. If the Company is not able to raise sufficient capital then there is the risk that the Company will not be able to realize the value of its assets and discharge its liabilities. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the going concern assumption not be appropriate. To date the Company has been successful raising capital in fiscal 2011 as disclosed in Note 15. These proceeds are used to fund operations of the Company.

The interim financial statements of the Company for the three month period ended March 31, 2011 were approved by the Board of Directors on June 28, 2011.

2. Basis of Preparation

(a) Statement of Compliance

These interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting.". These are the Company's first interim financial statements under International Financial Reporting Standards ("IFRS") for part of the period covered by the first IFRS annual financial statements and IFRS "First-time Adoption of IFRS" has been applied. The interim financial statements do not include all of the information required for full annual financial statements.

The Company's significant accounting policies under IFRS are presented in note 3. These polices have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations presenting the change from Canadian Generally Accepted accounting Principles ("GAAP") to IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010 and as at and for the year ended December 31, 2010, is presented in note 16.

(b) Basis of Measurement

The Company's interim financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

2. Basis of Preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the interim financial statements are noted below with further details of the assumptions in the following notes:

(i) Share-based payments

Charges for share-based payments are based on the fair value at the date of the award. The shares are valued using Black-Scholes; inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding.

(ii) Income taxes

Tax interpretations, regulations and legislation in the jurisdiction in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realised from future taxable earnings.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements as at and for the three month ended March 31, 2011, unless otherwise indicated.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies 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 assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. 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.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial instruments comprise of trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivatives financial instruments are recognised initially at the fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Financial assets at fair value through profit or loss

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

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(iv) Other

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

(v) 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.

(c) Property, plant and equipment

(i) Recognition and measurement

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant 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 profit (loss) as incurred.

3. Significant Accounting Policies (continued)

(c) Property, plant and equipment (continued)

(iii) Amortization

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

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

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

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

This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimates for amortization methods, useful lives and residual values are reviewed at each reporting period-end and adjusted if appropriate.

(d) Trade and Other payables

Trade and other payables are stated at cost.

(e) Balance Sheet

Assets and liabilities expected to be realised in, or intended for sale or consumption in, the Company's normal operating cycle, usually equal to 12 months, are recorded as current assets or liabilities.

(f) Statement of Cash Flows

The Company prepares its Statement of Cash Flows using the indirect method.

3. Significant Accounting Policies (continued)

(g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

All impairment losses are recognized in the statement of income.

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

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from sales.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of an asset is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3. Significant Accounting Policies (continued)

(g) Impairment (continued)

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 depletion and depreciation or amortization, if no impairment loss had been recognized.

(h) Intangible assets

(i) **Patents**

Costs to obtain patents are capitalized and are amortized to operations on a straight-line basis over the underlying term of the patents, which is 20 years, commencing upon the registration of the patent.

(ii) **Investment in Technology**

The investment in technology consists of consideration paid for the acquisition of licenses to use technology. Such costs are amortized to operations on a straight-line basis over the remaining term of the license. In 2007, the Company signed a license agreement expiring on June 28, 2013 as disclosed in Note 12(a).

(iii) **Research and Development Costs**

Research costs are charged to income when incurred. Development costs are expensed in the year incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Amortization commences with the successful commercial production or use of the product or process. These costs are being amortized over a period of four years from commencement of commercial use.

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, the related deferred development costs or related capital assets. Management records ITC's when there is reasonable assurance of collection. Included in prepaid and sundry assets as at December 31, 2010, management has recorded approximately $83,900 relating to ITC's of which approximately $62,300 has been recorded as a reduction to deferred development costs and $21,600 has been recorded as a reduction to technology development expense.

3. Significant Accounting Policies (continued)

(i) Share based payments

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

(j) Revenue

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

(k) Finance income and expenses

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

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

Foreign currency gain and losses, reported under finance income and expenses, are reported on a net basis.

(l) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant Accounting Policies (Continued)

(m) Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business transaction. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Loss per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognised on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

(o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognised for future operating losses.

(p) Contingent liability

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

3. Significant Accounting Policies (continued)

(q) New standards and interpretations not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

- Earnings per share (replacement of IAS 3)
- First-time adoption of IFRS (amendment of IFRS 1)
- Group cash-settled share-based payment transactions (amendment of IFRS 2)
- Management commentary

(r) New standards and interpretations not yet adopted

- IFRS 9, “Financial Instruments”

As of January 1, 2013, the Company will be required to adopt IFRS 9, “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortisation cost and fair value. The extent of the impact has not been determined.

Issued but not effective would be:

- Financial statement presentation (amendment to IAS 1)
- Leases (replacement of IAS 17)
- Liabilities and equity (replacement of IAS 32) and
- Revenue recognition (replacement of IAS 11 and IAS 18)

4. Determination of Fair Value

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

(a) Cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011, December 31, 2010 and January 1, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity, or in the case of the line of credit, the fair value approximates its carrying value as it bears interest at floating rates.

4. Determination of Fair Value (continued)

(b) The fair value of stock options and warrants are measured using a Black-Scholes, option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option and warrant holder behaviour) and the risk-free interest rate (based on government bonds).

The following tables provide fair value measurement information for financial assets and liabilities as of March 31, 2011 and 2010. The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings included in the interim financial position approximate fair value due to the short term nature of those instruments or the indexed rate of interest on the long-term debt. These assets and liabilities except cash and cash equivalents are not included in the following tables.

			Fair value measurements using		
March 31, 2011	Carrying amount	Fair value	Quoted prices in Active Market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 280,295	$ 280,295	$ 280,295	$ -	$ -

			Fair value measurements using		
December 31, 2010	Carrying amount	Fair value	Quoted prices in Active Market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 202,604	$ 202,604	$202,604	$ -	$ -
Financial liabilities					
Loans and borrowings	$ 20,000	$20,000	$ -	$ -	$ -

Level 1 fair value measurements are based on unadjusted quoted market prices. Cash and cash equivalents have been classified as level 1.

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.

5. Operating Line of Credit

The Company has available an operating line of credit of $25,000. 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 at March 31, 2011, the Company drew $0 (December 31, 2010 - $20,000) on this line of credit.

6. Trade and Other payables

	March 31 2011	December 31 2010
Trade payables	**$ 310,684**	$ 520,417
Accrual for settlement of lawsuit (Note 12(c))	**600,000**	-
Non-trade payables and accrued expenses	**241,488**	312,992
	$1,152,172	$833,409

7. Convertible Debenture

On March 22, 2010, the Company raised by way of convertible debentures (the "Debentures") 668 Units at $1,000 per Unit for gross proceeds of $668,000. The Debentures mature on March 31, 2012, have interest payable semi-annually at 12% per annum, are secured by a general security agreement over the assets of the Company and are convertible into common shares of the Company at $0.10 per share. In addition, each unit includes 7,500 warrants exercisable until March 22, 2012, with each whole Warrant entitling the holder to purchase one common share at $0.10. The Company granted the agents' non-transferable warrants acquiring 508,000 common shares of the Company at $0.10 per share unit March 22, 2012. On April 12, 2010 the Company raised an additional $150,000 by issuing 150 Units at $1,000 per Unit. These Debentures also mature on March 31, 2012 and have the same features as the previously issued Units.

On February 11, 2011, the Company raised an additional $1,125,000 by issuing 1,125 Units at $1,000 per Unit. These Debentures mature on July 31, 2012, have interest payable semi-annually at 15% per annum, are secured by a general security agreement over the assets of the Company and are convertible into common shares of the Company at $0.10 per share. The Company paid the agents $60,000 and granted them non-transferable options to acquire 600,000 common shares of the Company at $0.10 per share until February 11, 2013.

Under the residual method, the difference between the estimated fair value of the debt and the face amount was $33,876 (2010 - $67,211) was allocated to equity. In 2011, the full amount was allocated to the equity component. In 2010, to determine the value ascribed to the equity component and the warrants, the Company valued each component individually and then applied the relative fair value method of allocating the proceeds to each component. Both the fair value of the equity component of the convertible debentures and the warrants were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (a) dividend yield of 0%; (b) expected volatility of 157%; (c) a risk free interest rate of 1.6% and (d) an expected life of 2 years.

8. Share Capital

Authorized an unlimited number of common shares

Issued and outstanding

	Number of Shares	Value
Balance, January 1, 2011	**118,047,615**	**$ 22,338,694**
Issued for cash	-	-
Less: Proceeds allocated to warrants	-	-
Balance, March 31, 2011	**118,047,615**	**$ 22,338,694**

9. Stock Options and Warrants

(a) Stock Options

The Company had the following stock options outstanding at March 31, 2011:

Number of Options	Exercise Price	Expiry Date
65,000	$ 0.20	August 16, 2011
120,000	$ 0.24	November 21, 2011
10,000	$ 0.35	April 12, 2012
340,000	$ 0.32	May 24, 2012
50,000	$ 0.27	June 25, 2012
120,000	$ 0.24	August 15, 2012
100,000	$ 0.13	November 27, 2012
100,000	$ 0.14	January 9, 2013
250,000	$ 0.22	April 18, 2013
410,000	$ 0.10	November 19, 2013
25,000	$ 0.13	April 17, 2014
25,000	$ 0.13	April 17, 2014
25,000	$ 0.10	August 19, 2014
520,000	$ 0.11	November 18, 2014
400,000	$ 0.10	April 20, 2015
3,775,000	$ 0.10	June 15, 2015
1,000,000	$ 0.10	August 23, 2015
1,735,000	$ 0.10	February 11, 2016
9,070,000		

9. Stock Options and Warrants (continued)

(b) Warrants

The Company had the following warrants outstanding at March 31, 2011:

Number of Warrants		Exercise Price	Expiry Date
4,972,500	(i)	$ 0.10	March 22, 2012
508,000	(ii)	$ 0.10	March 22, 2012
750,000	(iii)	$ 0.10	August 24, 2014
1,162,500	(iv)	$ 0.10	March 22, 2012
21,265,000	(v)	$ 0.10	January 31, 2012
2,055,000	(vi)	$ 0.10	August 27, 2012
600,000	(vli)	$ 0.10	February 11, 2013
31.313,000			

(i) These warrants were issued as part of the convertible debenture financing that closed on March 22, 2010.

(ii) These warrants were issued to agents in connection with the issuance of convertible debentures. 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 157%; (III) a risk free interest rate of 1.61% and (IV) an expected life of 2 years.

(iii) These warrants were issued for services related to digital media workflow solutions. The warrants will become exercisable after various phases of digital media workflow solution are completed.

(iv) These warrants were issued as part of the convertible debenture financing that closed on April 12, 2010.

(v) 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 129%; (III) a risk free interest rate of 1.25% and (IV) an expected life of 1.43 years.

(vi) These warrants were issued to agents in connection with 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 153%; (III) a risk free interest rate of 1.25% and (IV) an expected life of 2 years.

(vii) These warrants were issued to agents in connection with the issuance of convertible debentures. 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 129%; (III) a risk free interest rate of 1.90% and (IV) an expected life of 2 years.

10. Contributed Surplus

	March 31 2011	December 31 2010
Contributed surplus beginning of year	**$ 1,541,896**	$ 1,425,436
Expiry of warrants	**-**	-
Stock based compensation expense	**64,782**	116,460
	$ 1,606,678	$ 1,541,896

11. Warrant Capital

	March 31 2011	December 31 2010
Warrant capital beginning of year	**$ 761,298**	$ 31,883
Value of warrants expired in the year	**-**	-
Value of warrants issued in the year	**33,876**	729,145
	$ 795,174	$ 761,298

12. Commitments and Contingencies

(a) Technology License Agreement

Pursuant to a licensing agreement dated June 28, 2007, the Company was granted a non-exclusive license to integrate a patented biometric technology (the "Intellectual Property") with their DMDS (Notes 6 and 7). The initial term of the License is for six years, automatically renewing for successive terms of one year after the initial five-year term and may be terminated by either party upon 180 days notice prior to the renewal date of the agreement. The Company must pay an additional annual maintenance fee based on the number of annual users, which at the Company's current usage results in a fee of $5,400 per year.

12. Commitments and Contingencies (continued)

(b) Litigation

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

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

(c) Patent Infringement

On July 25, 2005, the Company sent a letter to a competitor and its partners demanding that they cease infringement of the Company's Content Distribution System and Method patent number 2,407,774 in Canada. On March 7, 2006, the competitor filed a claim with the Federal Court of Canada requesting a ruling that the technology of the competitor and its partners does not infringe on this patent and that the patent was invalid. In June 2006, the Company filed with the Federal Court a statement of defence and counter claim seeking $15 million in damages for infringement from the competitor and its partners. Examinations for discovery were conducted in 2007 into 2008 followed by motion appearances before the Court seeking orders compelling answers to questions refused. The Company was successful in obtaining a number of rulings in its favour including a ruling requiring the competitor to produce its software source code on a strict confidential basis for review by the Company's experts. The second round of examinations for discovery are complete, and are pending further answers motions and any follow up questions.

In May 2007, the competitor sued the company for defamation and interference with their business claiming $25 million in damages. Management is of the opinion that the suit is a meritless attempt to deflect attention from the company's patent infringement claim against the competitor. The Company has filed a statement of defence and counterclaim with the Federal court for $25 million in damages from the competitor for defamation and interference with the Company's business.

12. Commitments and Contingencies (continued)

(c) Patent Infringement (continued)

On June 22, 2007, the Company filed a claim against a customer of the above competitor, requesting a declaration that the Company's Canadian patent, Content Distribution System and Method patent number 2,407,774 is valid and infringed by the use of the competitors technology and is seeking $2 million in damages. In November 2007, a defence and counterclaim was filed seeking a declaration that the use of the competitor's technology does not infringe the patent and the patent is valid.

On June 24, 2011, the Company and its competitor resolved all litigation between the two parties. In consideration of the settlement, the Company agreed to pay its competitor a lump sum amount totalling $600,000, and granted the competitor certain intellectual property rights relating to the two patents held by the Company that were the subject matter of the dispute. As part of the settlement, neither party will pursue legal fees, court costs or royalties pursuant to the above mentioned disputes. An accrual for the $600,000 is included in trade and other payables.

13. Capital Risk Management

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

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

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three month period ended March 31, 2011.

14. Financial Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market risk:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily United States dollars and Australian dollars. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

Balances in foreign currencies at March 31, 2011 are as follows:

	USD$	AUD$
Accounts receivable	$ 38,500	$ 11,500
Trade and other payables	$ 151,000	$ -

(ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates and its line of credit incurs interest at market rates.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations as interest income represents approximately 0.3% of total expenses. A 1.0% change in interest rates would not have a significant impact on the interest income.

(b) Credit risk:

The Company is subject to risk of non-payment of accounts receivable. The Company mitigates this risk by monitoring the credit worthiness of its customers and by offering an ecommerce service to smaller customers. As at March 31, 2011, approximately 26% (December 31, 2010 - 27%) of accounts receivable and 18% (December 31, 2010 - 24%) of revenue are from two customers (2010 - two customers).

14. Financial Risk Management (continued)

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at March 31, 2011, the Company has trade and other payables of approximately $1,152,000 due within 12 months and has cash and cash equivalents and accounts receivable of $459,000 to meet its current obligations. As disclosed in Note 1, the Company will have to raise additional capital to fund further development of their product and operations.

The carrying values of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments.

15. Subsequent Event

Subsequent to the three month ended March 31, 2011, the Company announced that it completed its debt financing transaction valued at approximately $4.5 million.

In addition, with the prior requisite approval of the debenture holders, the Company amended its previously issued $818,000 principal amount 12% convertible debentures maturing March 31, 2012 (the “March 2012 Debentures”) and $1,125,000 principal amount convertible debentures maturing July 31, 2012 to reflect the terms of the New Debentures (the “July 2012 Debentures” and together with the March 2012 Debentures, the “Amended Debentures”). $44,911 of interest that accrued on the March 2012 Debentures was added to the principal amount of the amended March 2012 Debentures.

In accordance with the rules of the TSX Venture Exchange, the Company also issued an aggregate of 13,521,504 “bonus” common shares to purchasers of the New Debentures and holders of the previously issued debentures.

Pursuant to their terms, the New Debentures and the Amended Debentures (collectively, the “Debentures”) are, among other things, non-convertible and repayable upon demand, after the first anniversary of their issuance, subject to the requisite determination of the holders of the outstanding Debentures to make demand for repayment. In addition, in the event of an asset sale in excess of $3,000,000, the Company would be required to offer to repurchase a minimum of 50% of the outstanding Debentures, plus all accrued and unpaid interest due, at a price equal to 100%. Debenture holders would also have a right of first refusal to participate in future offerings by the Company, subject to the satisfaction of certain conditions. In turn, the Company, may redeem the Debentures in the event that it has first raised a minimum of $4 million of “net new cash”, which would include the proceeds raised from the issuance of the New Debentures but would exclude, among other things, the proceeds from the repayment of any debentures that, in turn, are used to fund the purchase of new securities of the Company.

15. Subsequent Event (continued)

The agent, Fraser Mackenzie Limited, received a cash fee of $206,600 and was issued 2,066,000 compensation options ("Compensation Options") in connection with the transaction. The Compensation Options are exercisable for common shares at a price of $0.10 per share until June 23, 2013.

The securities issued and issuable pursuant to the transaction are subject to a hold period expiring October 24, 2011.

16. Reconciliation from Canadian GAAP to IFRS

The Company's accounting policies under IFRS differ from those followed under previous GAAP as described in note 3. These accounting policies have been applied for the three months ended March 31, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, the comparative information for the three months ended March 31, 2010 and the comparative information for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit on the statement of financial position when appropriate.

On transition to IFRS on January 1, 2010 the Company used certain exemptions allowed under, IFRS 1 "First Time Adoption of International Reporting Standards". The exemptions used were:

Fair value or revaluation as deemed cost – IFRS 1allows the Company to measure certain assets of property, plant and equipment at fair value at the Transition Date or revalue amounts previously determined under GAAP. The Company has elected to use the carrying value as determined under IFRS as the deemed costs as January 31, 2011.

Share based compensation – IFRS1 allows an entity an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before the Company's transition date to IFRS. The Company has elected to apply IFRS 2 only to stock options that remain unvested at transition date.

The adoption of IFRS did not significantly affect our cash flows compared to GAAP. There were no changes to over all cash flows.

16. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Financial Position

At date of IFRS transition January 1, 2010	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets			
Current assets			
Accounts receivable	$ 193,581	$ -	$ 193,581
Prepaid and sundry assets	196,204	-	196,204
Cash and cash equivalents	259,603	-	259,603
	649,388	-	649,388
Non-current assets			
Property, plant and equipment	133,345	-	133,345
Patents	138,438	-	138,438
Investment in Technology	356,209	-	356,209
Deferred Development Costs	1,343,238	-	1,343,238
	1,971,230	-	1,971,230
	$ 2,620,618	$ -	$ 2,620,618
Liabilities			
Current liabilities			
Operating line of credit	$ 5,000	$ -	$ 5,000
Trade and other payables	538,666	-	538,666
Deferred revenue	17,134	-	17,134
	560,800	-	560,800
Shareholders' Deficiency			
Share capital issued and outstanding	21,043,889	-	21,043,889
Warrants issued and outstanding	31,883	-	31,883
Reserves: contributed surplus	1,413,871	11,565	1,425,436
Retained earnings (deficit)	(20,429,825)	(11,565)	(20,441,390)
	2,059,818	-	2,059,818
	$ 2,620,618	$ -	$ 2,620,618

16. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Financial Position

At March 31, 2010	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets			
Current assets			
Accounts receivable	$ 159,842	$ -	$ 159,842
Prepaid and sundry assets	181,607	-	181,607
Cash and cash equivalents	326,098	-	326,098
	667,547	-	667,547
Non-current assets			
Property, plant and equipment	111,037	-	111,037
Patents	136,361	-	136,361
Investment in Technology	332,178	-	332,178
Deferred Development Costs	1,311,985	-	1,311,985
	1,891,561	-	1,891,561
	$ 2,559,108	$ -	$ 2,559,108
Liabilities			
Current liabilities			
Trade and other payables	$ 621,832	$ -	$ 621,832
Deferred revenue	16,826	-	16,826
	638,658	-	638,658
Non-current liabilities			
Convertible debentures	457,596	-	457,596
	1,096,254	-	1,096,254
Shareholders' Deficiency			
Share capital issued and outstanding	21,043,889	-	21,043,889
Warrants issued and outstanding	83,089	-	83,089
Equity portion of convertible debentures	24,100	-	24,100
Reserves: contributed surplus	1,427,901	19,217	1,447,118
Retained earnings (deficit)	(21,116,125)	(19,217)	(21,135,342)
	1,462,854	-	1,462,854
	$ 2,559,108	$ -	$ 2,559,108

16. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Financial Position

At December 31, 2010	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets			
Current assets			
Accounts receivable	$ 162,752	$ -	$ 162,752
Prepaid and sundry assets	176,397	-	176,397
Cash and cash equivalents	202,604	-	202,604
	541,753	-	541,753
Non-current assets			
Property, plant and equipment	140,322	-	140,322
	$ 682,075	$ -	$ 682,075
Liabilities			
Current liabilities			
Operating line of credit	$ 20,000	$ -	$ 20,000
Trade and other payables	833,410	-	833,410
Deferred revenue	33,572	-	33,572
	886,982	-	886,982
Non-current liabilities			
Convertible debentures	655,202	-	655,202
	1,542,184	-	1,542,184
Shareholders' Deficiency			
Share capital issued and outstanding	22,338,694	-	22,338,694
Warrants issued and outstanding	761,298	-	761,298
Equity portion of convertible debentures	29,890	-	29,890
Reserves: contributed surplus	1,503,468	38,428	1,541,896
Retained earnings (deficit)	(25,493,459)	(38,428)	(25,531,887)
	(860,109)	-	(860,109)
	$ 682,075	$ -	$ 682,075

16. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Comprehensive Income

For the period ended March 31, 2010	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenue	$ 185,290	$ -	$ 185,290
Expenses			
Salaries and consulting	386,813	7,652	394,465
Marketing and promotion	44,676	-	44,676
General and administrative	232,588	-	232,588
Technology development	26,866	-	26,866
Amortization of intangibles	157,519	-	157,519
Amortization of property, plant and equipment	23,532	-	23,532
	871,994	7,652	879,646
	(686,704)	(7,652)	(694,356)
Finance income (expenses)			
Interest income	404	-	404
Net loss and comprehensive loss	$ (686,300)	$ (7,652)	$ (693,952)

16. Reconciliation from Canadian GAAP to IFRS (continued)

Statement of Comprehensive Income

For the year ended December 31, 2010	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenue	$ 806,492	$ -	$ 806,492
Operating expenses			
Salaries and consulting	1,889,550	26,863	1,916,413
Marketing and promotion	210,024	-	210,024
General and administrative	1,356,684	-	1,356,684
Technology development	59,809	-	59,809
Amortization of intangibles	579,126	-	579,126
Amortization of property, plant and equipment	87,804	-	87,804
	4,182,997	26,863	4,209,860
	(3,376,505)	(26,863)	(3,403,368)
Finance income			
Interest income	4,327	-	4,327
Finance expense			
Interest expense	(147,881)	-	(147,881)
Impairment of intangible assets	(1,543,575)	-	(1,543,575)
Net loss and comprehensive loss	$ (5,063,634)	$ (26,863)	$ (5,090,497)