YANGAROO Inc.

Unaudited Condensed Interim Financial Statements

For the Three and Nine Months Ended September 30, 2013

(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 condensed 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 condensed interim financial statements. The unaudited condensed 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 condensed interim 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.

<u>"Gary Moss"</u>	<u>"Michael Galloro"</u>
Gary Moss	Michael Galloro
Chief Executive Officer	Chief Financial Officer

November 25, 2013

YANGAROO Inc.

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

	September 30 2013	December 31 2012 (audited)
Assets		
Current		
Cash and cash equivalents	**$ 1,618,445**	$ 493,427
Accounts receivable	**562,256**	562,470
Prepaid and sundry assets	**191,388**	149,957
	2,372,089	1,205,854
Property and equipment	**113,942**	131,651
	$ 2,486,031	$ 1,337,505
Liabilities		
Current		
Trade and other payables (note 5)	**$ 1,104,516**	$ 595,637
Deferred revenue	**1,063**	13,095
Finance lease obligation	**31,552**	17,355
	1,137,131	626,087
Finance lease obligation	**40,892**	27,509
Accrued interest on debentures (note 6)	**6,580**	191,600
Debentures (note 6)	**1,653,028**	5,451,733
	2,837,631	6,296,929
Shareholders' Deficiency		
Share capital (note 7)	**24,205,805**	23,828,456
Warrant capital (note 10)	**1,646,757**	1,060,551
Contributed surplus	**2,926,104**	2,531,803
Shares and warrants to be issued (note 14)	**2,798,759**	-
Deficit	**(31,929,025)**	(32,380,234)
	(351,600)	(4,959,424)
	$ 2,486,031	$ 1,337,505

Going concern (note 2(c))
Commitments and contingencies (note 12)
Subsequent events (note 14)

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

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

YANGAROO Inc.

Unaudited Condensed Interim Statements of Comprehensive Income (Loss)
For the period ended September 30
(Expressed in Canadian dollars)

	Nine Months Ended		Three Months Ended	
	2013	2012	**2013**	2012
Revenue	**$ 2,435,009**	$ 1,928,934	**$ 836,155**	$ 752,760
Expenses				
Salaries and consulting	**2,109,653**	1,858,922	**698,561**	624,490
Marketing and promotion	**266,785**	145,564	**117,156**	55,543
General and administrative	**620,293**	598,910	**220,489**	260,694
Technology development	**(32,524)**	45,733	**(51,153)**	8,975
Depreciation of property and equipment	**61,267**	51,689	**21,549**	16,577
	3,025,474	2,700,818	**1,006,602**	966,279
Loss from operations	**(590,465)**	(771,884)	**(170,447)**	(213,519)
Finance income (expenses)				
Interest income	**329**	611	**11**	-
Interest expense	**(628,535)**	(1,063,200)	**(205,163)**	(240,454)
Gain on extinguishment of debt	**1,669,880**	-	**1,669,880**	-
	1,041,674	(1,062,589)	**1,464,728**	(240,454)
Net income (loss) and comprehensive income (loss)	**$ 451,209**	$(1,834,473)	**$1,294,281**	$ (453,973)
Income (loss) per share (note 11)	**$ 0.03**	$ (0.14)	**$ 0.08**	$ (0.03)

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

YANGAROO Inc.

Unaudited Condensed Interim Statements of Changes in Equity
For the period ended September 30
(Expressed in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Share subscription proceeds received in advance	Shares and warrants to be issued	Deficit	Total
Balance at December 31, 2011	$23,285,199	$873,455	$1,726,650	$ -	$ -	$(30,145,182)	$(4,259,878)
Private placement (notes 7&8)	160,050	151,264	-	50,000	-	-	361,314
Expiry of warrants (note 10)	-	(708,790)	708,790	-	-	-	-
Share-based payments (note 9)	-	-	70,469	-	-	-	70,469
Loss for the period	-	-	-	-	-	(1,834,473)	(1,834,473)
Balance at September 30, 2012	$23,445,249	$315,929	$2,505,909	$ 50,000	$ -	$(31,979,655)	$(5,662,568)
Private placement (notes 7&8)	383,207	590,185	-	(50,000)	-	-	923,392
Issuance of warrants in connection with amendment of debentures (note 6)	-	154,437	-	-	-	-	154,437
Share-based payments (note 9)	-	-	25,894	-	-	-	25,894
Loss for the period	-	-	-	-	-	(400,579)	(400,579)
Balance at December 31, 2012	$23,828,456	$1,060,551	$2,531,803	$ -	$ -	$(32,380,234)	$(4,959,424)
Private placement (notes 7&8)	377,349	-	-	-	64,641	-	441,990
Issuance of warrants (note 10)	-	852,800	-	-	-	-	852,800
Expiry of warrants (note 10)	-	(112,157)	112,157	-	-	-	-
Cancellation of warrants (note 6)	-	(154,437)	154,437	-	-	-	-
Share-based payments (note 9)	-	-	127,707	-	-	-	127,707
Conversion and amendment of debenture (note 6)	-	-	-	-	2,734,118	-	2,734,118
Income for the period	-	-	-	-	-	451,209	451,209
Balance at September 30, 2013	**$24,205,805**	**$1,646,757**	**$2,926,104**	**$ -**	**$2,798,759**	**$(31,929,025)**	**$ (351,600)**

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

YANGAROO Inc.

Unaudited Condensed Interim Statements of Cash Flows
For the nine months ended September 30
(Expressed in Canadian dollars)

	2013	2012
Cash flow from operating activities		
Cash flow used in operating activities:		
Net income (loss) for the period	**$ 451,209**	$ (1,834,473)
Items not affecting cash:		
Depreciation of property and equipment	**61,267**	51,689
Bad debt expense	**19,434**	7,536
Share-based payments	**127,707**	70,469
Accretion interest	**30,517**	379,532
Accrued interest on debentures	**595,945**	681,969
Gain on extinguishment of debt	**(1,669,880)**	-
Changes in non-cash operating working capital:		
Accounts receivable	**(19,220)**	(350,736)
Prepaid and sundry assets	**(41,431)**	(26,406)
Trade and other payables	**508,879**	422,213
Deferred revenue	**(12,032)**	(13,765)
Net cash used in operating activities	**52,395**	(611,972)
Cash flow from investing activities		
Acquisition of property and equipment	**(2,059)**	(15,226)
Net cash used in investing activities	**(2,059)**	(15,226)
Cash flow from financing activities		
Net proceeds from issuance of common shares	**1,294,790**	311,314
Share subscription proceeds received in advance	**-**	50,000
Debt restructuring costs	**(206,189)**	-
Payment of finance lease obligation	**(13,919)**	(4,611)
Net cash received from financing activities	**1,074,682**	356,703
Net increase / (decrease) in cash and cash equivalents	**1,125,018**	(270,495)
Cash and cash equivalents at January 1	**493,427**	316,717
Cash and cash equivalents at September 30	**$ 1,618,445**	$ 46,222

Cash interest paid	**$ 2,844**	$ 2,328

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

1. Nature of Operations

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

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

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

2. Basis of Preparation

(a) Basis of compliance

These unaudited condensed interim financial statements were prepared using the same accounting policies and methods as those used in the Company’s audited financial statements for the year ended December 31, 2012. These unaudited condensed interim financial statements are in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting.* Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), have been omitted. The preparation of these unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's financial statements for the year ended December 31, 2012.

These unaudited condensed interim financial statements have been prepared on a historical cost basis. These statements should be read in conjunction with the audited financial statements for the year ended December 31, 2012. These statements were approved by the Board of Directors on November 25, 2013.

(b) Basis of measurement

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

2. Basis of Preparation (continued)

(b) Basis of measurement (continued)

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

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

(i) Share-based payments

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

(ii) Impairment of intangible assets

The Company assesses the carrying value of long-lived assets each reporting period to determine whether any indication of impairment exists. The calculation of recoverable amount requires the use of estimates and assumptions such as discount rates and operational performance of the Company.

(iii) Fair value of financial instruments

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

(c) Going concern

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

At September 30, 2013, the Company had working capital of $1,234,958 and deficit of $31,929,025. To date, the Company has been successful raising capital (notes 6 & 8).

(Expressed in Canadian dollars)

3. Significant Accounting Policies

The unaudited condensed interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2012. These unaudited condensed financial statements should be read in conjunction with those audited financial statements.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2015. The standard that is applicable to the Company is as follows:

- IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

4. Operating Line of Credit

The Company has available an operating line of credit of $20,000. Borrowings under the operating line of credit are due on demand and bear interest at prime plus 2.5% per annum and are secured by a general security agreement. For the period ended September 30, 2013, the Company had a balance outstanding of $Nil (December 31, 2012 - $Nil) on this line of credit.

5. Trade and Other Payables

	September 30 2013	December 31 2012 (audited)
Trade payables	**$ 811,418**	$ 292,275
Non-trade payables	**293,098**	303,362
	$ 1,104,516	$ 595,637

6. Debentures

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

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

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

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

As part of the amended debenture agreement, the Company was required to issue bonus warrants to the debenture holders as soon as practicable following the execution of the agreement and receipt of approval from the TSX Venture Exchange. The amended agreement also outlined that there was to be approximately 8,900,000 bonus warrants issued to the debenture holders. However, only 3,600,000 warrants were actually approved for issuance. The Company issued 3,600,000 bonus warrants to the holders of the debentures as of December 31, 2012. As of September 30, 2013, these warrants were cancelled (note 10).

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

6. Debentures (continued)

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

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

On September 12, 2013, the Company issued amended debenture agreements to two of three classes of debenture holders who provided the requisite consent. Upon approval of the TSX Venture Exchange, the Company would offer a one-half of one warrant for every $1.00 of current indebtedness to the debenture holders as consideration for amending the debenture agreements to reflect more favourable terms, as described below. Each whole warrant will be exercisable for a period of 36 months from the date of issuance at a price equal to $0.25. 2,382,726 warrants were issued on October 7, 2013 and included in shares and warrants to be issued as of September 30, 2013 (note 14).

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

The amendment to the debentures is accounted for as an extinguishment since the amendments to the debt terms has resulted in a change in value of more than 10%. The difference between the original fair value of the debentures and its amended fair value was $1,669,880, which was allocated to a gain on extinguishment of debt. The debentures are being accreted to its face amount of $6,332,607 using an effective interest rate of 15% (note 14).

On September 19, 2013, the Company announced that it had entered into shares for debt agreements with a majority of its current debenture holders whereby, of the current outstanding indebtedness of the Company equal to $6,379,656.84, a total of $4,245,128.26 will be converted into post-consolidation common shares of the Company at a deemed price of $0.25 per common share. 16,980,513 shares were issued on October 7, 2013 and included in shares and warrants to be issued as of September 30, 2013 (note 14).

(Expressed in Canadian dollars)

7. Share Capital

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

The following is a summary of changes in common share capital from January 1, 2012 to September 30, 2013:

	Number of shares	Value
Balance at January 1, 2012	131,569,119	$ 23,285,199
Issued for cash on September 7, 2012 [a]	6,875,652	160,050
Issued for cash on October 3, 2012 [b]	18,500,000	268,708
Issued for cash on December 13, 2012 [c]	6,300,000	114,499
Balance at December 31, 2012	163,244,771	$ 23,828,456
Effect of share consolidation	(146,920,294)	-
Balance at September 19, 2013, date of share consolidation	16,324,477	$ 23,828,456
Issued for cash on September 30, 2013[d]	6,400,000	$ 377,349
Balance at September 30, 2013	**22,724,477**	**$ 24,205,805**

(a) The Company issued 6,875,652 units for gross proceeds of $343,783 by way of a private placement. Each unit consists of one common share at a price of $0.05 per unit and one warrant entitling the holder to purchase one additional common share at $0.10 within 36 months of closing. Share issuance costs of $32,469 have been netted against share capital and $151,264 has been allocated to warrants (notes 8 & 10).

(b) The Company issued 18,500,000 units for gross proceeds of $925,000 by way of a private placement. Each unit consists of one common share at a price of $0.05 per unit and one warrant entitling the holder to purchase one additional common share at $0.10 within 36 months of closing. Share issuance costs of $260,207 have been netted against share capital and $396,085 has been allocated to warrants (notes 8 & 10). Included in share issuance costs is $11,624 which represents the value of 738,000 warrants issued to agents in connection with the private placement.

7. Share Capital (continued)

(c) The Company issued 6,300,000 units for gross proceeds of $315,000 by way of a private placement. Each unit consists of one common share at a price of $0.05 per unit and one warrant entitling the holder to purchase one additional common share at $0.10 within 36 months of closing. Share issuance costs of $22,211 have been netted against share capital and $178,290 has been allocated to warrants (notes 8 & 10). Included in share issuance costs is $4,186 which represents the value of 184,000 warrants issued to agents in connection with the private placement.

(d) The Company issued 6,400,000 units for gross proceeds of $1,600,000 by way of a private placement. Each unit consists of one post-consolidation common share at a price of $0.25 per unit and one warrant entitling the holder to purchase one additional common share within 36 months of closing, at a price of $0.25 per unit within the first year of the warrant exercise period, and at a price of $0.35 per unit within the second and third years of the warrant exercise period. Share issuance costs of $369,851 have been netted against share capital and $852,800 has been allocated to warrants (notes 8 & 10). Included in share issuance costs is $64,641, which represents the value of 443,200 warrants to be issued to agents in connection with the private placement. These warrants were issued on October 7, 2013 and included in shares and warrants to be issued as of September 30, 2013 (notes 8 & 14).

Share Consolidation

On September 19, 2013, the Company completed the consolidation of its issued and outstanding common shares. Effective on this date, the Company's common shares were consolidated on a basis of ten pre-consolidation shares for each one post-consolidation share. After the consolidation, the Company had approximately 16,324,477 common shares outstanding, prior to the issuance of the common shares underlying the subscription receipts. The shareholders of the Company approved the share consolidation at its Annual and Special Meeting of the Shareholders held on August 15, 2013.

8. Share Issuance

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

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

8. Share Issuance (continued)

As a result of closing the Private Placement on October 3, 2012 and achieving the minimum threshold of $1,250,000, the existing debenture holders of the Company have consented to the amending of their existing debenture agreements (note 6).

On December 6, 2012, the Company announced that it had received additional commitments to the above mentioned Private Placement and would issue the units with the same terms. On December 13, 2013, the Company closed the additional Private Placement, raising $315,000 with 6,300,000 units, of which $140,000 was invested by the Company’s insiders. Fraser Mackenzie Limited acted as the agent for this additional Private Placement and received in consideration for its services a cash commission of $9,200 and 184,000 warrants entitling them to purchase 184,000 common shares at an exercise price of $0.10 per share, for a period of two years from the closing date of this additional Private Placement.

On September 5, 2013, the Company announced that it had completed the brokered private placement financing of subscription receipts sold at a price of $0.25 per subscription receipt, based on the post-consolidation share price. Each unit consists of one post-consolidation common share at a price of $0.25 per unit and one warrant entitling the holder to purchase one additional common share within 36 months of closing, at a price of $0.25 per unit within the first year of the warrant exercise period, and at a price of $0.35 per unit within the second and third years of the warrant exercise period. The Company raised gross proceeds of $1,600,000, the majority of which were deposited into escrow with Equity Financial Trust Company, an escrow agent to be held until their release upon the satisfaction by the Company of the release conditions. The escrow release conditions were satisfied on September 30, 2013 and 6,400,000 shares and 6,400,000 warrants were issued on this date (notes 7 & 10). Fraser Mackenzie Limited acted as the agent for this Private Placement and received in consideration for its services a cash commission of $110,800 and 443,200 warrants. Each warrant will be exercisable at a price of $0.25 per common share for a period of 36 months. These warrants were issued on October 7, 2013 and included in shares and warrants to be issued as of September 30, 2013 (notes 7 & 14).

9. Share-Based Payments

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

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

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

(Expressed in Canadian dollars)

9. Share-Based Payments (continued)

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

		Weighted average exercise price	Outstanding options	Vested options	Weighted average remaining life (years)
Balance at January 1, 2012	$	0.11	11,539,761	3,553,310	3.57
Cancelled		0.10	(3,915,035)		
Forfeited		0.10	(1,054,468)		
Expired		0.30	(520,000)		
Balance at September 30, 2012	$	0.11	6,050,258	3,960,513	2.96
Granted		0.10	3,577,742		
Expired		0.13	(75,000)		
Balance at December 31, 2012	$	0.10	9,553,000	3,885,513	3.58
Cancelled		0.10	(666,667)		
Expired		0.20	(350,000)		
Effect of share consolidation (note 7)		-	(7,682,700)		
Balance at September 30, 2013	**$**	**1.00**	**853,633**	**768,633**	**3.04**

For the nine months ended September 30, 2013, the fair value of the options granted was $Nil (September 30, 2012 - $Nil).

The Company had the following stock options outstanding at September 30, 2013, as adjusted for the share consolidation:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
36,000	-	36,000	$1.00	November 19, 2013
2,500	-	2,500	$1.00	August 19, 2014
45,000	-	45,000	$1.10	November 18, 2014
40,000	-	40,000	$1.00	April 20, 2015
33,333	-	33,333	$1.00	August 23, 2015
148,000	85,000	63,000	$1.00	February 11, 2016
191,026	-	191,026	$1.00	August 18, 2016
60,000	-	60,000	$1.00	December 13, 2017
276,828	-	276,828	$1.00	December 20, 2017
20,946	-	20,946	$1.00	December 21, 2017
853,633	85,000	768,633	$1.00	

(Expressed in Canadian dollars)

9. Share-Based Payments (continued)

The estimated fair value of the options is expensed over the vesting period. The fair value of the compensation and contributed surplus relating to the stock options for the nine months ended September 30, 2013 was $127,707 (September 30, 2012 - $70,469). The fair value of all the Company's stock options was estimated using the Black-Scholes option pricing model.

10. Warrants

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

	Number of warrants	Amount	Weighted average exercise price
Balance at January 1, 2012	33,379,000	$ 873,455	$ 0.10
Warrants issued	6,875,652	151,264	0.10
Warrants expired	(29,963,000)	(708,790)	0.10
Balance at September 30, 2012	10,291,652	$ 315,929	$ 0.10
Warrants issued	25,722,000	590,185	0.10
Bonus warrants (note 6)	3,600,000	154,437	0.10
Balance at December 31, 2012	39,613,652	$ 1,060,551	$ 0.10
Warrants expired	(2,666,000)	(112,157)	0.10
Bonus warrants cancelled (note 6)	(3,600,000)	(154,437)	0.10
Effect of share consolidation (note 7)	(30,012,887)	-	-
Balance at September 19, 2013, date of share consolidation	3,334,765	$ 793,957	$ 1.00
Warrants issued (note 8)	6,400,000	852,800	0.25
Balance at September 30, 2013	**9,734,765**	**$ 1,646,757**	**$ 0.51**

(Expressed in Canadian dollars)

10. Warrants (continued)

The Company had the following warrants outstanding and exercisable at September 30, 2013, as adjusted for the share consolidation:

Number of warrants		Exercise price	Expiry date
75,000	(i)	$1.00	August 24,2014
687,565	(ii)	$1.00	September 7, 2015
1,850,000	(iii)	$1.00	October 3, 2015
73,800	(iv)	$1.00	October 3, 2014
630,000	(v)	$1.00	December 13, 2015
18,400	(vi)	$1.00	December 13, 2014
6,400,000	(vii)	$0.25	September 30, 2016
9,734,765			

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

(ii) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 119%; (III) a risk free rate of 1.25%; and (IV) an expected life of 3 years.

(iii) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 116%; (III) a risk free rate of 1.14%; and (IV) an expected life of 3 years.

(iv) These warrants were issued to agents in connection with the issuance of the private placement (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 115%; (III) a risk free interest rate of 1.08% and (IV) an expected life of 2 years.

(v) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 114%; (III) a risk free rate of 1.19%; and (IV) an expected life of 3 years.

(vi) These warrants were issued to agents in connection with the issuance of the private placement (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 118%; (III) a risk free interest rate of 1.12% and (IV) an expected life of 2 years.

(Expressed in Canadian dollars)

10. Warrants (continued)

(vii) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 114%; (III) a risk free rate of 1.4%; and (IV) an expected life of 3 years.

Warrants issued to agents and related to financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable.

11. Income (Loss) per Share

	Nine Months Ended		Three Months Ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Numerator:				
Net income (comprehensive loss) for the period	**$ 451,209**	$ (1,834,473)	**$ 1,294,281**	$ (453,973)
Denominator:				
Weighted average number of common shares	**16,347,920**	13,217,137	**16,394,042**	13,336,277
Basic and diluted income (loss) per share	**$ 0.03**	$ (0.14)	**$ 0.08**	$ (0.03)

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

	September 30 2013	September 30 2012
Options	**853,633**	605,026
Warrants	**9,734,765**	1,029,165

(Expressed in Canadian dollars)

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. 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.

(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 condensed interim costs and security for costs. The Company was awarded its costs for this motion. The Company continues to defend the action. The amount cannot be estimated reliably, therefore no provision is recorded.

(c) Leases

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

2013	$ 21,124
2014	84,495
2015	84,495
2016	84,495
2017	63,371
	$ 337,980

13. Capital Risk Management

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

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

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three and nine months ended September 30, 2013.

14. Subsequent Events

In connection with the brokered private placement on September 5, 2013, Fraser Mackenzie Limited acted as the agent and was entitled to receive its commission comprised of (i) a cash fee equal to 8% of the gross subscription proceeds, and (ii) broker warrants entitling Fraser Mackenzie Limited, upon exercise of the broker warrants, to purchase, in aggregate, common shares equal to 8% of the number of common shares sold pursuant to the Private Placement. 443,200 broker warrants were issued on October 7, 2013. Each warrant will be exercisable at a price of $0.25 per common share for a period of 36 months (notes 7 & 8).

On September 19, 2013, the Company announced that it had entered into shares for debt agreements with a majority of its current debenture holders whereby, of the current outstanding indebtedness of the Company equal to $6,379,656.84, a total of $4,245,128.26 will be converted into post-consolidation common shares of the Company at a deemed price of $0.25 per common share. These common shares were issued on October 7, 2013 (note 6).

The Company entered into an advisory agreement with Fraser Mackenzie Merchant Capital Partnership ("FMMC") with respect to the services provided by FMMC in connection with the shares for debt transaction and the debenture amendment and, under such agreement, FMMC was entitled to receive 384,281 common shares and 336,364 non-transferable warrants for a period of 36 months. Each warrant entitles the holder to purchase one common share at a price of $0.25 per unit within the first year of the warrant exercise period, and at a price of $0.35 per unit within the second and third years of the warrant exercise period. Both common shares and warrants were issued on October 7, 2013 (note 6).

On October 7, 2013, the Company announced that it had received TSX Venture Exchange approval to issue the bonus warrants, related to the amended debentures issued on September 12, 2013. As a result, 2,382,726 warrants were issued on October 7, 2013. Each whole warrant will be exercisable for a period of 36 months at a price equal to $0.25 (note 6).

14. Subsequent Events (continued)

Subsequent to September 30, 2013, 2,244,998 stock options were granted. Subsequent to the completion of the Company's debt restructuring transactions, the Company has the following outstanding and issued: 40,089,271 common shares, 12,897,055 warrants, and 3,015,298 stock options.