

# **YANGAROO Inc.**

Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited)

# YANGAROO Inc.

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

|   | As at                |                     |
|---|----------------------|---------------------|
|   | June 30<br>2021      | December 31<br>2020 |
| <b>Assets</b>                                   |                      |                     |
| <b>Current</b>                                  |                      |                     |
| Cash  | \$ 1,284,491         | \$ 1,861,253        |
| Accounts receivable                             | 2,431,554            | 1,755,391           |
| Prepaid and sundry assets                       | 560,467              | 425,083             |
| Contract assets                                 | 92,017               | 96,550              |
|   | <b>4,368,529</b>     | <b>4,138,277</b>    |
| <b>Non-current</b>                              |                      |                     |
| Property and equipment (note 7)                 | 992,815              | 366,751             |
| Intangible Assets (note 8)                      | 2,092,588            | -                   |
| Goodwill (note 9)                               | 3,170,383            | -                   |
|   | <b>\$ 10,624,315</b> | <b>\$ 4,505,028</b> |
| <b>Liabilities</b>                              |                      |                     |
| <b>Current</b>                                  |                      |                     |
| Trade and other payables (note 10)              | \$ 887,200           | \$ 800,198          |
| Contract liabilities                            | 191,482              | 50,692              |
| Current portion of lease obligations (note 11)  | 421,893              | 182,918             |
| Current portion of term loan facility (note 12) | 393,393              | -                   |
|   | <b>1,893,968</b>     | <b>1,033,808</b>    |
| <b>Non-current</b>                              |                      |                     |
| Lease obligations (note 11)                     | 449,395              | 77,509              |
| Term loan facility (note 12)                    | 2,700,235            | -                   |
| Contingent consideration (note 6)               | 1,859,806            | -                   |
|   | <b>6,903,404</b>     | <b>1,111,317</b>    |
| <b>Equity</b>                                   |                      |                     |
| Share capital (note 13)                         | 32,453,874           | 32,446,702          |
| Contributed surplus                             | 7,045,989            | 7,035,352           |
| Deficit   | (35,778,952)         | (36,088,343)        |
|   | <b>3,720,911</b>     | <b>3,393,711</b>    |
|   | <b>\$ 10,624,315</b> | <b>\$ 4,505,028</b> |

Commitments and contingencies (note 19)  
Subsequent event (note 20)

Approved by the Board of Directors

**“Anthony Miller”**  
Director

**“Phil Benson”**  
Director

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

# YANGAROO Inc.

Condensed Interim Statements of Net Income and Comprehensive Income (Unaudited)

Three and Six Months Ended June 30, 2021 and 2020

(Expressed in Canadian dollars)

|   | Three Months Ended June 30 |              | Six Months Ended June 30 |              |
|---|----------------------------|--------------|--------------------------|--------------|
|   | 2021                       | 2020         | 2021                     | 2020         |
| <b>Revenue (note 16)</b>  | <b>\$ 2,152,833</b>        | \$ 1,586,695 | <b>\$ 3,713,380</b>      | \$ 3,959,462 |
| <b>Expenses</b>   |                            |              |                          |              |
| Salaries and consulting (notes 14, 17 & 18)   | 1,206,903                  | 1,268,516    | 2,179,828                | 2,813,329    |
| Marketing and promotion   | 30,494                     | 14,040       | 38,369                   | 106,351      |
| General and administrative  | 177,210                    | 184,769      | 237,906                  | 269,919      |
| Technology and production   | 98,058                     | 50,236       | 172,563                  | 199,033      |
| Depreciation of property and equipment and amortization of intangible assets (note 7 & 8) | 154,309                    | 68,043       | 219,617                  | 139,354      |
| Acquisition fees (note 6)   | 382,312                    | -            | 382,312                  | -            |
|   | <b>2,049,286</b>           | 1,585,604    | <b>3,230,595</b>         | 3,527,986    |
| <b>Net Income from operations</b>   | <b>103,547</b>             | 1,091        | <b>482,785</b>           | 431,476      |
| <b>Other income (expenses)</b>  |                            |              |                          |              |
| Interest income   | 43                         | 1,717        | 754                      | 5,412        |
| Interest expense  | (31,627)                   | (7,665)      | (34,359)                 | (15,978)     |
| Foreign exchange gain (loss)  | (100,354)                  | (65,010)     | (139,789)                | 137,830      |
|   | <b>(131,938)</b>           | (70,958)     | <b>(173,394)</b>         | 127,264      |
| <b>Net income (loss) before income tax</b>  | <b>(28,391)</b>            | (69,867)     | <b>309,391</b>           | 558,740      |
| Corporate income tax  | -                          | -            | -                        | -            |
| <b>Net income (loss) and comprehensive income (loss)</b>                                  | <b>\$ (28,391)</b>         | \$ (69,867)  | <b>\$ 309,391</b>        | \$ 558,740   |
| <b>Basic income (loss) per share (note 15)</b>  | <b>\$ (0.00)</b>           | \$ (0.00)    | <b>\$ 0.01</b>           | \$ 0.01      |
| <b>Diluted income (loss) per share (note 15)</b>  | <b>\$ (0.00)</b>           | \$ (0.00)    | <b>\$ 0.00</b>           | \$ 0.01      |

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

# YANGAROO Inc.

Condensed Interim Statements of Changes in Equity (Unaudited)

Six months ended June 30, 2021 and 2020

(Expressed in Canadian dollars)

|  | Number of<br>Shares | Share<br>Capital    | Warrant<br>Capital | Contributed<br>Surplus | Deficit               | Total              |
|--|---------------------|---------------------|--------------------|------------------------|-----------------------|--------------------|
| Balance at January 1, 2020<br>(audited)      | 60,833,640          | \$32,490,832        | \$29,950           | \$6,851,029            | \$(36,998,315)        | \$2,373,496        |
| Share-based payments (note 14)               | -                   | -                   | -                  | 107,911                | -                     | 107,911            |
| Share repurchased and cancelled<br>(note 13) | (361,500)           | (44,130)            | -                  | -                      | -                     | (44,130)           |
| Expiry of warrants                           | -                   | -                   | (29,950)           | 29,950                 | -                     | -                  |
| Net income for the period                    | -                   | -                   | -                  | -                      | 558,740               | 558,740            |
| <b>Balance at June 30, 2020</b>              | <b>60,472,140</b>   | <b>\$32,446,702</b> | <b>\$ -</b>        | <b>\$6,988,890</b>     | <b>\$(36,439,575)</b> | <b>\$2,996,017</b> |
| Balance at January 1, 2021<br>(audited)      | 60,472,140          | \$32,446,702        | \$ -               | \$7,035,352            | \$(36,088,343)        | \$3,393,711        |
| Share-based payments (note 14)               | -                   | -                   | -                  | 13,930                 | -                     | 13,930             |
| Exercise of options (note 13, 14)            | 27,000              | 7,172               | -                  | (3,293)                | -                     | 3,879              |
| Net income for the period                    | -                   | -                   | -                  | -                      | 309,391               | 309,391            |
| <b>Balance at June 30, 2021</b>              | <b>60,499,140</b>   | <b>\$32,453,874</b> | <b>\$ -</b>        | <b>\$7,045,989</b>     | <b>\$(35,778,952)</b> | <b>\$3,720,911</b> |

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

# YANGAROO Inc.

Condensed Interim Statements of Cash Flows (Unaudited)

Six months ended June 30, 2021 and 2020

(Expressed in Canadian dollars)

|  | <b>Six Months Ended June 30</b> |                     |
|--|---------------------------------|---------------------|
|  | <b>2021</b>                     | <b>2020</b>         |
| <b>Cash flow from operating activities</b>                                   |                                 |                     |
| Net income for the period  | \$ 309,391                      | \$ 558,740          |
| Items not affecting cash:  |                                 |                     |
| Depreciation of property and equipment and amortization of intangible assets | 231,992                         | 139,354             |
| Financing costs  | 9,693                           | -                   |
| Bad debt recovery  | (50,559)                        | -                   |
| Share-based payments (note 14)   | 13,930                          | 107,911             |
| Accrued contractual severance payable  | (262,500)                       | -                   |
| Unrealized foreign exchange loss   | (52,178)                        | (87,620)            |
| Changes in non-cash operating working capital:                               |                                 |                     |
| Accounts receivable  | 418,253                         | 35,553              |
| Prepaid and sundry assets  | (103,503)                       | 34,520              |
| Contract assets  | 4,533                           | 13,262              |
| Trade and other payables   | 205,139                         | 239,986             |
| Contract liabilities   | 140,790                         | 166,953             |
| <b>Net cash from operating activities</b>                                    | <b>864,981</b>                  | <b>1,208,659</b>    |
| <b>Cash flow used in investing activities</b>                                |                                 |                     |
| Acquisition of property and equipment (note 7)                               | (104,037)                       | (34,552)            |
| Additions to product development assets (note 8)                             | (411,906)                       | -                   |
| Acquisition of Digital Media Services (note 6)                               | (3,812,212)                     | -                   |
| <b>Net cash used in investing activities</b>                                 | <b>(4,328,155)</b>              | <b>(34,552)</b>     |
| <b>Cash flow from (used in) financing activities</b>                         |                                 |                     |
| Payment of lease obligations   | (95,173)                        | (119,000)           |
| Proceeds from term loan facility (note 12)                                   | 3,083,935                       | -                   |
| Proceeds from (repayment of) revolving loan facility (note 12)               | -                               | (750,000)           |
| Exercise of options  | 3,879                           | -                   |
| Common shares repurchased and cancelled (note 13)                            | -                               | (44,130)            |
| <b>Net cash from (used in) financing activities</b>                          | <b>2,992,641</b>                | <b>(913,130)</b>    |
| <b>Net increase (decrease) in cash</b>                                       | <b>(470,533)</b>                | <b>260,977</b>      |
| <b>Effect of foreign exchange on cash</b>                                    | <b>(106,229)</b>                | <b>(8,260)</b>      |
| <b>Cash and cash equivalents, beginning of period</b>                        | <b>1,861,253</b>                | <b>1,570,483</b>    |
| <b>Cash and cash equivalents, end of period</b>                              | <b>\$ 1,284,491</b>             | <b>\$ 1,823,200</b> |
| <b>Cash interest paid</b>  | <b>\$ 34,359</b>                | <b>\$ 15,978</b>    |

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

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
(Expressed in Canadian dollars, unless otherwise noted)

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## 1. Nature of Operations

YANGAROO Inc. ("Company") is a software company that is the provider of work-flow management solutions for the media industry. The Company's Digital Media Distribution System (DMDS) platform 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, advertising to television, radio, media, retailers, award shows and other authorized recipients via the cloud in desktop and mobile platforms, as well as related work-flow services such as data analytics and program clearance data management.

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

The address of the Company's corporate office and principal place of business is 67 Mowat Avenue, Suite 535, Toronto, Ontario, M6K 3E3.

## 2. Basis of Preparation

### **(a) Basis of compliance**

These 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, 2020. These condensed interim financial statements are in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), have been omitted. The preparation of these unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2020.

These condensed interim financial statements were authorized for issue by the Board of Directors on August 26, 2021.

### **(b) Basis of measurement**

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

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

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
(Expressed in Canadian dollars, unless otherwise noted)

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## 2. Basis of Preparation (continued)

The preparation of these condensed interim 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 condensed interim financial statements are as follows:

(i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants granted to agents and debenture holders, to the extent that they are not measured at the fair value of the services received, are based on the fair value at the date of the award. These share-based payments are valued using the Black-Scholes option pricing model, which includes inputs that require management's estimates and assumptions.

(ii) Revenue recognition

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

(iii) Investment tax credits

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

(iv) Functional currency

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

(v) Collectability of accounts receivable

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

(vi) Leases

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

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
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## 2. Basis of Preparation (continued)

### (vii) Capitalized development costs

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

### (viii) Business combinations

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

### (ix) Contingent consideration

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

## 3. Significant Accounting Policies

These condensed interim financial statements follow the same accounting policies and methods of their application as the Company's December 31, 2020 annual audited financial statements.

## 4. Capital Risk Management

The Company includes equity comprised of share 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 platform services, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company 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 period ended June 30, 2021.

## 5. Comparative Figures

Commissions and production costs were reclassified to Salaries and Consulting expenditures and Technology Development expenditures. Co-location expenditures were reclassified from General and Administrative expenditures to Technology Development expenditures. Net income is not affected by these comparative period reclassifications.



# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
(Expressed in Canadian dollars, unless otherwise noted)

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## 6. Business Combination

On May 21, 2021, the Company completed the acquisition of certain assets and liabilities of Digital Media Services Inc. (“DMS”) and all of its subsidiaries for cash and contingent consideration. DMS is a provider of broadcast advertising and content management solutions located in New York City, United States of America.

As part of the acquisition, the Company acquired DMS’ customer lists and contracts, intellectual property rights, certain property and equipment, and working capital, along with a highly skilled team of employees located in the United States.

The purchase price consists of cash consideration of \$3,812,212 and contingent consideration with a fair value of \$1,859,806, resulting in total consideration of \$5,672,018. The contingent consideration consists of additional cash payments to the seller for attainment of specific revenue metrics over a three-year period following the date of the acquisition.

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

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|  |              |
|--|--------------|
| Fair value of assets and liabilities recognized: |              |
| Trade receivables                                | \$ 912,798   |
| Prepaid expenses                                 | 31,881       |
| Customer relationships                           | 1,559,487    |
| Brands and trademarks                            | 188,152      |
| Trade payables and accrued liabilities           | (190,683)    |
| Fair value of net assets acquired                | \$ 2,501,635 |
| Goodwill   | \$ 3,170,383 |
| Total consideration                              | \$ 5,672,018 |

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

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

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
(Expressed in Canadian dollars, unless otherwise noted)

## 6. Business Combination (continued)

Due to lack of IFRS specific data prior to the acquisition of DMS, pro-forma profit or loss of the combined entity for any periods prior to acquisition cannot be determined reliably. At the time of issuance of these condensed interim financial statements, certain aspects of the valuation are not finalized. As such, the preliminary purchase price allocation is subject to change.

In connection with the DMS acquisition, the Company incurred fees, including legal and professional costs, of \$382,312.

## 7. Property and Equipment

|                                 | Office<br>equipment | Computer<br>equipment | Computer<br>software | Right-of-use<br>office property | Leasehold<br>improvements | Total            |
|---------------------------------|---------------------|-----------------------|----------------------|---------------------------------|---------------------------|------------------|
| <b>Cost</b>                     | \$                  | \$                    | \$                   | \$                              | \$                        | \$               |
| Balance, January 1, 2020        | 34,367              | 666,837               | 358,860              | 487,064                         | 12,117                    | 1,559,245        |
| Additions                       | 2,132               | 52,132                | 47,627               | -                               | 2,582                     | 104,473          |
| Balance, December 31, 2020      | 36,499              | 718,969               | 406,487              | 487,064                         | 14,699                    | 1,663,718        |
| Additions                       | 384                 | 94,986                | 2,359                | 687,064                         | 6,309                     | 791,102          |
| <b>Balance, June 30, 2021</b>   | <b>36,883</b>       | <b>813,955</b>        | <b>408,846</b>       | <b>1,174,128</b>                | <b>21,008</b>             | <b>2,454,820</b> |
| <b>Accumulated depreciation</b> |                     |                       |                      |                                 |                           |                  |
| Balance, January 1, 2020        | 29,449              | 582,301               | 271,965              | 135,925                         | 5,133                     | 1,024,773        |
| Depreciation expense            | 2,947               | 78,576                | 51,489               | 135,925                         | 3,260                     | 272,197          |
| Balance, December 31, 2020      | 32,396              | 660,877               | 323,454              | 271,850                         | 8,393                     | 1,296,970        |
| Depreciation expense            | 1,131               | 45,645                | 27,545               | 89,084                          | 1,630                     | 165,035          |
| <b>Balance, June 30, 2021</b>   | <b>33,527</b>       | <b>706,522</b>        | <b>350,999</b>       | <b>360,934</b>                  | <b>10,023</b>             | <b>1,462,005</b> |
| <b>Carrying amounts</b>         |                     |                       |                      |                                 |                           |                  |
| December 31, 2020               | 4,103               | 58,092                | 83,033               | 215,214                         | 6,306                     | 366,751          |
| <b>June 30, 2021</b>            | <b>3,356</b>        | <b>107,433</b>        | <b>57,847</b>        | <b>813,194</b>                  | <b>10,985</b>             | <b>992,815</b>   |

Included in property and equipment are computer equipment and computer software under leases with a cost of \$551,264 (December 31, 2020 - \$551,264). Accumulated depreciation for these assets under leases is \$545,509 (December 31, 2020 - \$526,536).

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
(Expressed in Canadian dollars, unless otherwise noted)

## 8. Intangible Assets

|                         | January 1,<br>2021 | Additions    | Amortization | June 30,<br>2021 |
|-------------------------|--------------------|--------------|--------------|------------------|
| Brand                   | \$ -               | \$ 188,152   | \$ (5,226)   | \$ 182,926       |
| Customer relationships  | -                  | 1,559,487    | (43,319)     | 1,516,168        |
| Development costs       | -                  | 411,906      | (18,412)     | 393,494          |
| Total intangible assets | \$ -               | \$ 2,159,545 | \$ (66,957)  | \$ 2,092,588     |

During the six months ended June 30, 2021, the Company capitalized product development costs of \$411,906 (December 31, 2020 - \$nil). Depreciation expense of \$18,412 (2020 - \$nil) was capitalized to product development assets during the six-month ended June 30, 2021. The significant new projects for the six-month period ended June 30, 2021 consisted of new features in the Awards platform, improvements in the user interface in the Music and Advertising platforms, and significant new enhancements to its core technology infrastructure.

## 9. Goodwill

|                              | June 30,<br>2021 | December 31,<br>2020 |
|------------------------------|------------------|----------------------|
| Balance, beginning of period | \$ -             | \$ -                 |
| Acquisition of DMS (note 6)  | 3,170,383        | -                    |
|                              | \$ 3,170,383     | \$ -                 |

## 10. Trade and Other Payables

|                  | June 30<br>2021 | December 31<br>2020 |
|------------------|-----------------|---------------------|
| Trade payables   | \$ 568,496      | \$ 200,655          |
| Accrued expenses | 318,704         | 599,543             |
|                  | \$ 887,200      | \$ 800,198          |

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
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## 11. Lease Obligations

The Company has lease obligations until 2022 with purchase options at the end of each lease term. All of these lease agreements have 3-5 year terms at inception and carry a weighted average incremental borrowing rate of 3.26% per annum (2020 – 2.37%).

|   | Computer<br>Equipment | Software      | Property       | Total<br>Lease<br>Liability |
|---|-----------------------|---------------|----------------|-----------------------------|
|   | \$                    | \$            | \$             | \$                          |
| Balance at January 1, 2021                                  | 35,039                | 28,503        | 196,885        | 260,427                     |
| Additions during the period                                 | -                     | -             | 706,034        | 706,034                     |
| Principal payments  | (11,645)              | (10,384)      | (73,144)       | (95,173)                    |
| <b>Balance at June 30, 2021</b>                             | <b>23,394</b>         | <b>18,119</b> | <b>829,775</b> | <b>871,288</b>              |
| Current lease obligation                                    | 15,754                | 18,119        | 388,020        | 421,893                     |
| Long-term lease obligation                                  | 7,640                 | -             | 441,755        | 449,395                     |
| <b>Balance at June 30, 2021</b>                             | <b>23,394</b>         | <b>18,119</b> | <b>829,775</b> | <b>871,288</b>              |
| Effective annual rate of interest                           | 2.16%                 | 4.58%         | 4.45%          | 3.26%                       |
| Amount of interest recognized in statement of income (loss) | 328                   | 554           | 6,645          | 7,527                       |

## 12. Credit Facility

On May 21, 2021, in conjunction with the acquisition of DMS (see Note 6 – Business Combination), the Company settled its then existing \$1,000,000 revolving credit facility and entered into a credit agreement (the “Credit Facility”) with a tier-1 Canadian financial institution (the “Bank”). The Credit Facility is secured by a first ranking security over all present and future assets and property of the Company.

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

### ***Revolving Credit Facility***

The revolving credit facility of \$1,750,000 is available by loan advances and is subject to standard borrowing base calculations and margining against trade accounts receivable. Interest payments are based on the Bank’s prime rate plus 1.95% per annum. As at June 30, 2021, the Company has drawn \$nil of the revolving credit facility.

# YANGAROO Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2021 and 2020  
(Expressed in Canadian dollars, unless otherwise noted)

## 12. Credit Facility (continued)

### *Term Loan Facility*

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

|  | June 30<br>2021    | December 31<br>2020 |
|--|--------------------|---------------------|
| Term loan facility                         | \$3,250,000        | \$ -                |
| Less: unamortized deferred financing costs | (156,372)          | -                   |
| <b>Balance at June 30, 2021</b>            | <b>3,093,628</b>   | -                   |
| Current portion of term loan               | 393,393            | -                   |
| Long-term portion of term loan             | 2,700,235          | -                   |
| <b>Balance at June 30, 2021</b>            | <b>\$3,093,628</b> | \$ -                |

The Company incurred \$166,065 of transaction fees and has recorded these as deferred financing costs that are being amortized over the expected duration of the term loan facility. During the three and six-month ended June 30, 2021, \$9,693 of deferred financing fees was amortized.

In accordance with the terms of the Credit Facility, on a rolling four-quarter basis, the Company must maintain a minimum Fixed Charge Coverage Ratio of not less than 1.20:1.00 and an Interest-Bearing Debt to EBITDA ratio of no more than 3 times between closing to December 31, 2021.

As at June 30, 2021 the Company was in compliance with all covenants of the Credit Facility.

## 13. Share Capital

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

The following is a summary of changes in common share capital:

|                                    | Number of<br>shares | Value                |
|------------------------------------|---------------------|----------------------|
| Balance at January 1, 2020         | 60,833,640          | \$ 32,490,832        |
| Share buyback <sup>(a)</sup>       | (361,500)           | (44,130)             |
| Balance at December 31, 2020       | 60,472,140          | \$ 32,446,702        |
| Exercise of options <sup>(b)</sup> | 27,000              | 7,172                |
| <b>Balance at June 30, 2021</b>    | <b>60,499,140</b>   | <b>\$ 32,453,874</b> |

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## 13. Share Capital (continued)

- (a) On December 20, 2018, the Company announced a normal course issuer bid to purchase and cancel up to a maximum of 3,066,957 common shares representing 5% of the outstanding shares of the Company. As of June 30, 2021, the Company has purchased and cancelled 987,000 shares at a weighted average price of \$0.13 per share through the life of the program. There were no share buybacks during the six months ended June 30, 2021.
- (b) Exercise of 27,000 stock options at a price of \$0.144 per share for gross proceeds of \$3,880. The initial value of \$3,292 related to the options' original issuances was reclassified from contributed surplus to share capital.

## 14. Share-Based Payments

The Company has a 14% (2020 – 14%) fixed stock option plan (“Amended Plan”), in which the total number of options shall not exceed 8,466,099, which was 14% of the issued and outstanding number of shares as of the date of approval. The Amended Plan was approved at the Company’s Annual Meeting of the Shareholders held on June 11, 2020.

On June 29, 2021, the Company approved the Omnibus Incentive Plan (the “Omnibus Equity Incentive Plan”) at the Company’s Annual General and Special Meeting of the shareholders. Under the Omnibus Equity Incentive Plan, the Company is able to grant equity-based incentive awards in the form of Restricted Share Units (“RSUs”). All future grants of equity-based awards will be made pursuant to the Omnibus Equity Incentive Plan, and no further equity-based awards will be made pursuant to the Company’s Stock Option Plan. Each RSU represents a right to receive, once vested, one common share in the capital stock of the Company, subject to the terms and conditions of the Plan. See Note 20 for grants approved subsequent to June 30, 2021.

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## 14. Share-Based Payments (continued)

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

|                                 | Weighted<br>average<br>price | Outstanding<br>options | Vested<br>options | Weighted<br>average<br>remaining<br>life (years) |
|---------------------------------|------------------------------|------------------------|-------------------|--|
| Balance at January 1, 2020      | \$ 0.167                     | 6,915,000              | 5,550,000         | 2.87   |
| Granted                         | 0.114                        | 1,165,000              |                   |  |
| Forfeited                       | 0.180                        | (912,500)              |                   |  |
| Expired                         | 0.173                        | (307,000)              |                   |  |
| Balance at December 31, 2020    | \$ 0.156                     | 6,860,500              | 6,188,500         | 2.58   |
| Forfeited                       | 0.147                        | (30,500)               |                   |  |
| Expired                         | 0.150                        | (180,000)              |                   |  |
| Exercised                       | 0.144                        | (27,000)               |                   |  |
| <b>Balance at June 30, 2021</b> | <b>\$ 0.156</b>              | <b>6,623,000</b>       | <b>6,279,500</b>  | <b>2.08</b>                                      |

For the period ended June 30, 2021, the fair value of options granted was \$nil (June 30, 2020 - \$101,295).

The estimated fair value of the options is expensed over the vesting period. The options vest 10% on the date of grant, and the remaining 90% vest as to a third on each 6-month anniversary following the date of grant. The compensation expense and charge to contributed surplus relating to the stock options for the three and six months ended June 30, 2021 was \$5,346 and \$13,930, respectively (2020 - \$49,567 and \$107,911).

The fair value of the Company's stock options grants was estimated using the Black-Scholes option pricing model. Stock options granted during the periods ended June 30, 2021 used the following weighted average assumptions:

|   | June 30<br>2021 |
|---|-----------------|
| Volatility (based on historical share prices) | 115%            |
| Risk-free interest rate                       | 1.34%           |
| Expected life (years)                         | 5.00            |
| Dividend yield                                | Nil             |
| Forfeiture rate                               | 1%              |
| Underlying share price                        | \$0.156         |

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## 14. Share-Based Payments (continued)

The Company had the following stock options outstanding at June 30, 2021:

| Number of options | Number of unvested options | Number of vested options | Exercise price | Expiry date        |
|-------------------|----------------------------|--------------------------|----------------|--------------------|
| 5,000             | -                          | 5,000                    | \$0.115        | September 6, 2021  |
| 912,500           | -                          | 912,500                  | \$0.100        | January 10, 2022   |
| 500,000           | -                          | 500,000                  | \$0.140        | May 1, 2022        |
| 75,000            | -                          | 75,000                   | \$0.120        | August 25, 2022    |
| 1,162,500         | -                          | 1,162,500                | \$0.275        | January 8, 2023    |
| 2,020,000         | -                          | 2,020,000                | \$0.155        | January 4, 2024    |
| 100,000           | -                          | 100,000                  | \$0.150        | February 20, 2024  |
| 775,000           | -                          | 775,000                  | \$0.120        | June 18, 2024      |
| 1,003,000         | 301,500                    | 701,500                  | \$0.115        | February 4, 2025   |
| 70,000            | 42,000                     | 28,000                   | \$0.105        | September 15, 2025 |
| <b>6,623,000</b>  | <b>343,500</b>             | <b>6,279,500</b>         | <b>\$0.159</b> |                    |

## 15. Basic and Diluted Income per Share

The income and weighted average number of common shares used in the calculation of basic and fully diluted income per share for the six months ended June 30, 2021 and 2020 were as follows:

|  | June 30<br>2021 | June 30<br>2020 |
|--|-----------------|-----------------|
| Numerator:   |                 |                 |
| Net income and comprehensive income for the period       | \$ 309,391      | \$ 558,740      |
| Denominator:   |                 |                 |
| Weighted average number of common shares – basic         | 60,497,490      | 60,534,778      |
| Adjustments for calculation of diluted income per share: |                 |                 |
| Options in the money                                     | 1,953,917       | 1,200,000       |
| Weighted average number of common shares – fully diluted | 62,451,407      | 61,734,778      |
| <b>Basic income per share</b>                            | <b>\$ 0.01</b>  | <b>\$ 0.01</b>  |
| <b>Fully diluted income per share</b>                    | <b>\$ 0.00</b>  | <b>\$ 0.01</b>  |



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## 16. Segmented Information

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

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

| <b>For the six-months ended<br/>June 30, 2021</b>      | Canada            | US                  | Total               |
|--|-------------------|---------------------|---------------------|
| Advertising  | \$ 123,615        | \$ 1,889,547        | \$ 2,013,162        |
| Production   | -                 | 168,125             | 168,125             |
| Entertainment  |                   |                     |                     |
| Music  | 324,741           | 628,441             | 953,182             |
| Awards management                                      | 62,120            | 516,790             | 578,910             |
|  | 386,861           | 1,145,231           | 1,532,092           |
| <b>Total revenue</b>                                   | <b>\$ 510,476</b> | <b>\$ 3,202,904</b> | <b>\$ 3,713,380</b> |
| <b>Property and equipment,<br/>as at June 30, 2021</b> | <b>\$ 278,638</b> | <b>\$ 714,177</b>   | <b>\$ 992,815</b>   |
| <b>For the six-month ended<br/>June 30, 2020</b>       | Canada            | US                  | Total               |
| Advertising  | \$ 119,159        | \$ 2,478,716        | \$ 2,597,875        |
| Entertainment  |                   |                     |                     |
| Music  | 334,008           | 571,954             | 905,962             |
| Awards management                                      | 81,652            | 373,973             | 455,625             |
|  | 415,660           | 945,927             | 1,361,587           |
| <b>Total revenue</b>                                   | <b>\$ 534,819</b> | <b>\$ 3,424,643</b> | <b>\$ 3,959,462</b> |
| <b>Property and equipment,<br/>as at June 30, 2020</b> | <b>\$ 425,577</b> | <b>\$ 4,124</b>     | <b>\$ 429,701</b>   |

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## 17. Related Party Transactions

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's stock option program (note 14).

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

|  | <b>June 30<br/>2021</b> | June 30<br>2020 |
|--|-------------------------|-----------------|
| Salaries and short-term employee benefits <sup>(i)</sup> | <b>\$ 926,630</b>       | \$ 630,651      |
| Share-based payments                                     | <b>7,393</b>            | 80,894          |
|  | <b>\$ 934,023</b>       | \$ 711,545      |

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

## 18. Salaries & Consulting

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

For the current period the Company received government assistance funds from the Canadian Federal Government's Canada Emergency Wage Subsidy ("CEWS") and the U.S. Small Business Administration's Payment Protection Program ("PPP"). During the six-months ended June 30, 2021, the Company recognized government assistance of \$694,274 (2020 - \$447,000).

## 19. Commitments and Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. There were no litigation and claims during the six-months ended June 30, 2021.

## 20. Subsequent Event

Subsequent to period-end, the Company announce a grant of 1,115,000 restricted share units ("RSUs") in accordance with the terms and conditions of the Company's Omnibus Incentive Plan (the "Plan") to certain directors, officers, and employees of the Company. This is the first grant under the Plan, which was approved at the Company's Annual General and Special Meeting of the shareholders held on June 29, 2021. The Plan allows for the grant of up to 6,651,935 stock options and 1,814,154 non-stock option awards (including the RSUs). Each RSU represents a right to receive, once vested, one common share in the capital stock of the Company, subject to the terms and conditions of the Plan. The RSUs vest 100% on January 31, 2022.