Condensed Interim Consolidated Financial Statements of

Wow Unlimited Media Inc.

For the three months ended March 31, 2018 and 2017

(Unaudited)

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2018 and December 31, 2017 (Unaudited)

Expressed in Canadian dollars

	Note	March 31, 2018	December 31, 2017
ASSETS			
Current			
Cash and cash equivalents		$ 4,024,642	$ 6,354,432
Trade and other accounts receivable	**4**	27,335,631	25,699,001
Prepaid expenses, deposits and other		1,161,199	835,154
		32,521,472	32,888,587
Property, plant and equipment		1,443,116	1,395,228
Investment in film and television	**5**	8,750,282	7,764,141
Other intangible assets	**6 (a)**	5,777,523	5,951,652
Goodwill	**6 (b)**	10,786,772	10,497,250
Long-term accounts receivable	**4**	2,935,070	257,025
Deposits and other assets		283,018	278,226
		29,975,781	26,143,522
TOTAL ASSETS		**$ 62,497,253**	**$ 59,032,109**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 7,024,610	$ 4,903,734
Interim production financing	**7**	21,686,320	19,359,764
Deferred revenue	**10**	2,608,268	4,045,185
Deferred tax liabilities		833,435	1,168,408
Current portion of finance lease obligations		755,777	460,575
		32,908,410	29,937,666
Finance lease obligations		697,760	540,614
Interim production financing	**7**	509,407	525,146
Convertible debentures	**8**	3,857,917	3,815,364
Other non-current liabilities		281,540	275,154
		5,346,624	5,156,278
TOTAL LIABILITIES		**38,255,034**	**35,093,944**
SHAREHOLDERS' EQUITY			
Share capital		76,596,510	76,596,510
Reserves		3,608,106	3,141,678
Accumulated deficit		(55,962,397)	(55,800,023)
TOTAL SHAREHOLDERS' EQUITY		**24,242,219**	**23,938,165**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 62,497,253**	**$ 59,032,109**

Going concern (Note 2 (d)), Related parties (Note 17)

Approved by: the Directors

"Michael Hirsh" ***"Steve Hendry"***

Michael Hirsh, Director Steve Hendry, Director

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three months ended March 31, 2018 and 2017 (Unaudited)

Expressed in Canadian dollars

	Note	For the three months ended March 31, 2018	March 31, 2017
			(Restated - Note 6)
Revenue	10	$ 15,662,663	$ 5,866,714
Expenses			
Operating	11	13,163,019	6,240,572
Depreciation and amortization		1,707,897	1,228,865
General and administration	11	730,623	419,806
Share based compensation expense	12	260,959	180,182
Loss before finance costs and taxes		(199,835)	(2,202,711)
Finance costs	13	353,237	88,464
Loss before taxes		**(553,072)**	**(2,291,175)**
Deferred income tax recovery		(390,698)	(825,417)
Net loss		**$ (162,374)**	**$ (1,465,758)**
Other comprehensive (income) loss:			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		(205,469)	178,288
Total comprehensive income (loss)		**$ 43,095**	**$ (1,644,046)**
Loss per share			
- basic and diluted		**$ (0.01)**	**$ (0.06)**
Weighted average number of shares outstanding			
- basic and diluted		25,178,604	25,581,577

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders’ Equity

For the three months ended March 31, 2018 and 2017 (Unaudited)

Expressed in Canadian dollars

	Note	Number of non-voting shares issued	Number of common voting shares issued [1]	Share capital	Escrow shares subject to retirement	Reserves: Equity component of convertible debentures	Reserves: Warrant Reserve	Reserves: Share-based payment reserve	Reserves: Foreign currency translation reserve	Accumulated deficit	Total
Balance as at January 1, 2017 (Restated - Note 6)		3,179,174	22,402,403	$ 77,321,861	$ (1,075,351)	$ –	$ 357,747	$ 1,338,192	$ 233,051	$ (50,713,577)	$ 27,461,923
Three months ended March 31, 2017											
Net loss		–	–	–	–	–	–	–	–	(1,465,758)	(1,465,758)
Other comprehensive loss		–	–	–	–	–	–	–	(178,288)	–	(178,288)
Total comprehensive loss for the period		–	–	–	–	–	–	–	(178,288)	(1,465,758)	(1,644,046)
Share-based compensation expense	**12**	–	–	–	–	–	–	180,182	–	–	180,182
Escrow shares cancelled		(597,417)	–	(1,075,351)	1,075,351	–	–	–	–	–	–
Balance as at March 31, 2017 (Restated - Note 6)		2,581,757	22,402,403	76,246,510	–	–	357,747	1,518,374	54,763	(52,179,335)	25,998,059
Nine months ended December 31, 2017											
Net loss		–	–	–	–	–	–	–	–	(3,620,688)	(3,620,688)
Other comprehensive loss		–	–	–	–	–	–	–	(928,835)	–	(928,835)
Total comprehensive loss for the period		–	–	–	–	–	–	–	(928,835)	(3,620,688)	(4,549,523)
Common shares issued to settle remaining share issue costs		–	194,444	350,000	–	–	–	–	–	–	350,000
Share-based compensation expense		–	–	–	–	–	–	1,459,144	–	–	1,459,144
Share appreciation rights granted		–	–	–	–	–	–	328,634	–	–	328,634
Fair value of equity component of convertible debentures on issuance, net of transaction costs		–	–	–	–	490,044	–	–	–	–	490,044
Deferred tax liability relating to convertible debentures		–	–	–	–	(138,193)	–	–	–	–	(138,193)
Balance as at December 31, 2017		2,581,757	22,596,847	76,596,510	–	351,851	357,747	3,306,152	(874,072)	(55,800,023)	23,938,165
Three months ended March 31, 2018											
Net loss		–	–	–	–	–	–	–	–	(162,374)	(162,374)
Other comprehensive income		–	–	–	–	–	–	–	205,469	–	205,469
Total comprehensive income for the period		–	–	–	–	–	–	–	205,469	(162,374)	43,095
Share-based compensation expense	**12**	–	–	–	–	–	–	219,640	–	–	219,640
Share appreciation rights granted	**12**	–	–	–	–	–	–	41,319	–	–	41,319
Balance as at March 31, 2018		2,581,757	22,596,847	$ 76,596,510	$ –	$ 351,851	$ 357,747	$ 3,567,111	$ (668,603)	$ (55,962,397)	$ 24,242,219

[1] The common voting shares issued are inclusive of common voting shares, and variable voting shares.

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017 (Unaudited)

Expressed in Canadian dollars

	Note	For the three months ended March 31, 2018	March 31, 2017
			(Restated - Note 6 and 16 (a))
OPERATING ACTIVITIES			
Net loss		$ (162,374)	$ (1,465,758)
Items not involving cash:			
Depreciation and amortization		166,478	81,816
Amortization of investment in film and television	5	947,343	–
Amortization of other intangible assets	6 (a)	594,076	1,147,049
Acquisition of distribution rights	5	(962,197)	–
Share-based compensation expense	12	260,959	180,182
Finance costs	13	353,237	88,464
Deferred income tax recovery		(390,698)	(825,417)
Impairments (reversal)		–	(132,990)
Other non-cash gains		(359,883)	–
		446,941	(926,654)
Investment in film and television		(781,842)	(9,362,565)
Funding received for investment in film and television		–	213,000
Changes in non-cash working capital and other	16	(3,834,832)	2,235,412
Cash used in operating activities		**(4,169,733)**	**(7,840,807)**
FINANCING ACTIVITIES			
Proceeds from interim production financing		2,830,062	5,693,282
Repayment of interim production financing		(692,422)	–
Interest paid		(168,833)	(25,441)
Repayment of finance lease obligations		(149,290)	(110,340)
Cash generated by financing activities		**1,819,517**	**5,557,501**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(18,874)	(225,371)
Purchase of other intangible assets	6 (a)	(1,240)	(2,888)
Cash used in investing activities		**(20,114)**	**(228,259)**
Decrease in cash and cash equivalents for the period		(2,370,330)	(2,511,565)
Effect of foreign exchange on cash and cash equivalents		40,540	–
Cash and cash equivalents, beginning of the period		6,354,432	11,156,260
Cash and cash equivalents, end of the period		**$ 4,024,642**	**$ 8,644,695**

Supplemental information (Note 16)

See accompanying notes to these unaudited condensed interim consolidated financial statements

1. Nature of operations

Wow Unlimited Media Inc. (together with its subsidiaries, "Wow Unlimited" or the "Company") is a publicly listed company on the TSX Venture Exchange ("TSX-V") and is incorporated under the laws of the Province of British Columbia with limited liability and extra-provincially registered to conduct business in the Province of Ontario. Wow Unlimited and its subsidiaries are involved in the production and distribution of animated content for film, television, and online distribution channels. The Company's wholly owned subsidiary, Frederator Networks Inc. ("Frederator"), is incorporated in the United States of America, in the State of Delaware and is registered to operate in the States of New York and California.

The Company's head office is located at 55 Sudbury Street, Toronto, Ontario, M6J 3S7. The Company's registered office is located at 200-2025 West Broadway, Vancouver, British Columbia, V6J 1Z6.

2. Basis of presentation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2017.

Select explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since December 31, 2017, the date of the most recent annual audited consolidated financial statements.

These condensed interim consolidated financial statements include the initial adoption of IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), and IFRS 9, Financial Instruments ("IFRS 9"). The impact on adoption and changes to significant accounting policies are described in Notes 3(a) and 3(b).

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 29, 2018.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a going concern basis under the historical cost basis, except for certain financial assets and financial liabilities which are measured at fair value.

All subsidiaries are 100% owned by the Company except for the following entity: Frederator Books LLC (51% interest). There were no significant operations within this entity during the three months ended March 31, 2018.

(c) Critical accounting judgements and key sources of estimation uncertainty

The preparation of these condensed interim consolidated financial statements and the application of the Company's accounting policies requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses.

The significant estimates and judgements are based on past experience and other assumptions that management believes are reasonable under the circumstances, and management evaluates these estimates on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Actual results could differ from those estimates.

The significant judgements and estimates made by management in applying the Company's accounting policies are the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2017.

(d) Going concern

These condensed interim consolidated financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. In the quarter ended March 31, 2018, the Company had negative cash flows from operating activities of $4,169,733 (quarter ended March 31, 2017 – negative $7,840,807), and net current liabilities of $386,938 (December 31, 2017 – net current assets $2,950,921).

The Company's future operations are dependent upon many factors, including the ability to generate additional earnings and obtaining additional equity and/or debt financing in order to meet its planned business objectives.

The Company will need to raise funds through public or private equity and/or debt financings. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company may need to curtail operations. These factors cast significant doubt on the Company's ability to continue as a going concern. Should the Company be unable to realise its assets and discharge its liabilities in the normal course of business, the net realisable value of its assets may be materially less than the carrying amounts on the condensed interim consolidated statement of financial position.

Management continues to explore options to raise equity financing.

3. Significant accounting policies

Except as described below, these condensed interim consolidated financial statements follow the same accounting policies as those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

(a) IFRS 15 - Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") establishes a comprehensive framework for determining whether revenue should be recognized, and if so, how much and when revenue should be recognized. It replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), which requires that the effect of initially applying this standard be recognized at the date of initial application, which is January 1, 2018, and that the information for 2017 is presented as previously reported. The adoption of this standard did not have a material impact on the Company's consolidated financial statements, and as a result, there was no adjustment made to retained earnings on January 1, 2018.

Although no adjustments were required in applying IFRS 15 to prior periods, the new standard is expected to impact the manner in which revenue is recognized in the future. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. In particular, areas that are expected to have an impact and will require additional accounting policies or amendments to current policies include the following:

Accounting policies have been updated to reflect the terminology required by IFRS 15, however, the content and the application thereof has not changed. The Company's main sources of revenue continue to be from animation production services, the sale of licenses for the distribution of films and television programs, and advertising revenues.

The details of the nature of the changes to previous accounting policies in relation to the Company's various revenue generating arrangements are set out below.

Type of service or products	**Nature, timing of satisfaction of performance obligations, significant payment terms**	**Nature of change in accounting policy**
Animation production services	The Company has determined that for animation production service work, the customer controls the output throughout the production process. Every production is made to the individual customer's specifications and if the contract is terminated by the customer, the Company is entitled to be reimbursed for any costs incurred to date, and any prepaid commitments made plus the agreed contractual mark up. As a result, revenue from such contracts and the associated costs are recognized over time – i.e. as the production is being completed, including prior to it being delivered to the customer. The Company may choose to incur costs in order to secure a contract. Such costs will be capitalised and amortized over the period in which revenue is recognized.	The Company previously recognized revenue on a percentage of completion basis over time based on costs incurred to total expected costs, and will continue to do so. In the event that contract costs are incurred, the policy will be updated to reflect the appropriate treatment of the contract asset.

Type of service or products	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Film and television licensing	The Company has determined that the Company controls the output until the earlier of the license start date or when the customer has control over the asset and can benefit from its use. Transaction prices may contain both fixed non-refundable guaranteed amounts, as well as royalties, profit participations and other contractual payments with the potential to vary. Such variable consideration is recognized as revenue based on the most likely outcome. As the Company licenses the use of its films and television shows to broadcasters, if the period over which payment is received is longer than 12 months from the date the customer controls the output, a portion of the sales price will be considered a financing charge and will be recognized as such over the length of the payment term.	There is no change with regards to the timing of revenue recognition. The application of the method of estimating the amount of variable consideration and the timing of when this is recognized does not differ from the Company's previous policy. The change in transaction price as a result of implicit financing charges will split the contract value between revenue immediately recognized and a financing income component to be recognized over time.
Canada Media Fund – License fee top up	The Company has determined that amounts received by the Company from the Canada Media Fund ("CMF") as a result of a license fee top up, are considered revenue. These amounts are directed to the Company by customers with whom there is a contract, and form part of the transaction price and consideration received.	The Company previously recognized amounts received from the CMF as income and presented the amounts as part of revenue. However, this conclusion was reached through the application of IAS 20, *Government Assistance.* There will be no change in the practical application of the policy.

(b) IFRS 9 - Financial instruments

IFRS 9, *Financial Instruments* is required to be applied for years beginning on or after January 1, 2018, with retrospective application. The new standard includes a model for the classification and measurement of financial assets, and some changes relating to financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment and includes a reformed approach to hedge accounting.

The adoption of IFRS 9 did not have a material impact on the Company’s condensed interim consolidated financial statements and related disclosures. With respect to the classification and measurement, the company previously classified its financial assets as ‘loans and receivables” and its financial liabilities as “other financial liabilities”. Both of these categories were previously measured at amortized cost. The measurement basis has remained the same under IFRS 9, however the categories for classification are referred to as Amortized cost. Please refer to Note 14 for the carrying amounts and fair values of financial instruments.

(c) Distribution rights

Distribution rights, classified under investment in film and television, represent contract rights acquired from third parties to distribute animation productions. The assets and liabilities related to these rights are recorded when the Company controls the asset, the expected future economic benefits are probable and the cost is reliably measurable. The Company generally considers these criteria to be met and records the assets and liabilities when the licensed distribution period has begun, the program material is accepted, and the material is available for airing. These costs are amortized at 50% - 90% immediately when the production is available for airing, with the balance amortized on a straight line basis over the remaining useful life of the distribution license period.

Distribution rights are recorded at cost less accumulated amortization. The amortization period and the amortization method for program rights are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization of distribution rights is recorded in depreciation and amortization expense for the period and is disclosed separately in Note 5.

Distribution rights are tested for impairment on a title-by-title basis if events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. Any shortfall between the recoverable amount from future cash flows from the distribution rights and the carrying value is written off as an impairment expense in the period in which the decline in value becomes evident.

(d) Future changes in accounting policies

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") has issued the following standards and amendments or interpretations to existing standards that are not yet effective and not applied. The Company does not anticipate early adoption of these standards at this time.

Standard	Description	Impact	Effective date
IFRS 16 Leases	This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.	The Company is reviewing the standard to determine the potential impact.	January 1, 2019, applied retrospectively. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16.
IFRIC 23 Uncertainty over Income Tax Treatments	The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.	The Company is reviewing the standard to determine the potential impact.	The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019, although earlier application is permitted.

Expressed in Canadian dollars

4. Trade and other accounts receivable

	March 31, 2018	December 31, 2017
Trade receivables	$ 7,870,708	$ 5,628,053
Tax credits receivable	22,649,590	20,639,858
Tax credits allowance	(310,853)	(349,284)
Other receivables	61,256	37,399
	$ 30,270,701	$ 25,956,026
Less long-term accounts receivable	(2,935,070)	(257,025)
Current portion of accounts receivable	$ 27,335,631	$ 25,699,001

5. Investment in film and television

	Distribution rights	Productions in development	Productions in progress	Completed productions	Total
Cost					
As at January 1, 2018	$ –	$ 2,150,270	$ 3,966,793	$ 11,356,733	$ 17,473,796
Additions, net of government assistance and third party contributions	962,197	42,870	770,299	–	1,775,366
Transfer to completed productions	–	–	(410,529)	410,529	–
Exchange difference	19,107	8,778	113,449	101,976	243,310
Balance at March 31, 2018	$ 981,304	$ 2,201,918	$ 4,440,012	$ 11,869,238	$ 19,492,472
Accumulated amortization and impairment					
As at January 1, 2018	$ –	$ 1,715,451	$ –	$ 7,994,204	$ 9,709,655
Additions	759,704	–	–	187,639	947,343
Exchange difference	15,086	–	–	70,106	85,192
Balance at March 31, 2018	$ 774,790	$ 1,715,451	$ –	$ 8,251,949	$ 10,742,190
Carrying amount					
December 31, 2017	$ –	$ 434,819	$ 3,966,793	$ 3,362,529	$ 7,764,141
March 31, 2018	$ 206,514	$ 486,467	$ 4,440,012	$ 3,617,289	$ 8,750,282

Additions to productions in progress includes interest capitalized of $31,327 for the three months ended March 31, 2018 (March 31, 2017 – $50,765).

There were no impairments recorded against productions for the period ended March 31, 2018 (March 31, 2017 - $nil), nor was there an indication that impairments previously recorded, should be reversed.

Expressed in Canadian dollars

6. Other intangible assets and goodwill

(a) Other intangible assets

	Production agreements	Animation network	Brands	Software	Licenses	Total
Cost						
Balance at January 1, 2018	$ 1,003,600	$ 7,953,530	$ 551,980	$ 3,956,678	$ 738,363	$ 14,204,151
Additions	–	–	–	288,440	1,240	289,680
Disposals	–	–	–	–	–	–
Exchange difference	27,680	219,364	15,224	–	–	262,268
Balance at March 31, 2018	$ 1,031,280	$ 8,172,894	$ 567,204	$ 4,245,118	$ 739,603	$ 14,756,099
Accumulated amortization						
Balance at January 1, 2018	$ 261,354	$ 4,058,478	$ 57,497	$ 3,875,170	$ –	$ 8,252,499
Additions	63,200	490,569	13,904	26,403	–	594,076
Exchange difference	8,463	121,676	1,862	–	–	132,001
Balance at March 31, 2018	$ 333,017	$ 4,670,723	$ 73,263	$ 3,901,573	$ –	$ 8,978,576
Carrying amount						
December 31, 2017	$ 742,246	$ 3,895,052	$ 494,483	$ 81,508	$ 738,363	$ 5,951,652
March 31, 2018	$ 698,263	$ 3,502,171	$ 493,941	$ 343,545	$ 739,603	$ 5,777,523

As a result of the finalizing of the Frederator purchase price allocation in the fourth quarter of 2017, Production agreements, Animation network and Brands intangible assets were recognized. The unaudited condensed interim consolidated statement of comprehensive loss for the three months ended March 31, 2017, has been restated to reflect the increased amortization expense of $1,107,553 associated with these intangible assets along with the impact of the restatement on deferred income tax recovery of $825,417 and foreign currency translation adjustment loss of $168,844.

(b) Goodwill

	Goodwill
Balance at January 1, 2018	$ 10,497,250
Exchange difference	289,522
Balance at March 31, 2018	$ 10,786,772

Goodwill relates to the acquisition of Frederator.

As at March 31, 2018, there were no indicators that goodwill is impaired.

Expressed in Canadian dollars

7. Bank indebtedness and Interim production financing

	Currency	Nominal Interest Rate	Year of maturity	Face value[1] (CAD)	Carrying amount (CAD)[2]
Interim production financing (Note a)	CAD	Bank prime + 1.00% - 1.50%	On demand	$ 22,706,604	$ 18,519,802
Interim production financing (Note b)	USD	Bank prime + 1.00%	March 31, 2020	4,511,850	2,990,925
				27,218,454	21,510,727
Line of credit (Note c)	USD	US Base Rate plus 0.5%	On demand	1,745,000	685,000
				$ 28,963,454	$ 22,195,727

[1] Face value of the loans represent the maximum facility available, excluding interest reserve

[2] Carrying amount represents the amount drawn as at March 31, 2018, including interest reserve

(a) Tax credit secured interim production financing

The Company's production financing facilities are secured by refundable tax credits and contracts, on a per project basis, in order to bridge the timing of cash flows from the expenditure required to complete productions and the receipt of tax credits upon the filing of tax returns. The facilities are subject to a general security agreement and guarantee provided by the Company. At December 31, 2017, the carrying amount was $17,164,389, and the maximum facility available was $22,533,525.

(b) Interim production financing – secured against license agreements

The Company has an interim production financing facility from a US bank with a maximum available facility of USD $3,500,000 (CAD $4,511,850). The loan is secured by license agreements with respect to the projects, *Castlevania* Season 1 and Season 2. The Company is required to direct payments received from Netflix to the bank, with an outside maturity date of March 31, 2020. As a result, at March 31, 2018, based on the known repayment dates, $509,407 (December 31, 2017 – $525,146) of the carrying amount of $2,990,925 (December 31, 2017 - $2,720,521) has been classified as non-current interim production financing, and the remaining balance classified as current on the condensed interim consolidated balance sheet.

(c) Line of credit

In January 2017, the Company secured a $1,195,000 CAD revolving demand facility from the Royal Bank of Canada. In 2018, the facility increased to $1,745,000 CAD. The loan may be drawn down in USD or CAD. At March 31, 2018, $1,060,000 CAD was available to be drawn.

The facility is secured by a guaranteed investment certificate ("GIC") of the same amount, which is included within cash and cash equivalents on the condensed interim consolidated statements of financial position.

Expressed in Canadian dollars

8. Convertible debentures

On December 14, 2017, the Company issued convertible debentures (“debentures”) in the amount of $4,326,000, on the completion of a non-brokered private placement offering. The debentures accrue interest at a rate of 8% per annum payable quarterly in arrears and are convertible into common shares of the Company at a price of $2.00 per share. The debentures mature on December 14, 2020, and are governed by the terms of an indenture between the Company and Computershare Trust Company of Canada.

A continuity of the amounts recorded for convertible debentures and the equity component during the quarter ended March 31, 2018, is as follows:

	Convertible Debentures	Equity component of convertible debentures	Total
Gross proceeds on issuance on December 14, 2017	$ 3,832,691	$ 493,309	$ 4,326,000
Transaction costs	(25,365)	(3,265)	(28,630)
Net proceeds on issuance	3,807,326	490,044	4,297,370
Deferred tax liability	–	(138,193)	(138,193)
Interest accretion expense	24,157	–	24,157
Interest payable recorded in accounts payable and accrued liabilities	(16,119)	–	(16,119)
Balance at December 31, 2017	$ 3,815,364	$ 351,851	$ 4,167,215
Deferred tax liability	–	–	-
Interest accretion expense	127,888	–	127,888
Interest paid	(16,119)	–	(16,119)
Interest payable recorded in accounts payable and accrued liabilities	(69,216)	–	(69,216)
Balance at March 31, 2018	$ 3,857,917	$ 351,851	$ 4,209,768

9. Segmented information

The Company operates and evaluates its business based on its products and services, and the way in which it goes to market. The Company has two reportable segments: Animation production, and Networks and Platforms.

The Company measures segment performance based on revenues reported in accordance with IFRS, Operating EBITDA and segment profit or loss. Operating EBITDA is a non-IFRS measure and is defined as earnings before interest, taxes, depreciation and amortization adjusted for items that management does not consider when evaluating segment performance, including certain general and administration expenses, share based compensation expense, and items affecting comparability. Unless otherwise stated, the Company includes the amortization of investment in film and television in the calculation of operating EBITDA.

Segment profit or loss is defined as operating EBITDA plus depreciation and amortization expense (excluding the amortization of acquisition related intangibles), segment finance costs excluding the impact of specified items affecting comparability, including, where applicable, share of loss of equity accounted investees, other non-operational income and expenses, and deferred taxes. The use of the term "non-operational income and expenses" is defined by the Company as those that do not impact operating decisions taken by the Company's management and is based upon the way the Company's management evaluates the performance of the Company's operating segments.

Expressed in Canadian dollars

The Company believes these supplemental financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

Prior year information in the tables below has been adjusted to conform to current period definitions and presentation, and to reflect the impact of the final purchase price allocation as a result of the acquisition of Frederator.

The following tables summarize the operating performance and assets of the reporting segments:

March 31, 2018		Animation Production		Networks and Platforms		Total
Segment and external revenues	$	10,193,310	$	5,469,353	$	15,662,663
Operating EBITDA		2,185,556		(633,255)		1,552,301
Depreciation and amortization		184,665		8,216		192,881
Finance costs		353,237		-		353,237
Segment profit (loss)	$	1,647,654	$	(641,471)		1,006,183
Amortization of acquisition related intangibles						567,673
General and administration						730,623
Share based compensation expense						260,959
Loss before taxes					$	(553,072)
Capital expenditures						
Investment in film and television	$	1,701,480	$	42,559	$	1,744,039
Property, plant & equipment	$	7,282	$	11,592	$	18,874

March 31, 2017		Animation Production		Networks and Platforms		Total
Segment and external revenues	$	4,308,124	$	1,558,590	$	5,866,714
Operating EBITDA		(25,003)		(348,855)		(373,858)
Depreciation and amortization		121,312		1,107,553		1,228,865
Finance costs		88,464		-		88,464
Segment loss	$	(234,779)	$	(1,456,408)		(1,691,187)
General and administration						419,806
Share based compensation expense						180,182
Loss before taxes					$	(2,291,175)
Capital expenditures						
Investment in film and television	$	9,362,565	$	-	$	9,362,565
Property, plant & equipment	$	210,533	$	14,838	$	225,371

10. Revenue

The Company’s primary sources of revenue are as follows:

Expressed in Canadian dollars

For the three months ended March 31, 2018	Point in time	Over time	Total
Animation production services	$ 893,308	$ 6,734,302	**$ 7,627,610**
Advertising revenues	5,474,778	–	**5,474,778**
Film and television licensing	2,560,275	–	**2,560,275**
	$ 8,928,361	$ 6,734,302	**$ 15,662,663**

For the three months ended March 31, 2017	Point in time	Over time	Total
Animation production services	$ 154,657	$ 4,153,467	**$ 4,308,124**
Advertising revenues	1,558,590	–	**1,558,590**
	$ 1,713,247	$ 4,153,467	**$ 5,866,714**

The approximate revenue based on geographic location of customers is as follows:

	For the three months ended	
	March 31, 2018	March 31, 2017
United States	$ 12,190,621	$ 5,126,877
Canada	2,557,062	739,837
United Kingdom	914,980	-
	$ 15,662,663	$ 5,866,714

a) Contract balances

Trade receivables are disclosed in Note 4. The Company does not have any contract assets.

The Company's only contract related liabilities are deferred revenue, which reflects the timing difference between the receipt of cash and the recognition of revenue. The following table reflects the movement in deferred revenue as a result of cash received and revenue recognized in the first quarter of 2018:

Deferred revenue

Balance as at January 1, 2018	$ 4,045,185
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	(2,957,834)
Increases due to cash received, excluding amounts recognized as revenue during the period	1,494,308
Exchange difference	26,609
Balance as at March 31, 2018	$ 2,608,268

Expressed in Canadian dollars

Balance as at January 1, 2017	$	4,783,544
Revenue recognized that was included in the deferred revenue balance at the beginning of the period		(817,651)
Increases due to cash received, excluding amounts recognized as revenue during the period		3,871,971
Exchange difference		(9,048)
Balance as at March 31, 2017	$	7,828,816

11. Nature of expenses

The comparative information has been restated to reflect the adjustment to the classification of general and administration expenses, and to conform the prior year to current year presentation.

Operating expenses	For the three months ended March 31, 2018	March 31, 2017
Employee costs	$ 5,867,658	$ 4,876,537
Refundable tax credits	(2,363,762)	(1,020,976)
Contractors and subcontracted services	7,452,514	1,504,186
Rent and occupancy	715,997	414,887
IT support and maintenance	459,763	287,661
Royalties and participations	1,091,530	–
Other	(60,681)	311,267
Reversals of impairments of properties in development	–	(132,990)
	$ 13,163,019	$ 6,240,572

General and administration expenses	For the three months ended March 31, 2018	March 31, 2017
Employee costs	$ 287,954	$ 128,729
Legal and accounting	182,694	128,014
Contractors	96,894	2,964
Rent and occupancy	51,523	50,014
Other	111,558	110,085
	$ 730,623	$ 419,806

Employee benefits	For the three months ended March 31, 2018	March 31, 2017
Employee costs	$ 6,155,612	$ 9,944,920
Share based compensation expense	260,959	180,182
	$ 6,416,571	$ 10,125,102

Expressed in Canadian dollars

12. Share based compensation expense

Pursuant to the Company's equity-settled stock option plan, directors may, on occasion, authorize the granting of options to directors, employees and consultants of the Company that shall not exceed ten percent (10%) of the issued and outstanding common shares of the Company on a non-diluted basis at any time. Options granted under the plan have contractual option terms not exceeding five years and vesting periods that range from zero to five years.

Common voting and variable voting shares reserved for outstanding stock options at March 31, 2018 and March 31, 2017 are as follows:

	Number of stock options		Weighted average exercise price	Weighted average contractual life
Outstanding at March 31, 2017	127,500	$	2.00	4.53
Outstanding at March 31, 2018	2,343,897	$	1.91	4.97

Expiry date	Number of stock options outstanding		Exercise price	Number of stock options exercisable		Exercise price
April 2022	974,967	$	1.80	630,062	$	1.80
June 2022	1,258,930		2.00	692,412		2.00
September 2022	110,000		1.90	18,333		1.90
	2,343,897	$	1.91	1,340,807	$	1.90

Share based compensation expense		For the three months ended March 31, 2018		March 31, 2017
Options issued as compensation	$	93,783	$	180,182
Options issued as compensation for Bell Media transaction		125,857		–
Share appreciation rights		41,319		–
	$	260,959	$	180,182

13. Finance costs

		For the three months ended March 31, 2018		March 31, 2017
Interest expense on interim production financing	$	238,117	$	131,712
Interest and accretion on convertible debentures (Note 8)		127,888		–
Interest on obligations under finance lease		18,559		7,517
Interest capitalized to investments in film and television (Note 5)		(31,327)		(50,765)
	$	353,237	$	88,464

Total non-cash finance expense incurred for the period ended March 31, 2018, was $353,237 (March 31, 2017 – $88,464).

14. Financial instruments

(a) Fair value measurement of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company categorizes its fair value measurements according to a three-level hierarchy. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Inputs that are based on unobservable inputs which are supported by little or no market activity.

During the 3 months ended March 31, 2018, the Company entered into USD forward contracts to the notional value of $383,000 USD which was fully exercised during the quarter at an exchange rate of 1.2339, realizing a net loss of $13,903. As at March 31, 2018, there are no further remaining outstanding USD forward contracts.

At March 31, 2018 and December 31, 2017, there are no financial instruments measured at fair value through profit or loss.

Expressed in Canadian dollars

The Company has designated its financial instruments as follows:

	Fair Value Hierarchy	March 31, 2018 Carrying Value	March 31, 2018 Estimated Fair Value	December 31, 2017 Carrying Value	December 31, 2017 Estimated Fair Value
Loans and receivables:					
Cash and cash equivalents	Level 1	$ 4,024,642	$ 4,024,642	$ 6,354,432	$ 6,354,432
Trade and other accounts receivable	Level 2	27,335,631	27,335,631	25,699,001	25,699,001
Deposits and other assets	Level 2	283,018	283,018	278,226	278,226
Long-term accounts receivable	Level 2	2,935,070	2,935,070	257,025	257,025
Other financial liabilities:					
Accounts payable and accrued liabilities	Level 2	7,024,610	7,024,610	4,903,734	4,903,734
Finance lease obligations	Level 2	1,453,537	1,453,537	1,001,189	1,001,189
Interim production financing	Level 2	22,195,727	22,195,727	19,884,910	19,884,910
Convertible debentures	Level 2	3,857,917	4,326,000	3,815,364	4,326,000
Other non-current liabilities	Level 2	281,540	281,540	275,154	275,154

All of the Company's financial instruments have been classified and are measured at amortized cost.

(b) Risks arising from financial instruments

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's liquidity needs can be met through a variety of sources including: generating cash from operations; borrowing against refundable tax credits receivable; entering into finance leases; the issuance of debentures or the issuance of shares. The Company manages liquidity risk by continuously monitoring actual and forecasted cash flows, using finance lease financing and by maintaining revolving credit facilities (Note 2 (d)).

The following table provides a contractual maturity analysis for financial liabilities, excluding operating leases:

As at March 31, 2018	< 1 year	1 to 5 years	Total	Carrying Amount
Accounts payable and accrued liabilities	$ 7,024,610	$ –	$ 7,024,610	$ 7,024,610
Finance lease obligations [1]	818,106	719,431	1,537,537	1,453,537
Interim production financing	21,686,320	509,407	22,195,727	22,195,727
Convertible debentures [1]	346,080	4,918,603	5,264,683	3,857,917
	$ 29,875,116	$ 6,147,441	$ 36,022,557	$ 34,531,791

[1] Includes estimated interest that will be paid to the end of their respective terms.

Expressed in Canadian dollars

15. Capital management

The Company's objectives when managing capital are to safeguard its assets, maintain a competitive cost structure, continue as a going concern in order to pursue the development of its film productions, and provide a return to its shareholders in the form of capital appreciation.

The Company's capital is comprised of the following:

	March 31, 2018	December 31, 2017
Total indebtedness, including finance leases	$ 5,311,454	$ 4,816,553
Less: cash and cash equivalents	(4,024,642)	(6,354,432)
Net debt	1,286,812	(1,537,879)
Shareholders' equity	24,242,219	23,938,165
	$ 25,529,031	$ 22,400,286

Total indebtedness includes debt other than interim production financing (which is included in other financial liabilities in Note 7 (b)).

In order to facilitate the management of capital, the Company prepares annual expenditure budgets that are updated as necessary and dependent on various factors, including successful deployment of capital and industry conditions. The annual and updated budgets are approved by the Board of Directors.

Management believes that existing cash resources, together with cash generated through operations and the financing of refundable tax credits, will generate sufficient liquidity to meet operating cash requirements for at least the next twelve months.

Expressed in Canadian dollars

16. Consolidated statement of cash flows - supplemental information

(a) Changes in non-cash working capital

In 2017, the Company changed its accounting policy with respect to the manner in which certain funds received from the Canada Media Fund was recorded. As a result, certain balances previously recorded as a reduction to investment in film and television were recorded to deferred revenue in the amount of $1,975,653. The three months ended March 31, 2017 in the table below has been restated to reflect the impact of the change in accounting policy.

The net change in non-cash working capital related to operations for the three months ended March 31, 2018 and 2017 are as follows:

	For the three months ended March 31, 2018	March 31, 2017
Trade and other accounts receivable	$ (4,314,675)	$ (962,043)
Prepaid expenses, deposits and other	(205,710)	(332,067)
Deposits and other assets	(4,792)	(85,513)
Accounts payable and accrued liabilities	2,120,876	(1,395,352)
Deferred revenue	(1,436,917)	5,024,871
Other financial liabilities	–	(15,450)
Other non-current liabilities	6,386	966
Net change in non-cash working capital	$ (3,834,832)	$ 2,235,412

(b) Supplemental information – non-cash investing and financing activities

	For the three months ended March 31, 2018	March 31, 2017
Increase to trade and other accounts receivable and decrease to investment in film and television related to production tax credits	$ –	$ 3,031,919
Increase to property, plant and equipment by way of finance lease obligations	$ 192,862	$ –
Increase to intangbles by way of finance lease obligations	$ 288,441	$ –

Expressed in Canadian dollars

(c) Reconciliation of liabilities arising from financing activities

	Interim production financing	Finance lease obligations	Convertible debentures
Balance as at January 1, 2018	**$ 19,884,910**	**$ 1,001,189**	**$ 3,815,364**
Changes from financing cash flows:			
Proceeds from interim production financing	2,830,061	–	–
Repayment of interim production financing	(692,422)	–	–
Interest capitalized	31,327	–	–
Interest paid	(64,939)	(18,559)	(85,335)
Payment on finance leases	–	(149,290)	–
Total changes from financing cash flows	2,104,027	(167,849)	(85,335)
Liability related changes:			
Finance cost	206,790	18,559	127,888
New finance leases	–	601,638	–
Total liability related other changes	$ 206,790	$ 620,197	$ 127,888
Balance as at March 31, 2018	**$ 22,195,727**	**$ 1,453,537**	**$ 3,857,917**

17. Related parties

(a) Remuneration of key management personnel

The remuneration of key management personnel and directors included the following:

	For the three months ended March 31, 2018	March 31, 2017
Short-term benefits	$ 402,230	$ 458,580
Share based compensation expense	192,470	136,454
	$ 594,700	$ 595,034

(b) Rental of office space

Office space in Toronto has been rented on a month to month basis from a company owned by a related party and officer of the Company. For the quarter-ended March 31, 2018, rent was paid in the amount of $50,014 (March 31, 2017 - $50,014).

(c) Officer/Director Financing Advances to a Third-Party Service Provider

During March and April 2018, certain officers/directors of the Company made unsecured, non-recourse production advances aggregating $200,000 USD to an unrelated animation services provider in order to expedite production of a television series for which the Company had not yet entered into a formal production commitment.