Consolidated Financial Statements of

Wow Unlimited Media Inc.

December 31, 2017 and 2016

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Wow Unlimited Media Inc. (the "Company") and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors (the "Board").

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee (the "Committee").

The Committee is appointed by the Board, and the majority of its members are outside unrelated directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting items, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements, annual report and the management's discussion and analysis. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements for 2017 have been audited by KPMG LLP, the external auditors, in accordance with Canadian Auditing Standards on behalf of the shareholders. The auditors have had full and free access to the Committee.

"Steve Hendry"	***"Michael Hirsh"***	***"John Vandervelde"***
Steve Hendry *Chairman of the Audit Committee*	Michael Hirsh *Chief Executive Officer and Chairman of the Board*	John Vandervelde *Chief Financial Officer*

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Wow Unlimited Media Inc.

We have audited the accompanying consolidated financial statements of Wow Unlimited Media Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of comprehensive loss, changes in Shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Wow Unlimited Media Inc. as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(e) in the consolidated financial statements which indicates that Wow Unlimited Media Inc. has negative cash flows from operating activities and its future operations depend on its ability to generate additional future earnings and obtaining additional equity and/or debt financing. These conditions, along with other matters as set forth in Note 2(e) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Wow Unlimited Media Inc. ability to continue as a going concern.

Chartered Professional Accountants

April 24, 2018
Vancouver, Canada

Wow Unlimited Media Inc.

Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

Expressed in Canadian dollars

	Note		December 31, 2017		December 31, 2016 restated (Notes 8 and 26)
ASSETS					
Current					
Cash and cash equivalents		$	6,354,432	$	11,156,260
Trade and other accounts receivable	4		25,699,001		14,420,632
Prepaid expenses, deposits and other			835,154		626,683
			32,888,587		26,203,575
Property, plant and equipment	5		1,395,228		908,164
Investment in film and television	7		7,764,141		4,996,555
Other intangible assets	9		5,951,652		10,119,696
Goodwill	9		10,497,250		11,234,443
Long-term accounts receivable	4		257,025		–
Deposits and other assets			278,226		102,640
			26,143,522		27,361,498
TOTAL ASSETS		**$**	**59,032,109**	**$**	**53,565,073**
LIABILITIES					
Current					
Accounts payable and accrued liabilities		$	4,903,734	$	4,253,407
Interim production financing	10		19,359,764		10,966,509
Deferred revenue	11		4,045,185		4,783,544
Deferred tax liabilities	19		1,168,408		5,087,525
Current portion of finance lease obligations	13		460,575		321,979
Other financial liabilities			–		15,450
			29,937,666		25,428,414
Finance lease obligations	13		540,614		390,834
Interim production financing	10		525,146		–
Convertible debentures	14		3,815,364		–
Other non-current liabilities			275,154		283,902
			5,156,278		674,736
TOTAL LIABILITIES		**$**	**35,093,944**	**$**	**26,103,150**
SHAREHOLDERS' EQUITY					
Share capital	8, 15		76,596,510		77,321,861
Reserves	14, 15, 17		3,141,678		1,928,990
Escrow shares subject to retirement			–		(1,075,351)
Accumulated deficit			(55,800,023)		(50,713,577)
TOTAL SHAREHOLDERS' EQUITY			**23,938,165**		**27,461,923**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**59,032,109**	**$**	**53,565,073**

Going concern (Note 2) Commitments and Contingent liabilities (Note 23), Related parties (Note 24)

Approved by: the Directors

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

Michael Hirsh, Director Steve Hendry, Director

See accompanying notes to these consolidated financial statements

Wow Unlimited Media Inc.

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2017 and 2016

Expressed in Canadian dollars

	Note	2017	2016 restated (Notes 8 and 26)
Revenue	18	$ 44,659,851	$ 17,660,208
Expenses			
Operating	16	33,426,961	13,730,202
Depreciation and amortization	5, 9	4,878,293	739,548
Amortization of investment in film and television	7	7,454,839	–
General and administration	16	6,252,210	2,742,085
Share based payments	18	1,342,330	–
Impairments	4	–	566,483
Acquisition costs		–	5,759,663
Share of results of Ratchet Productions, LLC		–	7,673,328
Loss before finance costs and taxes		(8,694,782)	(13,551,101)
Finance costs	12, 14	442,761	1,662,890
Loss before taxes		**$ (9,137,543)**	**$ (15,213,991)**
Deferred income tax recovery	19	(4,051,097)	(85,939)
Net loss		**$ (5,086,446)**	**$ (15,128,052)**
Other comprehensive (income) loss			
Item that may be reclassified subsequently to profit or loss			
Foreign currency translation adjustment		1,107,123	375,272
Total comprehensive loss		**$ (6,193,569)**	**$ (15,503,324)**
Loss per share			
- basic and diluted		**$ (0.20)**	**$ (5.41)**
Weighted average number of shares outstanding			
- basic and diluted		25,241,171	2,798,249

See accompanying notes to these consolidated financial statements

Wow Unlimited Media Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

Expressed in Canadian dollars

	Note	Number of non-voting shares issued	Number of common voting shares issued [2]	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, 2016			1,943,514	34,802,618	–	693,555	–	726,597	608,323	(35,585,525)	1,245,568
Net loss				–	–	–	–	–	–	(15,128,052)	(15,128,052)
Other comprehensive income				–	–	–	–	–	(375,272)	–	(375,272)
Total comprehensive loss for the period				–	–	–	–	–	(375,272)	(15,128,052)	(15,503,324)
Shares subject to limited recourse loan, cancelled			(195,000)	–	–	–	–	–	–	–	–
Conversion of convertible debentures			5,500	11,750	–	(873)	–	–	–	–	10,877
Common shares issued for conversion of convertible debentures			6,642,507	12,643,822	–	(692,682)	–	–	–	–	11,951,140
Common shares issued in private placement			6,281,556	11,306,800	–	–	–	–	–	–	11,306,800
Share issue costs				(711,682)	–	–	–	–	–	–	(711,682)
Broker warrants issued				(357,747)	–	–	357,747	–	–	–	–
Common and non-voting shares issued on acquisition [1]	8	3,179,174	7,724,326	19,626,300	–	–	–	611,595	–	–	20,237,895
Escrow shares subject to retirement				–	(1,075,351)	–	–	–	–	–	(1,075,351)
Balance as at December 31, 2016 restated (Notes 8 and 26)		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
Net loss				–	–	–	–	–	–	(5,086,446)	(5,086,446)
Other comprehensive income				–	–	–	–	–	(1,107,123)	–	(1,107,123)
Total comprehensive loss for the period				–	–	–	–	–	(1,107,123)	(5,086,446)	(6,193,569)
Escrow shares cancelled		(597,417)		(1,075,351)	1,075,351	–	–	–	–	–	–
Common shares issued to settle remaining share issue costs	15 (a)		194,444	350,000	–	–	–	–	–	–	350,000
Share-based compensation	17 (a)			–	–	–	–	1,639,326	–	–	1,639,326
Share appreciation rights granted	17 (b)			–	–	–	–	328,634	–	–	328,634
Fair value of equity component of convertible debentures on issuance, net of transaction costs	14			–	–	490,044	–	–	–	–	490,044
Deferred tax liability relating to convertible debentures	14			–	–	(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

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

[2] On December 15, 2016, the Company's shares were consolidated on the basis of one post-consolidation share for every 10 pre-consolidation shares held. The number of shares presented in these condensed interim consolidated financial statements have all been adjusted to reflect the impact of this share consolidation for all periods presented.

See accompanying notes to these consolidated financial statements

Wow Unlimited Media Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

Expressed in Canadian dollars

	Note	2017	2016 restated (Notes 8 and 26)
OPERATING ACTIVITIES			
Net loss		$ (5,086,446)	$ (15,128,052)
Items not involving cash:			
Depreciation and amortization		531,718	550,782
Amortization of investment in film and television		7,454,839	–
Amortization of other intangible assets		4,346,575	188,766
Share-based compensation expense	17	1,342,330	–
Non-cash acquisition costs		–	4,718,749
Finance costs	12	442,761	1,645,375
Deferred income tax recovery	19	(4,051,097)	(85,939)
Share of loss of Ratchet Productions, LLC	6	–	8,839,189
Impairment (reversal)	6, 7	(132,990)	867,003
Other non-cash losses		(355,231)	187,110
		4,492,459	1,782,983
Investment in film and television		(16,560,433)	(3,733,510)
Funding received for investment in film and television		1,010,000	–
Changes in non-cash working capital and other	22	(5,188,031)	5,079,616
Cash (used in) generated by operating activities		**(16,246,005)**	**3,129,089**
FINANCING ACTIVITIES			
Proceeds from interim production financing		15,430,400	9,441,824
Repayment of interim production financing		(6,972,320)	(11,102,974)
Interest paid		(264,965)	(1,354,540)
Repayment of finance lease obligations		(437,509)	(265,552)
Proceeds from bank indebtedness		759,155	–
Repayment of bank indebtedness		(759,155)	–
Proceeds on financing of property, plant and equipment		–	482,722
Proceeds from private placement, net of share issuance costs		–	10,595,118
Net proceeds on issuance of convertible debentures	14	4,297,370	–
Repayment on redemption of convertible debentures		–	(1,739,968)
Transaction costs on modification of convertible debentures		–	(25,601)
Cash generated by financing activities		**12,052,976**	**6,031,029**
INVESTING ACTIVITIES			
Net cash acquired resulting from acquisitions	8	–	101,632
Purchase of property, plant and equipment		(364,139)	(556,027)
Purchase of other intangible assets		(133,042)	(107,985)
Cash used in investing activities		**(497,181)**	**(562,380)**
Effect of foreign exchange rate changes on cash		(111,618)	–
(Decrease) increase in cash and cash equivalents for the period		(4,690,210)	8,597,738
Cash and cash equivalents, beginning of the period		11,156,260	2,558,522
Cash and cash equivalents, end of the period		**$ 6,354,432**	**$ 11,156,260**

Supplemental information (Note 22)

See accompanying notes to these consolidated financial statements

1. Nature of operations

Wow Unlimited Media Inc. (together with its subsidiaries, "Wow Unlimited" or the "Company" or the "Group") 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, M6J3S7. 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements of the Company for the year ended December 31, 2017, were approved and authorized for issue by the Board of Directors on April 24, 2018.

(b) Basis of measurement

These 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, as explained in Note 3(m).

Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

All subsidiaries are 100% owned by the Company except for Frederator Books LLC (51% owned). There were no significant operations within this entity during the years ended December 31, 2017 and 2016.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the functional currency of the Company and its Canadian subsidiaries. The functional currency of Frederator and its related companies is the US dollar ("USD"). The financial statements of these consolidated entities with a functional currency other than the Canadian dollar are translated in accordance with Note 3 (e)(ii) "Foreign Operations".

(d) Critical accounting judgments and key sources of estimation uncertainty

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses. 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 areas of estimation and judgement that management considers most significant are:

Estimates

(i) Impairment of assets, investments in film and television and goodwill

An impairment loss is recognized for the amount by which an asset or cash-generating unit's ("CGU") carrying amount exceeds its recoverable amount. Impairment losses are allocated first to goodwill, and to the underlying assets thereafter. To determine the recoverable amount, management estimates either the fair value less costs to sell, or the value-in-use based on the present value of the expected future cash flows from each asset or CGU. In estimating the value-in-use, management must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future income which relate to future events and circumstances. There are inherent uncertainties in projecting future cash flows and actual results may vary from those estimates. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Where there are different possible outcomes, management must determine appropriate probability weightings to attach to the present values of those cash flows in order to calculate an appropriate value-in-use.

(ii) Business combinations

The Company allocates the consideration paid in the acquisition of a business to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values at the transaction date in accordance with *IFRS 3 - Business Combinations*, with any excess recognised as goodwill.

The process of allocating the purchase price requires that management exercise their best estimates and assumptions to accurately value assets acquired and liabilities assumed as part of the business combination. These estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which can be up to one year from the transaction date, management may record retrospective adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

(iii) Capitalization of costs of productions in progress

Development costs incurred in the internal generation of productions in which the Company has an ownership stake are capitalized from the point at which the requirements of *IAS 38 - Intangible assets* have been met. This assessment requires management to exercise judgement with regards to their intention to complete the production as well as those estimates and judgements required in determining whether or not a production will result in a future economic benefit for the Company.

(iv) Revenue recognition

Revenue from animation production services provided is recognized on a percentage-of-completion basis when the following criteria are met: there is an agreement with a customer confirming the amount of total contract revenue so that the revenue can be measured reliably, the stage of completion can be measured reliably, the receipt of payment is probable, and costs incurred and to be incurred can be measured reliably. Management estimates the percentage-of-completion based upon the proportion of costs incurred cumulatively in the current period to total expected costs. Changes in revenue recognized as a result of adjustments to total expected costs are recognized in the statements of comprehensive loss on a prospective basis. When the outcome of an arrangement cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(v) Amortization of completed productions

Completed productions with pre-sale license commitments are amortized at 50% - 90% immediately on the delivery of the performance obligation to the licensor, with the balance amortized on a straight line basis over the remaining useful life of the production. The determination of the appropriate rate for the initial amortization on delivery is dependent on the degree of exclusivity afforded the licensor and the limitations on the Company's ability to utilize the asset to generate economic benefits in other ways during the initial license period. This assessment requires management to estimate the total economic benefits and the manner in which they will be generated by utilising the asset.

(vi) Tax credits receivable

The Federal and certain Provincial governments in Canada provide programs that are designed to assist film and television production in the form of refundable tax credits or other incentives. Estimated amounts receivable in respect of refundable tax credits are recorded as a reduction to the related production operating cost, or to investment in film and television when the conditions for eligibility of production assistance based on the government's criteria have been met, the qualifying expenditures are made and there is reasonable assurance of realization. Determination of when and if the conditions of eligibility have been met is based on management's judgement and the amount recognized is based on management estimates of qualifying expenditures. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the Canada Revenue Agency ("CRA"). Changes in administrative policies by the CRA or subsequent review of eligibility documentation may impact the collectability of these estimates. The Company continuously reviews the results of these audits to determine if any circumstances arise that in management's judgement would result in a previously recognized amount to be considered no longer collectible.

Judgments

(i) Accounting for joint arrangements

The Company has a 63% membership interest in Ratchet Productions, LLC, a special purpose entity formed in October 2012, solely for the purpose of producing and distributing the feature film *Ratchet & Clank*. The Company has joint control over the arrangement as the contractual agreements have been structured in a way that requires the Company and one of the other members to be in agreement in all decisions made over relevant activities.

The arrangement is held in a structured entity that confers legal separation between the investors and the investee. In management's judgement, the contractual arrangements initially gave the parties the rights to the assets and obligations for the liabilities of the arrangement. Therefore, this joint arrangement was classified as a joint operation of the Company at its inception.

(e) Going concern

These 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. As at December 31, 2017, the Company has negative cash flows from operating activities of $16,246,005 (December 31, 2016 – positive $3,129,089) arising primarily as a result of the Company's operations using $16,560,433 of cash for investment in film and television during the year ended December 31, 2017.

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. To that end, on December 14, 2017, the Company concluded a private placement of Convertible Debentures for gross proceeds of $4.3 million (see Note 14). Management continues to explore options to raise equity financing.

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 statement of financial position.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Operating Cycle

The Company classifies assets and liabilities as current and non-current based on its normal operating cycle. Government assistance, in the form of refundable tax credits, is relied upon as a key component of production financing. These amounts are claimed from the CRA through the submission of income tax returns and can take up to approximately 18 - 24 months from the date of the first tax credit dollar being earned to being received. As this financing is fundamental to the Company's ability to produce animated productions and generate revenue in the normal course of business, the normal operating cycle for such assets is considered to be a 12 to 24 month period, or the time it takes for the CRA to assess and refund the tax credits earned.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date on which the Company obtains a controlling interest. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control, if different.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(c) Joint arrangements

A joint arrangement is an arrangement in which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is an arrangement in which the Company has joint control, whereby the Company has rights to the assets and obligations for the liabilities relating to the arrangement. The Company accounts for interests in joint operations by recognising its assets and liabilities. This includes its share of assets and liabilities held or incurred jointly, in the consolidated statement of financial position, and its expenses, including expenses incurred jointly, and revenue from the sale of output by the joint operator or the Company's sale of its share of the output, in the consolidated statements of comprehensive loss. The Company records its share of the losses up until the carrying amount of the investment is reduced to $nil. Subsequently, the Company tracks the cumulative earnings/losses in the joint arrangement to determine if the investment will reverse and become recoverable.

A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to the arrangement's assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income or loss of joint ventures, until the date on which significant influence or joint control ceases.

After the application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment. In doing so, the Company applies a two-step process:

a) To the extent that there is an impairment recognized in the joint venture, the Company recognizes its share of the loss through the application of the equity method; and

b) Where there is objective evidence that the investment in joint venture may be impaired, the Company tests the investment as a whole, by calculating the difference between the recoverable amount of the investment and its carrying amount, and if necessary, recognizes any additional loss as "Share of loss of joint venture" in the consolidated statements of comprehensive loss.

(d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from downstream transactions with joint ventures are eliminated against the investment account to the extent of the Company's interest in the joint venture. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

(i) Foreign currency transactions

Transactions in currencies other than the functional currency are translated at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the period end date. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive loss in the period in which they arise.

(ii) Foreign operations

The individual financial statement of each Group company is presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of presenting consolidated financial statements, the results and financial position of each Group company is expressed in Canadian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the Canadian dollars at the exchange rates prevailing at the reporting date. The income and expenses are translated at the exchange rates ruling at the dates of the transactions. Foreign currency differences that arise on translation for consolidation purposes are recognized in other comprehensive income or loss and accumulated in the translation reserve.

Such translation differences are recognised as income or expenses in the period in which the operation is disposed of. When the Company disposes of only part of its interest in an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative translation reserve is recognised as income or expenses.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. As at December 31, 2017 and 2016, the balance includes cash on hand and deposits held with financial institutions.

(g) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation of an asset's cost less residual value is recognized over the estimated useful life of the asset based on the following annual rates:

Operating equipment	straight-line over 3 to 5 years
Furniture and office equipment	straight-line over 5 years
Leasehold improvements	straight-line over 7 years

Estimated useful lives, residual values and depreciation methods are reviewed annually, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's estimates; as a result, depreciation is subject to estimation uncertainty.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. Any gain or loss arising from disposal or retirement is determined as the difference between the consideration received and the carrying amount of the asset and is recognized in the consolidated statements of comprehensive loss.

(h) Investment in film and television

(i) Productions in development

Certain development costs relating to investments in film and television properties in development, that meet the criteria set forth under *IAS 38 - Intangible assets,* are capitalized. These costs are reclassified to productions in progress once the project is approved and physical production of the film commences.

Development costs include the costs of acquiring film rights to books, scripts or original screenplays and the third party costs to adapt such projects, including visual development and design. Advances or contributions received from third parties to assist in development are deducted from these costs.

Productions in development are tested for impairment on a title-by-title basis when there are indicators of impairment and are written off at the earlier of the date they are determined not to be recoverable, when projects under development are abandoned, or if there have been no active developments within the last year.

(ii) Productions in progress

For the Company's film and television programs in progress, capitalized costs include all direct production and financing costs incurred during production that are expected to provide future economic benefit to the Company. Borrowing costs are capitalized to the cost of a film or television program until substantially all of the activities necessary to prepare the film or television program for its use intended by management are complete. Capitalized production costs do not include administrative and general expenses, or charges for losses on investments in film and television that are sold or abandoned.

(iii) Completed productions

Completed productions are carried at the cost of proprietary film and television programs which have been produced by the Company or to which the Company has acquired distribution rights, less accumulated amortization and accumulated impairment losses.

These costs are amortized over the production's estimated useful life on a declining balance basis. Completed productions with pre-sale license commitments are amortized at 50% - 90% immediately on the delivery of the performance obligation to the licensor, with the balance amortized on a straight line basis over the remaining useful life of the production. The determination of the appropriate rate for the initial amortization on delivery is dependent on the degree of exclusivity afforded the licensor and the limitations on the Company's ability to utilize the asset to generate economic benefits in other ways during the initial license period.

Amounts capitalized are reviewed for impairment 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 and the carrying value is written off as an impairment expense in the period in which the decline in value becomes evident.

(i) Intangible assets

Intangible assets recognized include computer software and other identifiable intangible assets acquired. Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Amortization of an intangible asset's cost less residual value is recognized over the estimated useful life of the asset based on the following annual rates:

Computer software	straight-line over 2 to 3 years
Brands	straight-line over 10 years
Production contracts	straight-line over the length of the contract
Animation network	50% declining balance

The estimated useful lives, residual values and amortization methods are reviewed annually, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's estimates; as a result, amortization is subject to estimation uncertainty.

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. A gain or loss arising from derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

Broadcast licenses

Intangible assets with indefinite useful lives are not amortized. Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without significant cost and without material modification of the existing terms and conditions of the license. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If no, the change in useful life from indefinite to finite is made on a prospective basis.

Broadcast licenses are tested for impairment annually or more frequently if event or circumstances indicate that they may be impaired.

Broadcast licenses by themselves do not generate cash inflows and, therefore, when assessing these assets for impairment, the Company looks to the CGUs to which the asset belongs.

(j) Goodwill

Goodwill is allocated to each of the Company's CGUs that is expected to benefit from the synergies of the business combination that resulted in the recognition of goodwill. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indicator that the CGU may be impaired. Management evaluates goodwill for impairment annually as of December 31. While management uses their best estimates and assumptions to assess goodwill impairment, there are inherent uncertainties in projecting future cash flows.

(k) Impairment

The Company's property, plant and equipment, investments in film and television and intangible assets are reviewed for indicators of potential impairment at least annually and whenever there is an indication that an asset may be impaired. Such indicators may include an adverse change in business climate, technology, or regulations that impact the industry. The determination of whether such indicators exist requires significant judgement. If an indication of impairment exists, the asset's recoverable amount is estimated to determine the extent of an impairment loss, if any.

The recoverable amount of goodwill is tested for impairment annually.

For an asset that does not generate largely independent cash inflows or for which it is not possible to estimate the recoverable amount, the recoverable amount is determined for the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Investments in film and television are tested for impairment on a title-by-title basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset or CGU is the greater of fair value less costs to sell and value-in-use. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable transactions, present value or other valuation techniques or a combination thereof, necessitating management to make subjective judgements and assumptions. When calculating an asset or CGU's value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which the cash flows have not been adjusted.

An impairment loss is recognized when the carrying amount of an asset, or CGU, exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of comprehensive loss in the period in which the impairment is identified. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, if any, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The reversal of an impairment loss is recognized immediately in the consolidated statements of comprehensive loss.

(l) Business combinations

The Company applies the acquisition method to account for business combinations. The consideration paid by the Company is measured at the fair value of any assets transferred, the liabilities assumed and the equity interests

issued by the Company at the acquisition date, which may be in the form of share capital or stock options in the Company.

Contingent consideration is measured at fair value on acquisition date and is included as part of the consideration transferred. The fair value of the contingent consideration is re-measured at each reporting date with the corresponding gain or loss being recognised in the consolidated statements of comprehensive loss.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. Transaction costs incurred in connection with a business combination, other than costs associated with the issuance of debt or equity securities, are expensed as incurred in the consolidated statements of comprehensive loss. Goodwill is measured as the excess of the fair value of consideration transferred over the fair value of identifiable assets acquired and liabilities assumed.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the close of the transaction. Foreign exchange gains and losses, resulting from the settlement of the transactions at the year-end rate of monetary assets and liabilities denominated in currencies other than the functional currency, are recognized in the consolidated statements of comprehensive loss.

(m) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized in profit or loss when incurred.

(i) Classification and subsequent measurement

Financial instruments are classified into one of five categories and, depending on the category, will either be measured at amortized cost or fair value. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost. Financial assets and liabilities classified as FVTPL and available-for-sale financial assets are measured at fair value. Changes in the fair value of FVTPL financial assets and liabilities are recognized in the consolidated statements of comprehensive income or loss and changes in the fair value of available-for-sale financial assets are recorded in other comprehensive income or loss until the investment is derecognized or impaired at which time the amounts would be recorded in profit or loss.

The Company classifies cash and cash equivalents, and trade and other accounts receivable as loans and receivables. Accounts payable and accrued liabilities, finance lease obligations, interim production financing, and convertible debentures are classified as other financial liabilities.

(ii) Compound instruments

The liability and equity components of compound instruments (including convertible debentures) issued by the Company are presented separately on the consolidated statements of financial position.

The liability component is recognized initially at fair value; calculated by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar non-convertible liability of comparable credit status and providing substantially the same cash flows as the instrument. Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method; the liability component is increased by accretion of the discounted amounts to reach the nominal value of the convertible debentures at maturity.

The carrying amount of the conversion option, classified as equity, is calculated by deducting the amount of the liability from the fair value of the instrument as a whole. The equity component is presented in shareholders' equity and is shown net of income tax effects. The equity component is not re-measured subsequent to initial recognition.

Transaction costs are allocated on a pro-rata basis to each separately accounted component.

(iii) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

Embedded derivatives are recorded at FVTPL.

(iv) Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the assets have expired or where the Company has transferred substantially all risks and rewards of ownership to another entity.

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statements of comprehensive loss.

(v) Impairment

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected. The determination of whether such indicators exist requires significant judgement.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it has become probable that the borrower will enter bankruptcy or financial reorganization;

- the disappearance of an active market for the security; or
- significant or prolonged decline in the fair value of an available for sale equity instrument below its cost.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is directly reduced by the impairment loss with the exception of trade receivables.

(n) Revenue recognition

Revenue represents the amounts receivable for goods and services provided in the normal course of business, net of discounts. Revenue is derived from or on behalf of customers of animation production services provided to third parties, from the licensing and distribution of films and television rights and from television production and licensing and merchandising sales.

(i) Animation production services

Revenue from animation production services provided is recognized over-time on a percentage-of-completion basis when the following criteria are met: there is agreement with a customer confirming the amount of total contract revenue so that the revenue can be measured reliably, the receipt of payment is probable, and costs incurred and to be incurred can be measured reliably. The percentage-of-completion is calculated based upon the proportion of costs incurred cumulatively in the current period to total expected costs. Changes in revenue recognized as a result of adjustments to total expected costs are recognized in profit or loss on a prospective basis. Invoices related to these projects are issued based on the achievement of milestones during the project or other contractual terms. The difference between contractual payments received and revenue recognized is recorded as deferred revenue when receipts exceed revenue and as unbilled accounts receivable when revenue recognized exceeds receipts.

When the outcome of an arrangement cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(ii) Film and television licensing

Revenue from the licensing of film and television investments is recognized when:

- persuasive evidence of a sale or licensing arrangement with a customer exists;
- the production is complete and the contractual delivery arrangements have been satisfied;
- the customer has access to the production and can benefit from the content;
- the amount of revenue can be measured reliably;
- collectability of the proceeds is probable;
- the costs incurred or to be incurred in respect of the contractual arrangement can be measured reliably; and
- other conditions as specified in the respective agreements have been met.

Amounts receivable in excess of non-refundable guaranteed amounts, royalties and other contractual payments are recognized as revenue when the amounts are known and become due provided collectability is reasonably assured.

(iii) Advertising revenues

The Company generates advertising revenue from its owned and operated *YouTube* channels as well as revenues generated from the operation of its multi-channel network on *YouTube*. Revenue is recognized when services are provided in accordance with the Company's agreement with *YouTube*, the price is fixed or determinable, and collection of the related receivable is probable.

(iv) Merchandising and licensing

Revenue from merchandising and licensing contracts for the sale of related rights is recognized when management considers it probable that the economic benefits will flow to the Company and that the revenue to be received is reliably measurable. The above conditions are considered met when the contracts are executed, the guaranteed minimum amounts are known and collectible, and the license period has commenced. Amounts receivable in excess of non-refundable guaranteed amounts, royalties and other contractual payments are recognized as revenue when the amounts are known and become due provided collectability is reasonably assured.

(v) Revenue presentation – gross versus net

The Company evaluates individual arrangements with third parties to determine whether the Company acts as principal or agent under the terms. To the extent that the Company acts as the principal in an arrangement, revenues are reported on a gross basis, resulting in revenues and expenses being classified in their respective financial statement line items. To the extent that the Company acts as the agent in an arrangement, revenues are reported on a net basis, resulting in revenues being presented net of any expenses incurred in providing agency services. Determining whether the Company acts as principal or agent is based on an evaluation of which party has substantial risks and rewards of ownership under the terms of an arrangement. The most significant factors that the Company considers include identification of the primary obligor, as well as which party has credit risk, general and inventory risk and the latitude or ability in establishing prices.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the statements of comprehensive loss in the period in which they are incurred.

(p) Government financing and assistance

The Federal and certain Provincial governments in Canada provide programs that are designed to assist film and television production in the form of refundable tax credits or other incentives. Government assistance is recorded when the conditions for eligibility of production assistance based on the government's criteria have been met, the qualifying expenditures are made and there is reasonable assurance of realization.

(i) Tax credits

Estimated amounts receivable in respect of refundable tax credits are recorded as a reduction to the related production operating cost, or to investment in film and television.

(ii) Canada Media Fund

Assistance that is provided under the Canada Media Fund is recorded as either (i) a reduction of the investment in film and television, to the extent that the qualifying expenditure has been incurred, or to the extent that government assistance is received in advance of the applicable expenses being incurred, the receipts are recorded as a liability, or (ii) where the assistance provides a supplement to a series' Canadian license fee, it is recorded in revenue when the revenue from the applicable license fee is recorded; amounts received in advance of revenue being recognised are recorded in the consolidated statements of financial position as deferred revenue.

(q) Share-based compensation

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of options granted to employees at the grant date. *IFRS 2 - Share-based Payments* requires that when share options are granted, they vest pro-rata over the vesting period. Each tranche with graded vesting features is treated as a separate share option grant. The fair value of each share option granted is determined at the grant date and is expensed on a straight-line basis over the vesting period, taking into consideration the Company's estimate of options that will eventually vest, with a corresponding increase in equity. Forfeitures are estimated on the grant date and revised if the actual forfeitures differ from previous estimates. The inputs to the Black-Scholes model and the determination of the forfeiture rate are subject to management judgement.

(i) Settlement other than by the Company

From time to time, employees may receive compensation in the form of share-based payment arrangements for services performed as a result of and for their continued service to the Company or a subsidiary of the Company, for which the responsibility for settlement lies with a related party.

Such issuances are treated as equity-settled, whether or not there is the possibility of cash settlement by the issuer, as the liability does not rest with the Company. The cost of such transactions is determined by the fair value at the date when the grant is made using the Black Scholes option-pricing model. That cost is recognized in employee costs, together with a corresponding increase in share-based payment reserve in shareholders' equity over the period that the employees unconditionally become entitled to payment. The inputs to the Black-Scholes option-pricing model and the determination of the forfeiture rate are subject to management judgement.

(r) Earnings or loss per share

Basic earnings or loss per share is calculated by dividing earnings or loss by the weighted average number of common shares outstanding. Diluted earnings or loss per common share is calculated under the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings or loss per share assumes that the total of the proceeds to be received on the exercise of dilutive instruments is applied to repurchase common shares at the average market price for the period.

Convertible instruments are dilutive only when the average market price of common shares during the period exceeds the exercise price of the convertible instrument.

(s) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Assets held under finance leases are recognized as assets of the Company at the lower of the fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are charged to profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

The assessment of whether a lease is classified as an operating lease or a finance lease is based on management's judgement.

(t) Provisions and contingencies

(i) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(ii) Contingencies

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. As contingencies will only be resolved when one or more future events occur or fail to occur, the assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

(u) Income taxes

Income tax expense is comprised of current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable from previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is derecognized. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- goodwill; and
- investments in subsidiaries, associates and jointly controlled entities where the timing of the reversal of the temporary differences can be controlled by the Company and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(v) Segment reporting

The Company has two operating segments which are consistent with the internal reporting provided to the Chief Executive Officer. The chief operating decision-maker has the authority to allocate resources and is responsible for assessing the Company's performance. All assets are located in Canada and the United States, and revenues are generated from services provided in Canada and the United States.

(w) Accounting policy developments

(i) Initial application of new and revised International Financial Reporting Standards (IFRSs) in the reporting period

The following amendment became effective for years beginning on or after January 1, 2017, and is applicable to the Company:

- *Annual improvements to IFRSs 2012-2014 Cycle* are required to be applied for years beginning on or after January 1, 2016 and such application has had no effect on the financial performance or disclosures.
- *Amendments to IAS 7 – Cash flows* was released as part of the IASB's Disclosure initiatives. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from

financing activities, including both changes arising from cash flow and non-cash changes. The Company has complied and included the additional disclosure as set out in Note 22 (c).

(ii) Standards, interpretations and amendments to standards not yet effective and not yet applied:

- 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.
  Based on current facts and circumstances and work performed to date, management does not expect adoption of this standard will have a material impact on the Company's financial performance or disclosures.

- IFRS 15, *Revenue from Contracts with Customers* is required to be applied for years beginning on or after January 1, 2018. The new standard supersedes previously issued revenue standards and interpretations, including IAS 18, Revenue. It establishes a five-step model to assess the amount and timing of revenue recognized relative to the fulfilment of contractual performance obligations.
  The Company is applying the standard retrospectively, with the cumulative effect of initial application recognised on January 1, 2018. Based on current and past circumstances and work performed to date, the application of IFRS 15, *Revenue from Contracts with Customers* is not expected to have a material impact on historical results and published consolidated financial statements.
  The areas that the new standard will impact revenue recognition most going forward are:
  - **The timing and classification of revenue recognition:** 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, a portion of the sales price will be considered a financing charge and will be recognised as such over the length of the payment terms.
  - **Cost of contract acquisition:** In future, if the Company chooses to incur costs in order to secure a contract, the new standard requires that these amounts are capitalised and amortized over the period in which revenue is recognised.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration* is required to be applied for years beginning on or after January 1, 2018, with prospective application. The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
  The Company has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will not have a material impact on the Company's consolidated financial statements. Immaterial changes to the Company's statements as a result of the new standard relate to changes in the presentation of foreign exchange gains and losses on balances: for foreign currency denominated revenue

contracts, the exchange difference realized will be recognized in revenues and not in foreign exchange gains and losses as done currently.

- IFRS 16, *Leases*, is required to be adopted for years beginning on or after January 1, 2019. This standard supersedes IAS 17, *Leases* and related interpretations. 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.
  It is expected that IFRS 16 will have an impact on the Company's consolidated financial statements with recognition of new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities. The Company is still in the process of assessing the quantitative impact on its consolidated financial statements of this new standard.

4. Trade and other accounts receivable

	December 31, 2017	December 31, 2016
Trade receivables	$ 5,628,053	$ 1,107,701
Tax credits receivable	20,382,833	13,063,325
Tax credits allowance	(349,284)	–
Other receivables	37,399	249,606
	$ 25,699,001	$ 14,420,632

Trade receivables include $649,997 (2016 - $nil) for production services rendered prior to invoicing.

The Company has access to several government programs, in the form of refundable tax credits, which are designed to assist film and television production in Canada. Amounts received or receivable in respect of refundable tax credits are recorded as a reduction to the related production operating costs or as a reduction to investment in film and television. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the CRA. Amounts receivable are based on management estimates of the ultimate collectability which include certain provisions for ordinary course CRA audit revisions or assessments.

The Company believes that $566,483 of trade receivables from Ratchet Productions, LLC ("RPLLC") is not recoverable, and was provided for in full in the period ended December 31, 2016. Please see Notes 6 for further details.

The following table reflects the movement in the tax credits receivable balance:

	December 31, 2017	December 31, 2016
Opening balance, January 1	$ 13,063,325	$ 14,598,669
Tax credits earned	5,560,091	9,207,999
Tax credit allowance	(349,284)	–
Tax credits received	(4,127,924)	(12,814,903)
Tax credits applied to Investment in Film	6,144,366	2,071,560
	$ 20,290,574	$ 13,063,325
Less tax credits receivable - non current portion	(257,025)	–
Closing balance	$ 20,033,549	$ 13,063,325

The following table reflects the movement in the tax credits allowance:

For the years ending December 31	2017	2016
Opening balance, January 1	$ –	$ –
Additions to allowance	429,812	53,954
Adjustment for accounts written-off	(80,528)	(53,954)
Closing balance	$ 349,284	$ –

5. Property, plant and equipment

	Operating equipment	Leasehold improvements	Furniture and office equipment	Total
Cost				
Balance at January 1 , 2016	$ 9,805,814	$ 1,969,060	$ 329,883	$ 12,104,757
Additions	565,106	177,949	11,645	754,700
Additions through acquisition	17,206	–	–	17,206
Exchange difference	101	–	–	101
Balance at December 31, 2016	$ 10,388,227	$ 2,147,009	$ 341,528	$ 12,876,764
Additions	1,007,270	41,144	43,867	1,092,281
Disposals, retirements and other	(74,331)	–	–	(74,331)
Exchange difference	(2,544)	(1,178)	(926)	(4,648)
Balance at December 31, 2017	$ 11,318,622	$ 2,186,975	$ 384,469	$ 13,890,066
Accumulated depreciation and impairment				
Balance at January 1 , 2016	$ 9,323,306	$ 1,889,041	$ 323,134	$ 11,535,481
Additions	395,508	32,751	4,860	433,119
Balance at December 31, 2016	$ 9,718,814	$ 1,921,792	$ 327,994	$ 11,968,600
Additions	543,010	48,420	7,417	598,847
Disposals, retirements and other	(72,074)	–	–	(72,074)
Exchange difference	(449)	(6)	(80)	(535)
Balance at December 31, 2017	$ 10,189,301	$ 1,970,206	$ 335,331	$ 12,494,838
Carrying amount				
December 31, 2016	$ 669,413	$ 225,217	$ 13,534	$ 908,164
December 31, 2017	$ 1,129,321	$ 216,769	$ 49,138	$ 1,395,228

Operating equipment includes assets under finance lease which have a cost at December 31, 2017, of $2,113,322 (2016 – $1,239,295) and a carrying value of $997,033 (2016 – $654,346). The assets under finance leases are pledged as security under their respective finance lease agreements.

During the year ended December 31, 2017, operating equipment with a cost of $nil (2016 - $ nil) was identified as obsolete.

Depreciation capitalized to investment in film and television (Note 7) amounted to $137,269 for the year ended December 31, 2017 (2016 - $56,037).

There were no impairment write-downs or any reversals of previous write-downs during the years presented.

6. Investment in Ratchet Productions, LLC

The Company has a 63% membership interest in Ratchet Productions, LLC, ("RPLLC") a privately owned company registered in Colorado, USA. RPLLC's functional currency is the USD. The Company accounts for its interest in RPLLC using the equity method.

(a) Impairment

During the year ended December 31, 2016, the Company determined that its investment in RPLLC was impaired and as a result recognized $8,839,189 of its share of RPLLC's losses. This, together with a translation adjustment of $415,981 and the reversal of the unrealised profit on services provided to RPLLC of $166,975, reduced the Company's investment in RPLLC to $nil. Also during the year ended December 31, 2016, an amount of $566,483 owed by RPLLC to the Company was determined to be not recoverable, and was fully provided for.

Impairment charges as a result of RPLLC and related balances are included within Impairments in the consolidated statement of comprehensive loss in the prior periods.

At December 31, 2017, there are no indications that these impairments should be reversed.

(b) Commitments

On October 25, 2015, RPLLC concluded a financing and loan arrangement with a syndicate of lenders for the purposes of financing the Print & Advertising ("P&A") expenditures required to market and distribute the film Ratchet & Clank. The facility was sufficient to fund the initial P&A expenditure budget of USD $27.5 million ($33.5 million CAD), the final draw down of which was advanced at the end of March 2016.

Recourse for the loan is limited to the United States distribution rights of the film subject to limited guarantees provided by the Company under specific limited circumstances not related to the ultimate revenues of the film. Based on the North America box office results and subsequent home video sales, the Company does not believe the ultimate revenue from the film will be sufficient to fully repay the P&A loan. RPLLC's inability to repay the loan will result in an income inclusion for tax purposes, against which RPLLC can utilize its operating loss carry forwards.

The Company is under no obligation to repay RPLLC's loans nor is it required to fund any additional losses of the joint venture beyond its carrying amount. Subsequent to the loan's original maturity date of January 2, 2017, RPLLC received a Notice of Default (the "Notice"), which included a demand for payment from the lenders of the P&A loan. The Notice increased the effective interest rate to LIBOR plus 17.5%. The lenders may seek to enforce certain security provisions within the loan agreements, which include but are not limited to the right to foreclose on the United States distribution rights to the film.

(c) Results of the joint venture

As of December 31, 2017, USD $4.8 million ($6.4 million CAD) of the loan has been repaid. Based on the North America box office results and subsequent home video sales, the Company does not believe the ultimate revenue from the film will be sufficient to fully repay the P&A loan.

The Company's unrecognized share of losses for the year ended December 31, 2017, is $25,782,728 (2016: $24,428,017).

During the year ended December 31, 2017, the Company collected distribution receipts from RPLLC earned on the international release of the film in the amount of $nil (2016 - $1,165,861) under the revenue sharing arrangement associated with the international territories. These cash distributions received are recognized directly on the consolidated statements of comprehensive loss for the year. Future similar receipts, if any, will be recognized when they are actually received by the Company and will be accounted for in a similar manner.

The Company accounts for its interest in RPLLC using the equity method. The following table summarises the financial information of RPLLC as included in its own financial statements, adjusted for accounting differences that arose on the change of classification, and unrealized profits on downstream transactions.

The table also reconciles the summarised financial information to the carrying amount of the Company's interest in RPLLC.

Expressed in Canadian dollars		**December 31, 2017**		**December 31, 2016**
Liabilities				
Current liabilities	$	40,029,192	$	37,881,677
Net liabilities	**$**	**(40,029,192)**	**$**	**(37,881,677)**
Company's share of net liabilities, limited to $nil	**$**	**–**	**$**	**–**
Service credits		–		(957,862)
Other		–		(86,358)
Elimination of unrealised profit on down stream transactions		–		(364,563)
Realised profit on down stream transactions		–		364,563
Adjustment to record investment at $nil		–		1,044,220
Carrying amount of net investment in Ratchet Productions, LLC	**$**	**–**	**$**	**–**

Current liabilities include financial liabilities (excluding accounts payable) of $40,029,192 (2016 - $37,881,667).

Summarized statement of comprehensive loss		**December 31, 2017**		**December 31, 2016**
Revenue	$	2,603,901	$	13,654,039
Prints and advertising		–		34,292,762
Distribution costs and fees		1,212,980		5,944,652
Amortization		–		1,149,454
General and administration		8,665		154,639
Impairment of film		–		17,693,897
Foreign exchange gains		–		1,434
Finance costs		6,181,131		6,921,042
Loss for the period (100%)		4,798,875		52,503,841
Currency translation adjustment (100%)		2,648,539		(1,226,574)
Total comprehensive loss (100%)	**$**	**2,150,336**	**$**	**53,730,415**
Company's share of loss for the period		–		9,203,752
Company's share of currency translation adjustment for the period (63%)		–		415,981
Elimination of unrealised profit on down stream transaction		–		166,975
Realised profit on down stream transactions		–		(364,563)
Company's share of total comprehensive loss	**$**	**–**	**$**	**9,422,145**

7. Investment in film and television

	Productions in development	Productions in progress	Completed productions	Total
Cost				
Balance at January 1, 2016	$ 1,619,003	$ 971,773	$ 654,011	$ 3,244,787
Additions, net of government assistance and third party contributions	71,224	1,655,161	–	1,726,385
Additions through acquisitions	978,731	1,553,799	–	2,532,530
Disposals	(18,624)	–	–	(18,624)
Transfer to productions in development	300,520	(300,520)	–	–
Exchange difference	5,003	8,927	–	13,930
Balance at December 31, 2016	2,955,857	3,889,140	654,011	7,499,008
Additions, net of government assistance and third party contributions	1,004,585	9,473,375	–	10,477,960
Disposals	(132,990)	–	–	(132,990)
Transfer to completed productions	(953,954)	(9,841,502)	10,795,456	–
Transfer to productions in progress	(640,445)	640,445	–	–
Exchange difference	(82,783)	(194,665)	(92,734)	(370,182)
Balance at December 31, 2017	$ 2,150,270	$ 3,966,793	$ 11,356,733	$ 17,473,796
Accumulated amortization and impairment				
Balance at January 1, 2016	$ 1,547,921	$ –	$ 654,011	$ 2,201,932
Impairment	300,520	–	–	300,520
Balance at December 31, 2016	1,848,441	–	654,011	2,502,452
Impairment reversals	(132,990)	–	–	(132,990)
Additions	–	–	7,454,839	7,454,839
Exchange difference	–	–	(114,646)	(114,646)
Balance at December 31, 2017	$ 1,715,451	$ –	$ 7,994,204	$ 9,709,655
Carrying amount				
December 31, 2016 (restated Note 8 and 26)	$ 1,107,416	$ 3,889,140	$ –	$ 4,996,556
December 31, 2017	$ 434,819	$ 3,966,793	$ 3,362,529	$ 7,764,141

Additions acquired through acquisitions in 2016 have been adjusted to reflect the final fair value of Frederator assets acquired. Please see Note 8 - Acquisitions, for further details.

Additions to productions in progress includes interest capitalized of $359,380 (2016 – $2,576).

Due to the change in accounting policy relating to certain government funding directed to the Company by its customers, a portion of the balance recorded as productions in progress at December 31, 2016, together with additions to productions in progress have been restated. Please see Note 25 for further details.

(a) Productions in development

Productions in development include acquired options to develop film and television properties and other qualifying expenditures. The Company may transfer productions in development directly to completed productions from time to

time, when the Company has completed work on development materials and expects to realise benefits through licensing or sale to a third party, as well as through the Company's own use.

Significant productions in development include *Bee and Puppy Cat* Season 2 and the development of a number of short films as part of Frederator's Shorts program. *Bee and Puppy Cat* Season 2 went into production during the fourth quarter of 2017 and the costs to date were transferred to Productions in Progress.

Upon completion of the shorts program, the costs were transferred to completed productions, and amortization commenced.

(i) *Sly Cooper* - Reversal of impairment and disposal

In 2016, the continued production of *Sly Cooper* was removed from the schedule and its recoverable amount was determined to be $nil, resulting in an impairment charge of $300,520.

During the year ended December 31, 2017, the Company recognised a partial reversal of $132,990 relating to the property, as a result of obtaining a signed agreement for the purchase of the Company's interest and rights in the property. The property was subsequently disposed of during the same period.

In the event that the acquirer secures financing for the proposed production, an additional USD $200,000 will be received by the Company. No amount has been recognized in these consolidated financial statements for this potential revenue.

The reversal of impairment is included within operating costs on the consolidated statement of comprehensive loss. The disclosure of the impairment recorded in the comparative period has been conformed to the current period's disclosure. See Note 16 for further details.

(b) Productions in progress

Significant productions in progress include:

(i) *Castlevania* Season 2

Production of *Castlevania* Season 2 (8 x 22 minute episodes) commenced during the first quarter of 2017.

(ii) *Bee & Puppy Cat* Season 2

During the year ended December 31, 2017, the production of *Bee & Puppy Cat* Season 2 was approved for production.

(iii) Impairment testing

The Company performs impairments test annually on December 31 for any productions that are not yet ready for their intended use while other productions are assessed for indicators of impairment on a regular basis. No impairments were identified as part of the Company's most recent impairment testing. Impairment testing was conducted separately on both *Castlevania* Season 2 and *Bee & Puppy Cat* Season 2.

The recoverable amount of productions is generally determined based on the net present value of discounted cash flows to calculate the production's value-in-use. These calculations use pre-tax cash flow projections, including budgeted expenditures approved by management, and estimated sales forecasts based on management's expectations from past experience and contracts in negotiation at the end of the reporting period.

Forecast sales extend to the second round of license sales expected within the normal life of a moderately successful series. Second round sales commence at the end of initial license agreements, which can range from 5 to 7 years depending on the specific property and licensing contract.

As the nature of the industry can be unpredictable, management have applied a probability weighting based on three potential sales scenarios. A change in the probabilities could result in a value-in-use that is less than the carrying amount.

The following are the key assumptions and the sensitivity of the most likely cash flow scenario to changes:

- Discount rate: The expected net cash flows have been discounted using a risk adjusted discount rate of 10.57%. Prior to the carrying amount of either production exceeding the recoverable amount, the discount rate would need to increase by at least 5%.
- Sales and net receipts expectations rely on forecast information. Prior to the carrying amount of either production exceeding the recoverable amount, net receipts could be reduced by more than 15% before either production prior to the carrying amount exceeding the recoverable amount.

(c) Completed productions

(i) Castlevania Season 1

The production of *Castlevania* Season 1 (4 x 22 minute episodes) was completed and delivered to Netflix during the period ended June 30, 2017. The completion of production triggered the commencement of revenue recognition and amortization of this investment.

(ii) Reboot: The Guardian Code

The Company completed the production and delivery of all 20 episodes of the *Reboot*: *The Guardian Code* series for the year-ended December 31, 2017. As a result, all costs incurred and capitalised in the production of the series have been transferred to completed productions. Revenue recognition and amortization commenced on an episode by episode basis, once delivery and acceptance had occurred.

There were no impairments recorded against completed productions for the year ended December 31, 2017 (2016 - $nil). There is no indication that impairments previously recorded, other than that of *Sly Cooper*, should be reversed.

8. Acquisitions

(a) Frederator Networks Inc.

On December 15, 2016, the Company acquired 100% of the outstanding shares of Frederator Networks Inc. (“Frederator”).

The following table summarizes the acquisition date fair value of each major class of consideration transferred:

	Note		
Equity instruments	**15**	$	13,870,949
Share options issued to employees	**18(a)(i)**		611,595
Total consideration transferred		$	14,482,544

(i) Equity instruments issued:

Equity instruments issued as consideration included 5,124,326 in variable voting shares, 2,581,757 non-voting shares for a total of 7,706,083 shares issued. The shares issued were valued using the listed share price of the securities at the time of transaction, and with reference to the private placement that took place on December 15, 2016, where shares were issued at a price of $1.80 per share for all classes.

(ii) Share options issued to employees:

Stock options issued to employees vested on issuance. A value of $611,595 ($1.45 per option) was attributed to the 422,775 issued on acquisition date. The value was calculated using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 0.91%, expected dividend yield of 0%, an expected life of 2.5 years, and 163% expected volatility (based on historical share prices for the equivalent period as the expected life of the options).

The Company recognized the major classes of assets acquired and liabilities assumed at the acquisition date based on preliminary estimated fair values. The purchase price allocation was finalized in the fourth quarter of 2017. During the year ended December 31, 2017, the Company identified intangible assets relating to the Frederator brand ($587,293), the Animation Network ($8,462,360) and certain production contracts acquired ($1,067,806), which amounts had not been recognized in the preliminary purchase price allocation, with a corresponding decrease to goodwill provisionally recognized. Adjustments were also made to increase Investment in film and television ($365,164), deferred revenue ($549,594) and decrease other non-current assets ($262,472) with a corresponding net increase to goodwill provisionally recognized. The recognition of assets without a tax base or with a different tax base from accounting base gave rise to a deferred tax liability of $5,143,145.

The adjustments were applied retrospectively to the acquisition date of December 15, 2016, and are reflected in the restated comparative financial position as of December 31, 2016. The following table summarizes the final purchase price allocation based on estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date.

	Note	As previously disclosed	Changes	Final purchase price allocation
ASSETS				
Cash		$ 92,344	$ -	$ 92,344
Accounts receivable	**4**	1,514,711	-	1,514,711
Other current assets		76,288	-	76,288
Property, plant and equipment	**5**	17,206	-	17,206
Investment in film and television	**7**	2,152,656	365,164	2,517,820
Other intangibles	**9**	-	10,117,459	10,117,459
Other non-current assets		262,472	(262,472)	-
		$ 4,115,677	$ 10,220,151	$ 14,335,828
LIABILITIES				
Accounts payable		3,427,056	-	3,427,056
Production financing	**10**	1,367,808	-	1,367,808
Deferred revenue	**11**	534,533	549,557	1,084,090
Deferred tax liability	**19**	-	5,143,145	5,143,145
		$ 5,329,397	$ 5,692,702	$ 11,022,099
Fair value of the net identifiable assets acquired		$ (1,213,720)	$ 4,527,449	$ 3,313,729
Goodwill		**$ 15,696,264**	**$ (4,527,449)**	**$ 11,168,815**

Goodwill of $11,168,815 arising from the acquisition is attributable to synergies related to the multi-channel platform, the acquisition of key talent, and the strength of combined vertical studio operations from Frederator's production division. Of the total goodwill recognized, $nil is expected to be deductible for tax purposes.

As a result of $10,117,459 of intangible assets being identified as part of the acquisition, the December 31, 2016, the statement of comprehensive loss for the year ended December 31, 2016 has been restated to reflect the amortization of these assets for the period from December 16, 2016, to December 31, 2016, as well as the impact on deferred tax. The restated impact of only the Frederator business on the Company's reported net loss for fiscal 2016 is as follows:

	Note	As previously disclosed	Changes	Final purchase price allocation
Revenue		$ 358,233	$ -	$ 358,233
Expenses				
Operating	**16**	414,524	-	414,524
Depreciation and amortization	**5, 9**	-	188,766	188,766
General and administration	**16**	99,649	-	99,649
Loss before taxes		(155,940)	(188,766)	(344,706)
Deferred income tax recovery	**19**	-	(85,939)	(85,939)
Net loss		**$ (155,940)**	**$ (102,827)**	**$ (258,767)**

Acquisition related costs totaling $nil have been excluded from the determination of the consideration transferred and are included within acquisition costs in the consolidated statements of comprehensive loss for the year ended December 31, 2017 (2016 – $1,040,914).

(b) Ezrin Hirsh Entertainment Inc.

On December 15, 2016, the Company acquired all the outstanding shares of Ezrin Hirsh Entertainment Inc. ("EH Entertainment"). The total consideration was paid through of the issuance of 1,820,000 in common voting and 780,000 variable voting shares of the Company. The total consideration paid of $4,680,000 was valued using the fair market value of the applicable securities at the time of transaction, being $1.80 per share as noted in (a) above.

The transaction represented the acquisition of key management talent for the Company on a go-forward basis, and was key to completing the acquisition of Frederator described above. The Company has evaluated the inputs, outputs, and processes of the acquisition of EH Entertainment in accordance with *IFRS 3 – Business combinations* and determined it does not meet the definition of a business. As a result, the transaction has not been recorded as a business combination but recorded as an expense of $4,718,749 in the consolidated statements of comprehensive loss, under acquisition costs in accordance with *IFRS 2*.

For the year ended December 31, 2017, $nil (2016 - $5,759,663) of acquisition costs is recorded from the acquisitions of Frederator and EH Entertainment.

(c) Proposed transaction with Bell Media

On September 13, 2017, the Company entered into a definitive asset purchase agreement (the "Bell Agreement") with Bell Media for the purpose of acquiring a Category B specialty service, and the Canadian Radio-television and Telecommunications ("CRTC") broadcasting license relating to this service from Bell Media, in exchange for 3,433,446 common voting shares at a deemed price of $2.00 per share for total consideration of $6,866,892 (the "Bell Media Transaction"). The common voting shares to be issued will represent approximately 12% of the Company's share capital as at the date of the Bell Agreement, after giving effect to the Bell Media Transaction.

Closing of the Bell Media Transaction is subject to the completion of certain terms set out in the Bell Agreement, including:

- receipt of regulatory approvals, including CRTC approval;
- approval of the TSX-V; and
- the execution of certain ancillary agreements to the purchase agreement.

In connection with the announcement, the Board of Directors approved the grant of 1,258,930 options to be issued to certain officers of the Company. The options have an exercise price of $2.00 per share, a fair value of $1,622,274 and are exercisable for a period of five years from the date of grant. 503,572 of the options vested immediately on the date of grant and 755,358 will vest equally over a three-year period (see Note 17(a)). Of the fair value relating to the 503,572 options that vested immediately, $625,630 was attributable to the intangible asset and capitalized.

Subsequent to year end, the CRTC license application was published in the gazette for public comment prior to the regulator deciding for or against the application. The Company expects a decision within the next six months.

9. Other intangible assets and goodwill

(a) Other intangible assets

	Production agreements	Animation network	Brands	Software	Licenses	Total
Cost						
Balance at January 1, 2016	$ –	$ –	$ –	$ 3,828,384	$ –	$ 3,828,384
Additions	–	–	–	107,985	–	107,985
Additions through acquisition	1,067,806	8,462,360	587,293	–	–	10,117,459
Exchange difference	6,274	49,724	3,451	–	–	59,449
Balance at December 31, 2016	$ 1,074,080	$ 8,512,084	$ 590,744	$ 3,936,369	$ –	$ 14,113,277
Additions	–	–	–	20,309	738,363	758,672
Exchange difference	(70,480)	(558,554)	(38,764)	–	–	(667,798)
Balance at December 31, 2017	$ 1,003,600	$ 7,953,530	$ 551,980	$ 3,956,678	$ 738,363	$ 14,204,151
Accumulated amortization and impairment						
Balance at January 1, 2016	$ –	$ –	$ –	$ 3,631,330	$ –	$ 3,631,330
Additions	–	–	–	173,700	–	173,700
Additions through acquisition	11,123	173,880	2,447	–	–	187,450
Exchange difference	65	1,022	14	–	–	1,101
Balance at December 31, 2016	$ 11,188	$ 174,902	$ 2,461	$ 3,805,030	$ –	$ 3,993,581
Additions	259,585	4,029,881	57,109	70,140	–	4,416,715
Exchange difference	(9,419)	(146,305)	(2,073)	–	–	(157,797)
Balance at December 31, 2017	$ 261,354	$ 4,058,478	$ 57,497	$ 3,875,170	$ –	$ 8,252,499
Carrying amount						
December 31, 2016	$ 1,062,892	$ 8,337,182	$ 588,283	$ 131,339	$ –	$ 10,119,696
December 31, 2017	$ 742,246	$ 3,895,052	$ 494,483	$ 81,508	$ 738,363	$ 5,951,652

(i) Production agreements, Anmation network and Brand

Amounts acquired through acquisitions during the year ended December 31, 2016, as well as the related amortization and the closing balance at December 31, 2016, have been restated to reflect the final fair value of Frederator assets acquired. These include Production agreements, Animation network and Brand intangible assets identified. Please see Note 8 (a) - Acquisitions, for further details.

(ii) Licenses

Transaction costs of $738,393 incurred in the proposed asset acquisition of a Category B service and CRTC license from Bell Media (see Note 8 (c)) were capitalised during the year-ended December 31, 2017 (2016 - $nil). Costs will continue to be incurred until such time as the application for the Category B license is approved.

(iii) Software

During the year ended December 31, 2017, software with a cost of $nil was identified as obsolete (2016 - $nil). There were no impairment write-downs or any reversals of previous write-downs during the years presented.

(b) Goodwill

	Goodwill
Balance at January 1, 2016 as previously disclosed	$ –
Additions through acquisition	11,168,815
Exchange difference	65,628
Balance at December 31, 2016	11,234,443
Exchange difference	(737,193)
Balance at December 31, 2017	$ 10,497,250

The fair value of goodwill of $11,168,815 that arose as a result of the Frederator acquisition was finalized during the year ended December 31, 2017. As Frederator is a US company with USD being its functional currency, goodwill will change each period due to exchange difference. The December 31, 2016 has been adjusted to reflect the finalized carrying amount. See Note 8(a) for further details.

(iv) Impairment testing

The Company performs an impairment test annually on December 31 and whenever there is an indication of impairment. No indication of goodwill impairment as at December 31, 2017. CGUs for the purposes of impairment testing are generally determined at a country level, and where applicable possible, winin each country between Animation Production and Networks and Platforms.

The impairment testing of goodwill recorded as a result of the Frederator acquisition has been tested at a group of CGUs level, encompassing both of the CGUs which make up Frederator. The recoverable amount of the group of CGUs is determined based on its value in use. Key assumptions used in performing the impairment test are as follows:

- Recoverable amount:

  Management's past experience and future expectations of the business performance are used to make a best estimate of the expected revenue, earnings before interest, taxes, depreciation and amortization, and operaing cash flows for a five year period.

- Discount rate:

  The discount rate applied is a pre-tax rate that reflects the time value of money and risk associated with the business. A discount factor of 25% was applied.

- Perpetual growth rate:

  The perpetual growth rate is management's current assessment of the long-term growth prospects of the company in the jurisdictions in which it operates. The assumptions included 4 years of forecasted information, and a perpetual growth rate of 3% was applied.

- Sensitivity analysis:

  Management performs sensitivity analysis on the key assumptions. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss. As the forecast cash

flows and earnings used were management's best estimate, in order to test the resilliance of the estimates, the discount rate was adjusted. The discount rate was increased to 45% prior to the carrying amount exceeding the calculated recoverable amount.

10. 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	22,533,525	17,164,389
Interim production financing (Note b)	USD	Bank prime + 1.00%	March 31, 2020	4,390,750	2,720,521
				26,924,275	19,884,910
Line of credit (Note c)	USD	US Base Rate plus 0.5%	On demand	1,195,000	-
				$ 28,119,275	$ 19,884,910

[1] Face value of the loans represent the maximum facility available, excluding interest reserve
[2] Carrying amount represents the amount drawn as at December 31, 2017, 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 picture 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, 2016, the carrying amount was $9,557,054, and the maximum facility available was $10,201,435.

(b) Interim production financing – secured against license agreements

The Company has an additional interim production financing facility from a US bank with maximum facilities available of USD $3,500,000 (CAD $4,390,000). The loan is secured by license agreements with respect to the projects *Castlevania* Season 1 and Season 2. As part of the terms of the agreement, the US bank agreed to refinance the loan initially used for the funding of the production of *Castlevania* Season 1, and removed the lending arrangement with the related party that arose as a result of the Frederator acquisition (Note 8). Of the carrying amount of $2,720,521 at December 31, 2017, $525,146 is classified as non-current interim production financing.

At December 31, 2016, the carrying amount was $1,409,455, all of which was classified as a current liability.

(c) Line of credit

In January 2017, the Company secured a $1,195,000 CAD revolving demand facility from the Royal Bank of Canada. The loan may be drawn down in USD or CAD. At December 31, 2017, the full amount was available.

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

11. Deferred revenue

Invoices are issued and cash is received for animation production services and IP productions based on contractual terms and milestones achieved. Revenue is recognised in accordance with the Company's revenue recognition policy. As a result, there can be a timing difference between the receipt of cash and the recognition of revenue. When cash received is in excess of revenue recognized, the excess is recorded as deferred revenue. As at December 31, 2017, the Company had billed and received payments from customers in excess of revenue recognized of $4,045,185 (2016 – $4,783,544) that is recognized as deferred revenue.

The December 31, 2016, balance has been restated to reflect a change in accounting policy. Please refer to Note 25 for further detail.

12. Finance costs

Finance costs are comprised of the following:

	2017	2016
Finance costs		
Interest expense on interim production financing	736,817	459,455
Interest and accretion on convertible debentures	24,157	1,186,030
Interest on obligations under finance lease	41,167	19,981
Interest capitalized to investments in film and television	(359,380)	(2,576)
	$ 442,761	$ 1,662,890

Total non-cash finance expense incurred was $442,761 (2016 – $1,645,375).

13. Leases

(a) Finance leases

The Company finances the acquisition of certain of its operating equipment and computer software through finance leases. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.02% to 8.69% per annum with the lease terms ranging from two to five years.

The remaining terms of the various finance leases are from two to five years. Future minimum lease payments under these finance leases as at December 31, 2017, are as follows:

	< 1 year	1 to 5 years	Total
Future minimum lease payments	$ 501,606	$ 561,299	$ 1,062,905
Less imputed interest	(41,031)	(20,685)	(61,716)
Finance lease obligation at December 31, 2017	$ 460,575	$ 540,614	$ 1,001,189
Finance lease obligation at December 31, 2016	$ 321,979	$ 390,834	$ 712,813

(b) Operating leases

The remaining terms of the various non-cancellable operating leases are from one to five years plus renewal options. Future minimum lease payments under these operating leases are as follows:

	< 1 year	1 to 5 years	> 5 years	Total
Future minimum lease payments	$ 1,536,123	$ 4,434,715	$ –	$ 5,970,838

Gross operating lease payments of $3,022,215 (2016 – $2,296,758) were recognized as an expense for the year ended December 31, 2017, which include the minimum lease payments and operating costs for the leased premises.

During the year ended December 31, 2017, lease extensions and new agreements were concluded for space in Vancouver, New York and Los Angeles.

14. 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.

The Company identified four components for the debentures: a debt-host instrument, an equity conversion option, an issuer call option and an embedded put option related to change of control.

The equity conversion option allows for the debentures to be converted into shares of the Company at the option of the holder at any time at a conversion price of $2.00 per common share, subject to adjustment in certain events. Holders converting debentures shall receive accrued and unpaid interest thereon from the period of the last interest payment date prior to the date of conversion to the date that is one business day prior to the conversion. The equity conversion option is classified as an equity instrument.

The issuer call option allows for the debentures to be redeemed at the option of the Company, in whole or in part, at any time after December 14, 2018, which is the 12 month anniversary of issuance, at a redemption price of $2.00 per common share plus accrued and unpaid interest. The issuer call option is considered closely related to the debt host, and has not been bifurcated from the debt host.

The debentures have an embedded put option in the event of a change of control, which allows the holders to require the Company to redeem the debentures at a 105% premium over par, in the event of a change of control. The embedded put option is considered closely related to the debt host and has not been bifurcated from the debt host.

The convertible debentures are compound financial instruments. The gross proceeds are allocated between each component of the instrument based on fair value at the issuance date. Transaction costs related to the issuance are allocated proportionately and each of the components is recorded in the consolidated financial statements net of allocated transaction costs. The Company has determined that on the date of issuance the fair value of the debt host instrument determined with reference to market interest rates and credit spreads for similar debt without the equity conversion option

or change of control premium was $3,832,691. The remaining value of $493,309 was allocated to the equity conversion option.

A continuity of the amounts recorded for convertible debentures and the equity component during the year ended December 31, 2017, is as follows:

	Convertible Debentures	Equity component of convertible debentures	Total
Gross proceeds on issuance	$ 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

The effective interest rate applied to accrete the carrying value of the debt-host instrument to the redemption value upon maturity is approximately 13.62%.

The aggregate amount representing principal and accrued but unpaid interest related to the convertible debentures at December 31, 2017 is $3,831,482.

15. Share capital and reserves

(a) Share capital

(i) Authorized

Common Voting Shares

Each Common Voting Share carries one vote per share on all matters. Each variable voting share carries one vote on all matters, except to the extent the number of Variable Voting Shares outstanding exceeds 33 1/3% of the total number of Common and Variable Voting Shares outstanding, in which case the voting rights per share of the Variable Voting Shares are reduced so that the total number of votes associated with the outstanding Variable Voting Shares equals the 33 1/3 % threshold. Both the Common Voting Shares and the Variable Voting Shares carry the same economic rights. The Common Voting Shares and the Variable Voting Shares are listed on the TSX-V under the ticker symbols WOW.A and WOW.B, respectively.

Common Non-Voting Shares

The holders of Common Non-Voting Shares are entitled to the same economic value as all other Common Shares and including all other rights with the exception they are not permitted to vote at meetings of the shareholders. The Common Non-Voting shares have special conversion rights that entitle them to convert to Variable Voting Shares on a one for one basis under the following conditions: 1) at any time so long as the conversion would not cause the

holders of the Non-Voting shares to become a control person (as defined by the meaning given in Policy 1.1 Interpretation of the TSX Venture Exchange Finance Manual); and 2) with the necessary approvals granted by the TSX Venture Exchange and approval by the Common Voting and Variable Voting shareholders.

(ii) Issued share capital

The Company has an unlimited number of authorized common shares with no par value. All shares issued are fully paid, and carry one vote per share and a right to dividends if declared, with the exception of voting restrictions on Common Variable Voting shares as noted above. None of the issued shares are held by subsidiaries or associates of the Company.

	December 31, 2017	December 31, 2016
Authorized for issue	unlimited	unlimited
Common Shares issued at January 1	22,402,403	1,943,514
Common Shares [(1)]		
Common shares issued for services	194,444	–
Issued subject to a limited recourse loan, cancelled	–	(195,000)
Issued on partial conversion of convertible debentures	–	5,500
Issued on settlement of convertible debentures	–	6,642,507
Issued related to acquisition (Note 8)	–	7,724,326
Issued in private placement	–	6,281,556
Common shares issued - fully paid	22,596,847	22,402,403
Non-Voting Shares		
Non-Voting Shares issued at January 1	3,179,174	–
Non-voting shares issued related to acquisition (Note 8)	–	3,179,174
Escrow shares subject to retirement	(597,417)	–
	2,581,757	3,179,174
Total shares in issue - fully paid	25,178,604	25,581,577

(1) Common shares issued are inclusive of common voting shares, and variable voting shares

At December 31, 2017, the Company had 15,977,324 Common Voting shares, 6,619,523 Common Variable Voting shares outstanding (2016 – 15,782,880 Common Voting shares and 6,619,523 Common Variable Voting shares outstanding).

At December 31, 2017, the Company also had 2,581,757 Common Non-Voting shares outstanding (2016 – 3,179,174 outstanding).

During the year ended December 31, 2017, the Company issued 194,444 common voting shares at a share price of $1.80, in full settlement of the remaining $350,000 owing to Cormark Securities Inc. for services rendered in the private placement that took place in December 2016.

Preferred Shares

The Company is authorized to issue Preferred Shares in one or more series. The directors of the Company may by resolution, define, attach special rights and restrictions, and issue Preferred Shares of any particular series. As at December 31, 2017 and December 31, 2016, there were no Preferred Shares issued.

Private Placement

On December 15, 2016, the Company completed a brokered private placement of common shares in the Company. The Company issued 6,111,200 common shares for gross proceeds of $11,000,160 at an issuance price of $1.80 per share. The Company intends to use the net proceeds of the offering for growth initiatives, including potential future acquisitions, as well as general working capital purposes**.** In addition to certain transactions costs settled in cash, certain share issuance costs incurred were settled through the issuance of 170,356 common shares and 263,786 share purchase warrants (refer to Note 17(c)).

(b) Reserves

(i) Share-based payment reserve

The share-based payment reserve represents the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration package. The value of stock options issued as part of the consideration paid in the acquisition of Frederator is also included in the share-based payment reserve. Refer to Note 17(a) for further details of these plans.

(ii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

(iii) Share warrant reserve

The share warrant reserve comprises of warrants issued to brokers, in partial payment for services rendered in the private placement of common shares. Refer to Note 17(c) for further details.

(c) Foreign Currency Translation Reserve

	2017	2016
Balance at January 1	$ 233,051	$ 608,323
Equity accounted investee - share of OCI (Note 6)	–	(415,981)
Foreign currency translation adjustment (Note 8)	(1,107,123)	40,709
Balance at December 31	$ (874,072)	$ 233,051

The foreign currency translation adjustment recorded in 2016 has been restated to include the impact of the changes based on the finalized purchase price adjustment as a result of the acquisition of Frederator. Please refer to Note 8(a) for further details.

16. Nature of expenses

The comparative information has been restated to reflect the impact of the final purchase price allocation as a result of the acquisition of Frederator (see Note 8 for details), and to conform to current year presentation.

Operating expenses	2017	2016
Employee costs	$ 21,369,748	$ 17,748,272
Refundable tax credits	(5,210,807)	(9,207,999)
Contractors and subcontracted services	13,102,629	845,308
Rent and occupancy	1,992,487	1,752,080
IT support and maintenance	1,399,412	1,570,853
Other	906,482	721,168
(Reversals) impairments of properties in development	(132,990)	300,520
	$ 33,426,961	$ 13,730,202

General and administration expenses	2017	2016
Employee costs	$ 3,648,690	$ 1,543,422
Legal and accounting	950,207	436,258
Contractors	230,150	239,617
Rent and occupancy	200,058	–
Other	1,223,105	522,788
	$ 6,252,210	$ 2,742,085

Employee benefits	2017	2016
Salaries and employee benefits	$ 33,121,611	$ 21,692,779
Share based compensation	1,967,960	–
	$ 35,089,571	$ 21,692,779

17. Share-based compensation

(a) Stock option plan

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 December 31, 2017 and 2016 are as follows:

	Number of stock options		Weighted average exercise price	Weighted average contractual life
Outstanding at December 31, 2016	127,500	$	2.00	4.53
Granted	2,356,688		1.91	5.00
Forfeited	(140,291)		1.98	5.00
Outstanding at December 31, 2017	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	584,044		1.80
June 2022	1,258,930		2.00	629,465		2.00
September 2022	110,000		1.90	9,167		1.90
	2,343,897	$	1.91	1,222,676	$	1.90

(i) Options issued as part of the acquisition of Frederator

422,755 stock options were issued as part of the consideration paid for the acquisition of Frederator on December 15, 2016, and vested upon issuance. The fair value of the options granted was $1.45; estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	0.91%
Weighted average exercise price	1.80
Expected dividend yield	0.00%
Expected life of option (years)	2.50
Expected volatility (based on historical share prices)	163.00%

(ii) Options issued as compensation

662,212 stock options approved for grant vest quarterly in equal tranches over a three-year term. The weighted average fair value of these stock options was $1.40; estimated using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	1.03%
Weighted average exercise price	1.85
Expected dividend yield	0.00%
Expected life of option (years)	3.31
Expected volatility (based on historical share prices)	158.22%

For the year-ended December 31, 2017, an expense of $557,120 (December 31, 2016 –$nil) related to the vesting of stock options were recorded. The remaining $378,713 of expense will be recognized over the remaining vesting period which is 3 years.

(iii) Options issued as compensation for the Bell Media Transaction

On June 7, 2017, in connection with the announcement of the Bell Media Transaction (see Note 8 (c)) the Board of Directors approved the grant of 1,258,930 to be issued to certain officers of the Company. The options have an exercise price of $2.00 per share and are exercisable for a period of five years from the date of grant. 503,572 of the options vested immediately on the date of grant and 755,358 will vest equally over a three-year period.

Risk-free interest rate	0.85% - 1.20%
Weighted average exercise price	2.00
Expected dividend yield	0.00%
Expected life of option (years)	2.50 - 5.00
Expected volatility (based on historical share prices)	152.09% - 160.93%

The $625,630 expense (2016 – $nil) relating to the 503,572 options that vested immediately was attributable to the intangible asset and capitalized as it relates to the Bell Media Transaction (see Note 8 (c)). For the 755,358 options vesting over a three-year period, an expense of $456,576 (2016 – $nil) related to the vesting of stock options were recorded for the year ended December 31, 2017. The remaining $540,016 of expense will be recognized over the remaining vesting period which is up to 3 years.

(b) Share appreciation rights

During the year ended December 31, 2017, an officer of the Company issued 438,678 share appreciation rights ("SARs") to employees of the Company. The officer contributed shares owned personally to be held in a company in which certain employees were awarded units. The units vest over a three year period. Once vested, the holders of the units are able to benefit from the increase in the share price over $1.91 per share. The vesting of the SARs is conditional upon the individuals' employment with the Company.

The fair value the SARs granted was $1.50; estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	0.93%
Exercise price	1.91
Expected dividend yield	0.00%
Expected life of option (years)	3.00
Expected volatility (based on historical share prices)	160.31%

For the year ended December 31, 2017, an expense of $328,634 respectively (2016 – $nil) related to the vesting of SARs was recorded. The remaining expense of $328,504 will be recorded over the remaining vesting period which is up to three years.

(c) Share purchase warrant

Pursuant to an underwriting agreement in connection with the private placement completed December 15, 2016, a non-cash fee was paid to the underwriters in the form of share purchase warrants. No additional warrants were issued in 2017. A continuity of current outstanding share purchase warrants is as follows:

	Number of warrants	Weighted average exercise price
Outstanding at December 31, 2016	263,786	$ 1.80
Outstanding at December 31, 2017	263,786	$ 1.80

For the year ended December 31, 2017, an expense of $nil (2016 – $357,747) related to the issuance of warrants during the year was recorded as share issue costs. The expenses were valued on the date of grant of the warrants using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	0.83%
Expected dividend yield	0.00%
Expected life of option	1.92 years
Expected volatility (based on historical share prices)	166.53%

18. Revenue and segmented information

The Company operates and evaluates its businesses and productions based on two operating segments:

(a) Animation Production

Through its production studio operations in both Canada and the United States, the Company provides animation services on a work-for-hire basis as well as financing and producing its own intellectual property for licensing and distribution. The Company's principal customers are traditional film and television studios, distributors, toy companies and other toy brand owners, broadcasters, and other streaming service providers.

(b) Networks and Platforms

The Company operates a diverse animated multi-channel network on the *YouTube* platform from which it generates revenue streams. In addition, the Company owns various proprietary channels on the same platform generating a stream of advertising-on-demand revenues. The Company has also entered into the business of subscription video on-demand through a channel it operates in the USA.

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 corporate expenses, share-based compensation, 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.

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 Frederator acquisition. See Note 8 for further details.

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

December 31, 2017	Animation Production	Networks and Platforms	TOTAL
Segment and external revenues	$ 32,002,662	$ 12,657,189	$ 44,659,851
Operating EBITDA	**$ 2,115,322**	**$ (2,157,003)**	**$ (41,681)**
Depreciation and amortization	523,360	8,358	$ 531,718
Finance costs	442,761	-	442,761
Segment profit (loss)	$ 1,149,201	$ (2,165,361)	$ (1,016,160)
Corporate expenses			2,432,478
Amortization of acquisition related intangibles			4,346,575
Share based payments			1,342,330
Loss before taxes			$ (9,137,543)
Capital expenditures			
Investment in film and television	16,211,100	349,334	16,560,434
Property, plant & equipment	261,259	102,880	364,139

December 31, 2016	Animation Production	Networks and Platforms	TOTAL
Segment and external revenues	$ 17,305,514	$ 354,694	$ 17,660,208
Operating EBITDA	**$ 1,943,315**	**$ (45,397)**	**$ 1,897,918**
Depreciation and amortisation	552,098	-	$ 552,098
Finance costs	1,662,890	-	1,662,890
Segment loss	$ (271,673)	$ (45,397)	$ (317,070)
Corporate expenses			709,997
Amortization of acquisition related intangibles			187,450
Share based payments			–
Impairments			566,483
Acquisition costs			5,759,663
Share of results of Ratchet Productions, LLC			7,673,328
Loss before taxes			$ (15,213,991)
Capital expenditures			
Investment in film and television	3,733,510	–	3,733,510
Property, plant & equipment	538,821	17,206	556,027

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

	2017	2016
United States	$ 34,863,849	$ 13,919,408
United Kingdom	1,177,997	3,463,460
Canada	8,618,005	277,340
	$ 44,659,851	$ 17,660,208

Revenue from significant customers is as follows:

	2017	2016
Animation Production Revenue		
Customer 1	$ 7,357,577	$ 2,194,466
Customer 2	6,783,146	6,530,228
Customer 3	5,600,000	-
Other	12,261,939	8,580,820
	$ 32,002,662	$ 17,305,514
Advertising Platform		
YouTube derived revenues	12,657,189	354,694
	$ 44,659,851	$ 17,660,208

19. Income taxes

A reconciliation of income tax expense for the years ended December 31, 2017 and December 31, 2016 with the reported earnings and comprehensive income for this year is as follows:

For the year ended December 31	2017	2016
Earnings from continuing operations	$ (9,137,543)	$ (15,213,991)
Combined federal and provincial income tax rate	26.00%	26.00%
Computed income tax recovery	(2,375,761)	(3,955,638)
Effect on income tax of:		
Difference in statutory tax rate	(393,805)	3,169,146
Change in tax rates	(2,225,760)	–
Change in unrecognized temporary differences	(9,079,353)	9,580,186
Cancellation of debt for tax purposes	8,252,148	–
Prior year true-up and other	1,323,813	472,620
Permanent differences and other	447,621	898,515
Permanent Difference - Loss for tax purposes not recognized for book purposes	–	(10,250,767)
Total income tax recovery	$ (4,051,097)	$ (85,939)

(a) Recognized deferred tax assets

Deferred tax assets and liabilities have been recognized in respect of the following items:

As at December 31	2017	2016
Defered tax assets:		
Tax loss carry forwards	$ 9,121,668	$ 180,650
Deferred tax liabilities:		
Cancellation of debt for tax purposes (Note 6 (b))	(6,345,500)	
Investment in film and television	(1,767,639)	–
Property, Plant and Equipment	(421,168)	(180,650)
Convertible debentures	(137,872)	–
Acquired Goodwill and Intangibles	(1,617,897)	(5,087,525)
Net deferred tax assets / (liabilities)	$ (1,168,408)	$ (5,087,525)

(b) Unrecognized deferred tax assets

The Company has the following unrecognized deductible temporary differences and unused tax losses carry forward for which no deferred tax asset is recognized in the consolidated statements of financial position.

As at December 31	2017	2016
Non-capital losses carried forward	$ 48,881,314	$ 72,053,017
Capital losses carried forward	19,463,845	19,463,845
Other deductible temporary differences	4,615,621	5,737,547
	$ 72,960,780	$ 97,254,409

The capital losses and other deductible temporary differences do not expire. As at December 31, 2017, the Company has operating loss carry forwards of $26.4 million in the United States that expire starting in 2036 and Canadian non-capital loss carry-forwards that expire on December 31 of each respective year as follows:

As at December 31, 2017	Expiry date	Amount
	2037	$ 2,167,268
	2036	1,309,062
	2035	–
	2034	3,817,755
	2033	6,947,462
	2032	8,723,578
	2031	6,071,949
	2030	25,483
	2029	3,416,036
	2028	2,273,959
	2027	–
	2026	17,098,524
		$ 51,851,076

20. 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 - Significant unobservable inputs which are supported by little or no market activity.

At December 31, 2017, there are no financial instruments measured at fair value through profit or loss (December 31, 2016 – financial liabilities $15,450).

(i) Measurement of foreign currency forward contracts

The Company's foreign currency forward contracts are not traded in active markets. These are fair valued using observable forward exchange rates at the measurement dates and interest rates corresponding to the maturity of the contracts.

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation process and results are reviewed and approved by the Chief Financial Officer quarterly, in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's consolidated financial statements.

Financial instruments that are not measured at fair value on the consolidated statements of financial position are represented by cash and cash equivalents, trade and other accounts receivable, accounts payable and accrued liabilities, finance lease obligations, interim production financing, and convertible debentures. The fair values of cash and cash equivalents, trade and other accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

The Company has designated its financial instruments as follows:

	Fair Value Hierarchy	December 31, 2017 Carrying Value	December 31, 2017 Estimated Fair Value	December 31, 2016 Carrying Value	December 31, 2016 Estimated Fair Value
Held for trading:					
Other financial liabilities	Level 2	–	–	15,450	15,450
Loans and receivables:					
Cash and cash equivalents	Level 1	6,354,432	6,354,432	11,156,260	11,156,260
Trade and other accounts receivable	Level 2	25,699,001	25,699,001	14,420,632	14,420,632
Long-term accounts receivable	Level 2	257,025	257,025	–	–
Other financial liabilities:					
Accounts payable and accrued liabilities	Level 2	4,903,734	4,903,734	4,253,407	4,253,407
Finance lease obligations	Level 2	1,001,189	1,001,189	712,813	712,813
Interim production financing	Level 2	19,884,910	19,884,910	10,966,509	10,966,509
Convertible debentures	Level 2	3,815,364	4,326,000	–	–

For the purposes of the disclosure above, the transaction price of the convertible debentures of $4,326,000 on December 14, 2017 is assumed to be the estimated fair value of the convertible debentures as at December 31, 2017.

(b) Risks arising from financial instruments

The Company is exposed to various risks related to its financial instruments as follows:

(i) Foreign exchange risk

The Company periodically enters into foreign exchange forward contracts to manage its foreign exchange risk on contracts denominated in USD with various counterparties, principally financial institutions with investment grade credit ratings. Such contracts are classified as derivative financial instruments, included as other financial assets or liabilities in the consolidated statement of financial position, and are measured at fair value through profit and loss.

During the year ended December 31, 2017, the Company did not enter into any USD forward contracts. There was one remaining outstanding USD forward contract from 2016 which had a total notional value of USD $500,000. This contract was exercised in March 2017.

For the year ended December 31, 2017, a realized gain of $3,800 was included in the consolidated statement of comprehensive loss.

The Company is also exposed to foreign exchange risk on the following cash, trade receivables and accounts payable balances that are denominated in USD:

Expressed in US dollars	Cash	Accounts receivable	Accounts Payable
At December 31, 2017	$ 3,135,251	$ 2,788,604	$ (3,000,029)
At December 31, 2016	$ 527,785	$ 831,749	$ (1,951,811)

A five percent decrease in the USD closing rate at December 31, 2017, would result in a change to net gain and comprehensive gain of $183,397 for the year ended December 31, 2017 (2016 – $39,763 loss).

The Company is also exposed to foreign exchange risk from fluctuations in the US dollar exchange rate through its interest in Ratchet Productions, LLC.

(ii) Credit risk

In the normal course of business, the Company is exposed to credit risk with respect to cash and cash equivalents and trade and other accounts receivable. Trade credit risk is managed through a credit approval process and monitoring procedures. Cash balances are deposited with major banking institutions. Refundable tax credit receivables, which represent the majority of the Company's receivables, are due from the federal and provincial governments of Canada.

(iii) Government assistance risk

The Company relies heavily on government refundable tax credits for operations. A reduction or elimination of any of the existing government programs would have a material impact on the operations of the Company. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the Canada Revenue Agency ("CRA"). Any changes in administrative policies by the CRA or the applicable government program or subsequent review of eligibility documentation may impact the collectability of these estimates and could have a material impact on previously recorded estimates.

(iv) Interest rate risk

The Company is exposed to interest rate risk on the floating rate credit facilities. Based on the average carrying value of these facilities a fluctuation in interest rates of 1% for the year ended December 31, 2017, would represent a change to net loss and comprehensive loss of $150,596 (2016 – $102,403).

(v) Customer concentration

During the year ended December 31, 2017, the Company had one customer that accounted for 28% (2016– 37%) of total revenue and a second customer that accounted for 16% (2016 – 22%). At December 31, 2017, there was one customer that accounted for 45% of trade receivables, and a second customer that accounted for 13%. A different customer accounted for 100% of the trade receivables balance at December 31, 2016.

(vi) 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. See Note 2(e) for details on going concern assumption.

The following table provides a contractual maturity analysis for financial liabilities and derivatives, excluding operating leases which are disclosed in Note 13(b):

As at December 31, 2017	< 1 year	1 to 5 years	Total	Carrying Amount
Accounts payable and accrued liabilities	$ 4,903,734	$ –	$ 4,903,734	$ 4,903,734
Finance lease obligations [1]	501,606	561,299	1,062,905	1,001,189
Interim production financing	19,359,764	525,146	19,884,910	19,884,910
Convertible debentures [1]	346,080	5,003,938	5,350,018	3,815,364
	$ 25,111,184	$ 6,090,383	$ 31,201,567	$ 29,605,197

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

21. 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:

	December 31, 2017	December 31, 2016
Total indebtedness, including finance leases	$ 4,816,553	$ 712,813
Less: cash and cash equivalents	(6,354,432)	(11,156,260)
Net debt	(1,537,879)	(10,443,447)
Shareholders' equity	23,938,165	27,461,923
	$ 22,400,286	$ 17,018,476

Total indebtedness includes debt other than interim production financing (which is included in other financial liabilities in Note 20 (a)).

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.

22. Consolidated statement of cash flows - supplemental information

(a) Changes in non-cash working capital

The net change in non-cash working capital related to operations for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Trade and other accounts receivable	$ (5,041,744)	$ 3,947,579
Prepaid expenses, deposits and other	(208,471)	(125,357)
Deposits and other assets	(175,586)	(1,807)
Accounts payable and accrued liabilities	1,000,327	(597,258)
Deferred revenue	(738,359)	1,815,732
Other financial liabilities	(15,450)	(243,175)
Other non-current liabilities	(8,748)	283,902
Net change in non-cash working capital	$ (5,188,031)	$ 5,079,616

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

	2017	2016
Increase to trade and other accounts receivable and decrease to investment in film and television related to production tax credits	$ 6,144,366	$ 2,071,560
Increase to property, plant and equipment by way of finance lease obligations	$ 728,142	$ 681,497
Increase to intangible assets through share options capitalized (Note 18)	$ 625,630	$ –
Decrease to accounts payable through settlement by way of share issuance	$ 350,000	$ –

(c) Reconciliation of liabilities arising from financing activities

	Interim production financing	Finance lease obligations	Bank indebtedness	Convertible debentures
Balance as at January 1, 2017	$ 10,966,509	$ 712,813	$ -	$ -
Changes from financing cash flows:				
Proceeds from interim production financing	15,430,400			
Repayment of interim production financing	(6,972,320)			
Interest paid	(199,456)	(41,167)	(8,223)	(16,119)
Payment on finance leases		(437,509)		
Proceeds from bank indebtedness			759,155	
Repayment of bank indebtedness			(759,155)	
Proceeds from convertible debentures				4,326,000
Payment of transaction costs from convertible debentures				(28,630)
Total changes from financing cash flows	$ 8,258,624	$ (478,676)	$ (8,223)	$ 4,281,251
Liability related changes:				
Non cash disposal		(2,257)		
Finance cost	659,777	41,167	8,223	24,157
New finance leases		728,142		
Equity component of convertible debentures, net of transaction costs				(490,044)
Total liability related other changes	$ 659,777	$ 767,052	$ 8,223	$ (465,887)
Balance as at December 31, 2017	**$ 19,884,910**	**$ 1,001,189**	**$ -**	**$ 3,815,364**

23. Commitments and Contingent liabilities

The Company and its subsidiaries may, from time to time, be a party to certain legal disputes and claims arising from employment, environmental or commercial issues in the normal course of business.

Sun Life Assurance Company of Canada ("Sun Life")

During the year ended December 31, 2010, a Writ was filed in the British Columbia Supreme Court by Sun Life naming various parties, including the Company, as defendants. The potential environmental claim arose with respect to contamination at a property where a predecessor company formerly leased operating space from the property owner; Sun Life Assurance Company of Canada. Sun Life is seeking unspecified damages from the named defendants.

The Company has filed a Writ against its former insurance carrier from the period to preserve any legal recourse if available. The Company continues to evaluate the matter to determine the risk of potential liability associated with this claim; however, there have been no developments in the evaluation of potential risk, nor have there been any developments with respect to the claim against the Company.

A reasonable estimate of potential liability cannot be determined at this time.

24. Related parties

(a) Remuneration of key management personnel

The remuneration of key management personnel and directors was as follows:

	2017	2016
Short-term benefits	$ 1,443,132	$ 1,255,625
Share-based payments	1,509,480	–
	$ 2,952,612	$ 1,255,625

A relative of an officer of the Company is currently employed by Frederator and paid an annual base salary of $16,000 plus applicable health benefits. For the year ended December 31, 2017, $16,000 has been recorded in the consolidated statement of comprehensive loss.

(b) Rental of office space

Office space in Toronto has been rented on a month to month basis from a company that is related to an officer of the Company. For the year ended December 31, 2017, rent was paid in the amount of $200,058 (2016 - $nil).

(c) Share appreciation rights granted

During the year ended December 31, 2017, an officer of the Company issued 438,678 share appreciation rights ("SARs") to employees of the Company. The officer contributed shares owned personally to be held in a company in which certain employees were awarded units. The units vest over a three-year period. Once vested, the holders of the units are able to benefit from the increase in the share price over $1.91 per share. The vesting of the SARs is conditional upon the individuals' employment with the Company.

The fair value the SARs granted was $1.50; estimated on the date of grant using the Black-Scholes option-pricing model (see Note 17(b) for assumptions used). For the year ended December 31, 2017, an expense of $328,634 respectively (2016 – $nil) related to the vesting of SARs was recorded. The remaining expense of $328,504 will be recorded over the remaining vesting period which is three years.

(d) Convertible debentures

As part of the issuance of convertible debentures on December 14, 2017, directors and officers of the Company subscribed for $1,392,000 of the total issuance of $4,326,000. These are held both directly and indirectly through Companies owned by directors, or by family members.

25. Change in accounting policy

During 2017, the Company changed its accounting policy with respect to the manner in which certain funds received from the CMF are recorded. Previously the Company recorded all funds received from the CMF as government assistance and as a reduction to the cost of investment in the film or television. The sale of a license to YTV for the broadcasting of *ReBoot: the Guardian Code* brought to light that funding from certain programs provides a supplement to a series' Canadian license fee and represents funding directed to the Company by its customers, forming a part of the transaction price. Management believes that it is preferable to record such amounts in revenue when the revenue from the licensing of the show is recognized.

In 2016 amounts that had been received from the CMF as part of a license fee top up were recorded as a reduction to investment in film and television; under this new policy such amounts are presented as deferred revenue. The following table illustrates the impact of the reclassification on the prior year numbers.

	Impact of change in policy		
31 December 2016	As previously reported	Accounting policy adjustments	As restated
ASSETS			
Current assets	26,203,575	–	26,203,575
Investment in film and television	3,074,452	1,922,103	4,996,555
Other non-current assets	22,364,943		22,364,943
	25,439,395	1,922,103	27,361,498
TOTAL ASSETS	**$ 51,642,970**	**$ 1,922,103**	**$ 53,565,073**
LIABILITIES			
Current			
Deferred revenue	2,861,441	1,922,103	4,783,544
Other current liabilities	20,644,870	–	20,644,870
	23,506,311	1,922,103	25,428,414
Non-current liabilities	674,736	–	674,736
TOTAL LIABILITIES	**$ 24,181,047**	**$ 1,922,103**	**$ 26,103,150**
TOTAL SHAREHOLDERS' EQUITY	**$ 27,461,923**	**–**	**27,461,923**